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INTERNAL AUDIT PRACTICES AND FINANCIAL PERFORMANCE OF NAIROBI CITY COUNTY GOVERNMENT, KENYA

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ABSTRACT

This study determined the effect of internal audit practices on financial performance of Nairobi City County Government. Internal audit practices were examined from the perspectives of professional competency, internal controls, internal audit standards, and internal audit independence. Three theories; the agency theory, the attribution theory, and the procedural justice theory supported this research. The 106 employees in job groups K and higher from the Finance department in the Directorate of Accountants, Revenue, Procurement, and Internal Audit of the Nairobi County Government were the target population. This study used a census design due to the manageability and the size of the population of study. Structured questionnaires were employed as the primary data collection instrument. To analyze the data in this study, descriptive statistics such as percentages, means, and Standard deviation were employed. Additionally, inferential statistics such as regression and correlation were utilized. Tables were used to illustrate the statistical data. The study findings, which were supported by inferential statistics such as the Pearson correlation study, revealed a significant and positive correlation among the variables, with values ranging from 0.476217 to 0.54654. The findings were further validated through multiple regression analysis, providing predictive insights into the data. Based on these research outcomes, the researcher concluded that internal audit practices have a significant impact on the financial performance of the Nairobi County government. Consequently, it was recommended to strengthen and improve internal auditing practices, ensuring their effective implementation and reporting, to optimize the utilization of County resources and enhance financial performance. The study also suggested the implementation of additional financial reporting procedures to promote accountability in the utilization of County resources. Furthermore, it was recommended to prioritize audit competence to mitigate potential threats to the misuse of public funds.

Key Words: *Professional Competency, Internal Controls, Internal Audit Standards, Audit Independence*

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INTRODUCTION

Globally, there is the irresistible realization that the internal audit can offer unmatched services to management regarding how they carry out their duties. As a result, Internal Auditing allied to the Institute of Internal Auditors (the IIA) embraces this potential, which comes as a challenge (Basel Committee, 2002). Throughout European history, the practice of stewardship and control has provided justification of financial accounting for both public and private entities since the emergence of double-entry book in 1494 (Mautz, 1964). Later, at the start of the 20th century, the United States adopted bookkeeping and auditing, formal internal audit function initiation proved to be of great importance. For instance, U.S. General Accounting Office (GAO) despite the fact that there are other State-owned Auditor's offices in the country has employed many auditors to ensure independency and objectivity in financial reporting (KPMG, 2015).

From African perceptive, Ethiopian is one of the countries in the region to recognize the internal auditing function in their constitution since 1936, but received legal recognition in the late 1980s after being implemented in the ministry of education, national defense and finance. It has improved state budget practices, fraud prevention, trade sector development and expansion while at the same time resulting to the audit profession growth (Hamdu et al, 2014).

In Kenya, National government and County governments have realized that internal audit counts up to be a vital process that can control and improve management of national and county resources, contributing towards improved financial performance of public organizations and county governments. In Nairobi County government, financial performance is one of the aspects that lacks infusive attention it deserves. Nairobi City council staffs have been on various occasions subjected to failure of accounting or misusing public resources entrusted to them. Nairobi County government auditors (internal and external) have uncovered cases of public resources, where funds get lost without responsible administration coming forth to provide the necessary accountability.

There are four approaches to improve the implementation of internal audit, as mentioned by the Institute of Internal Auditors (IIA) in 2016. These are the internal audit standards, the independence of the auditor, the internal controls, and competence, which are all crucial to fulfilling internal auditors' responsibilities in addition to their auditing obligations. According to the publication of IIA (2013), the effectiveness of the process is enhanced through adherence to internal audit standards, which involves aspects which are not limited to attribute, implementation standards and performance. In addition, the auditor in charge in the matters involving personnel and operational operations within the firms is supposed to be independent. As such, auditor's integrity, recommendations and conclusions will unlikely be compromised. Also, according to KPMG (2015) regarding fraud detection, the key consideration always involves competence in performing professional duties. Additionally, Esmailjee (1999) in his study implies that the adherence to the internal evaluation as per the control function is determined by designing systems within the firm. It involves various undertakings such as organizing, planning and controlling procedures while at the same time measure and monitor performance of this program.

An adverse opinion by the Office of the Auditor General (OAG) of Kenya for for FY 2016/17 can be understood as an opinion conveyed when the auditor, having obtained an adequate amount of quality audit evidence, concluded that misstatements are ubiquitous to the financial statements. For instance, contradicting with figures from the 2013 up to 2016 consolidated Annual reports for the counties which was earlier presented and reported by the Controller of Budget, former Nairobi Governor Dr. Evans Kidero stated that Nairobi County collects slightly more than KSh14 billion yearly while at the same time an average of KSh13 billion is received from the national government, yet the county is subjected to a wage bill totaling to about KSh18 billion annually. He said that the county had accounted for all the collected revenue properly even though the national government apparently owing it KSh72 billion. Due to the deficiencies listed above and even though Nairobi County leads in budget allocation, Nairobi County it's an estimable representation to establish nexus between the financial performance of local Governments and internal audit. As such, the current study sought to establish the internal auditing and financial performance statistical relationship from the context of Nairobi County Government.

Statement of the Problem

Recent questions on county governments financial performance and the subsequent complaints regarding accountability and transparency in reporting have produced two distinct but logical outcomes in Kenya. These prompt thorough investigations on county government financial performance and how it is affected by internal audit practices. Nairobi county revenue collection was Sh11.3 billion for the 2016-17 financial year. As of March 29, 2018, Nairobi County recorded Sh121.1 million revenue collection per day, which was a significant increase. Even so, Nairobi County has over and over been faced with a huge challenge due to handful cases of allegations, misappropriation of funds or resources, ever increasing expenditures, poor local revenue growth, uncontrolled debt, impulsive management associated with fiscal risks and uncalled for political intrusion in regards to the budget process and financial performance. For instance, in the 2017/2018 report for Nairobi County, the auditor general gave the executive an adverse opinion, noting the financial statements did not represent fairly the position as at June 30, 2018. The audit revealed delayed projects regardless of huge allocations made and contractors paid. Also, according to the report, Sh10.9 billion was collected by the Nairobi County compared to Sh11.2 billion own source of revenue, but it was revealed through audit that only Sh2.4 billion, representing 22 percent of revenue collected as per the records of County Revenue Fund (Githinji, 2017).

Ali (2017) investigated whether internal audit has an impact on financial performance of Kenyan Micro finance firms. The study clearly demonstrated that factors such as professional competence, adherence to IA standards, and maintaining IA independence had a positive influence on FP. The financial performance of Kenyan SACCOs was also subjected to scrutiny regarding the role and impact of the internal audit function, as investigated by Chepngeno (2017). The research findings highlighted a positive nexus between the qualification level of IA and the FP improvement of Saccos. The impact of IA on the FP of Kenyan public institutions was investigated by Muchiri and Jagongo (2017). Their study revealed that there was no discernible influence of the internal audit function on financial performance. A recent study by Wanyama (2021) focused on examining how the IA function affects FP from a perspective of a manufacturing company: Rift Valley Bottler's Ltd, established that budgetary control affects financial performance. Ehaji (2019) examined internal audit practices effect from a county government context with a special interest of Vihiga County government performance. The results demonstrated that the internal audit practices "(risk management, internal environment and monitoring and control)" significantly impact financial performance. Kabue (2020) after investigating internal audit practices (internal staff expertise, internal controls and management support) effect on the performance from a perspective of Parliamentary commission of Kenya proved a significant and positive nexus linked to internal audit and performance. There are studies that are objective in establishing whether internal audit is a significant determining aspect of financial performance from a context of County Governments in Kenya but have contradicting findings. Majority of studies mentioned above used different financial performance indicators and methodology to examine this problem. In addition, the existing studies examined the variables of this study partially and in isolation in different contexts. In this regard, there exist deficiencies in nexus linking internal audit practices and financial performances of local governments thus pertinence of this study. As such, this study sought to determine the relationship of internal audit practices and financial performance of County Governments in Kenya: A case of Nairobi City County.

Objectives of the Study

The general objective of the study was to determine the effect of internal audit practices on financial performance of the Nairobi City County Government, Kenya. The specific objectives of the study included:

- To determine the effect of auditor professional competence activities on financial performance of the County Government of Nairobi.
- To determine the effect of internal control activities on financial performance of the County
- Government of Nairobi.
- To determine the effect of audit standards compliance activities on financial performance of the County Government of Nairobi.
- To determine the effect of internal audit staff independence activities on financial performance of the County Government of Nairobi.

The study was guided by the following research questions

- What is the effect of audit professional competence activities on financial performance of the County Government of Nairobi?
- What is the effect of internal controlactivities on financial performance of the County
- Government of Nairobi?
- What is the effect of audit standards compliance activities on financial performance of the
- County Government of Nairobi?
- What is the effect of internal audit staff independence activities on financial performance of the County Government of Nairobi?

LITERATURE REVIEW

Theoretical Review

Agency Theory

According to Barlie and Means (2010), harmonizing the 13 principal and the agent's interests requires a written and a comprehensive contract. This written contract addresses both the principals and the agents' interests. Moreover, they explain that the principal and the agent's relationship end up being strengthened further through the act of recruiting and hiring an expert by the principal to monitor the agent. From agency theory's assertion, firms are necessary structures that maintain contracts. The agents' opportunistic behaviors are minimized here because through firms, exercising control is possible. In support of this position, Coarse (2010) maintains that conflicts between the principal and the agent have a solution which is provided for in the contract. The agent undertakes the work which is determined by the principal.

For application of this study, the principal (Kenyans or Nairobians) can manage the self-interest of those empowered to act on their behalf (that is, the Agents: local administration officials, politicians, legislator, and staff) for the sake of aligning it with the purposes that they (the principal) wish to achieve. There is a problem in Local Government of Nairobi touching on issues of financial performance. The agency theory contributed in the study in giving insights that County governments are simply agents of Kenyan electorate and for that reason, they should embrace straightforwardness and effectiveness at all levels to realize prudent financial performance.

Attribution Theory

Schroth and Shah (2000) views that use of attribution theory when researching examines information use in the social environment. The attribution theory foundation is tied within the scope of social psychology. It usually deals with how behaviors and events are interpreted by people including how people attribute causes to the behaviors and events. The tendency of evaluators is to place exclusive responsibility for an outcome to one individual when

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they believe like individuals are intended to act differently in each situation as opined by Reffett (2007). Yet, when evaluators trust that comparable individuals intended to act in the same way, they tend to point responsibility in favour of the results to the situation. From what is argued by Wilks and Zimbelman (2004), the former has relevance to dispositional or internal attributions whereas the latter have relevance to situational or external attributions.

The theory thus helped the study to explain how a county government that has adopted and complied with internal audit practices (Auditors professional Competence, Internal Control, Audit Standards Compliance and Internal Audit Staff independence) which enabled to detect financial malpractices in the county government, as a result, increase accountability and financial reporting of the county government.

Procedural Justice Theory

According to Patterson & Smith (2007), procedural justice theory speaks out to the idea concerning the decision-making process impact on social relationship and the decision-making process itself. Fair decision procedure constituents are the theory's major focus. It also acts as the practice basis for decision-makers. They use this theory to use while at the same time applying laws that are fair in their belief, appropriate for making decisions process. According to Carter et al, 1991, negative or positive signals tend to be channeled through the value perception to the group that is seemingly being analyzed. Irrespective of the legal case's judgement, these signals that are negative or positive occur. If the auditor can relate or confirm unfairness of these procedures and their litigation as negative, external attribution thus occurs.

Thus, the theory helped the study to understand managers' and auditors' behavior that goes beyond outcome-driven self-interests on behalf of the organization by applying laws that are fair in decisions making to improve organization performance.

Positive Accounting Theory

Watts and Zimmerman (1986) are acknowledged to have developed the theory. They assert that the primary aim of the theory is to shed light on accounting practice. Although it doesn't prescribe which approach a company should use, it aims to explain and identify which organizations will and won't use a specific accounting system. The theory's foundation is "the assumption that all individual activities is motivated by self-interest and that individuals would always engage in an opportunistic manner to the extent that the actions will increase their wealth" (Deegan & Unerman, 2006). According to this perspective, organizations will make an effort to implement controls to stop the self-interested behavior that the positive accounting theory predicts. With the aim of enhancing the overall financial performance, the theory aided the study in aligning the managers of Nairobi County's interests with regard to the costs of dealing with issues relating to the agency relationship, setting up useful tools known as "monitoring cost," and using accounting policies that are best suited for addressing particular future circumstances.

Empirical Review

Auditor's professional competence and financial performance

Empirical research was carried out in Indonesia by Dityatama (2015) to examine auditor's competency effect along with the independency effect to the auditors as a result of professional care through financial and auditing experts and the perceived internal audit quality influence. The data was obtained by making use of questionnaires. A total of 24 teams that consisted of internal auditors from local government of Lumajang regency were sampled. SEM path analysis was used to evaluate the data. The research's findings demonstrated that the existence of professional care (competence) had a significant effect on internal auditors.

Usman (2016) researched on the impact of IA competence within the regional inspectorate officers' department. The hypothesis tested in this research was that a higher level of competence among internal auditors leads to improved quality of internal audits. However, a common limitation encountered in this study was the inability of the inspectorate apparatus to detect audit findings internally, as they were only revealed by external auditors. The findings of the study confirmed that an increase in the competence levels of internal auditors directly contributes to an enhancement in the quality of internal audits within the department under investigation.

In Kenya, Njoroge (2016) emphasized on determining factors of performance by focusing on the internal audit function to shed light on the context of the public sector. The study assessed whether the technical competency is an enabler of performance of internal auditors. The study population involved internal audit committee (126) and senior staff (90) in the 18 government ministries headquartered in Nairobi. The study concluded that technical competence of internal auditors impacts on the performance is not only determined by performance measurement principles and financial analysis tools, but also determined by auditors' competence in risk profiling.

Internal Control and Financial Performance

The empirical research conducted by Ejoh and Ejom (2014) aimed to investigate the internal control activities impact on the FP from a perspective of institutions offering postsecondary education in Nigeria. It was preferred to employ a stratified sampling procedure to select the study's sample size. It was revealed that internal control activities and FP were insignificantly associated. This study focused on only internal control activities that affects financial performance yet there are other factors in the internal control system that affect financial performance like M&E.

In Indonesia, South Sumatra, research was conducted to determine the impact of implementing the government's internal control system on the accuracy and reliability of financial reporting (Afiah & Azwari, 2015). The analysis of South Sumatra was successfully carried out using a path analysis and unit analysis. From the findings, internal control was found to influence financial reporting both significantly and positively.

Similarly, in Kenya, Muhunyo and Jagongo (2018) conducted a study in public institutions by focusing on the higher learning institutions. The researchers wanted to determine whether internal control systems are likely to have an impact on performance in Nairobi County. The study investigated internal control systems, considered in relation to FP: risk assessment, control activities and monitoring. A sample of 96 employees representing the various staff categories in the institutions under study was chosen from the target population. The study found that all the indicators of internal control systems had a substantial impact on financial performance after analyzing the research data.

Internal Audit Standards Compliance on Financial Performance

The factor of compliance audits may improve financial performance. Enofe, Akani, and Oladutire (2013) investigated compliance auditing and corporate financial performance. The study's participants included 50 managers from banks with operations in Rivers State. It was demonstrated that there was correlation that the study established that was significant and positive between the use of auditing practices and profitability and ROI. The study's conclusions therefore suggest that compliance auditing is a procedure for carrying out audits in accordance with the current, established standards and guidelines, an audit process is structured in a way that facilitates the resolution of corporate governance issues while also leading to improved financial performance of organizations.

Similarly, Baffour (2013) were involved in another empirical study to check whether the compliance or non-compliance of organizations by making use of the key elements ideal when erecting and operating an internal audit department under the rules set by the IIA in UK. To elucidate the variables under investigation, the study employed a case study approach. The study findings revealed that the Star Assurance Company Ltd had an audit department which carried out auditing activities as specified by

International Institute of Auditors. Also, the findings discovered that the firm internal audit department happens to be doing well in terms of accountability and financial reporting. As such, the department has been successful in tracking down many frauds in the company. For instant, the researcher noted that one of the audits could identify fraudulent activities from Tarkoradi branch office, which contributed to the branch manager dismissal.

Evidence from South Africa: an empirical study aimed at examining audit committee characteristics effect on the globally recognized structure for financial disclosure namely IFRS was conducted by Sellami and Fendri (2017). Joined monetary statements from 120 non-financial companies that trade on the Johannesburg security market from 2012 to 2014 were analyzed in this study. This study revealed that related party disclosures turned out to be significantly influenced by audit committee compliance with (IFRS). The study failed to highlight how compliance with (IFRS) leads to financial performance of the firms.

Internal Audit Staff Independence and Financial Performance

Bonareri (2012) aimed at establishing nexus linking internal auditor independence and performance in Ugandan Public institutions moderated by quality of financial reporting. The quantitative study employed a cross sectional design. Approximately 132 public entities were sample in the study which 123 of them responded. The study's findings show a significant association between internal auditor independence and performance in the context of Ugandan public institutions, with the best performance indicators being quality financial reporting.

In construction industry, Kiema (2015) empirically examined internal audit independence and how it impacts the SMEs financial performance within Mombasa County. Four components of internal audit independence were considered as enablers of financial performance. The study sampled sixty-five (65) Construction Companies. It was evident from the research results that a large portion of firms in the construction sector within Mombasa County failed to bestow the required internal auditors' independence so that it would possible for them to successfully state their opinion regarding the financial reporting in their organizations.

Empirical work by Nyaga and colleagues (2018) aimed to investigate the relationship between internal audit independence and the IA effectiveness. A total of 46 staffs in the Kirinyaga County

Government was drawn from the IA department in the county to represent the survey population. The study results showed that audit function did not match up with independent in evidence analyzed. Auditor's independence positively impacted internal audit effectiveness. It was concluded that internal audit independence proved to be a key predictor of audit function success, which is perceived to enhance financial performance in the County government.

Financial Performance

As an indicator of financial performance, Lewis (2003) uses local government "operating surplus" with intention to measure fiscal capacity. He further defines it as an accounting concept used in national accounts statistics to measure the difference between government routine revenues and routine expenditures. Enough and constant surplus is an essential aspect because it enables government entities to keep up with the desired levels of services, not forgetting to mention its capability to ensure availability of resources for debt repayment.

As per the view of Haque et al. (2011), financial performance can be regarded as the measure of financial health of an organization measured over a period by comparing against equivalent firms in the same industry or sector (Padilla, Staplefoote & Morganti, 2012). Different ways can be applied to measure financial performance, and these measures may take either the form of subjective or objective (Mpiira et al, 2013). The objective measurement of financial performance of an organization usually includes reference to the financial statement and includes the use of the following ratios; ROE, ROA and NIM are the main ones. Organizational performance is tied to the organization's work

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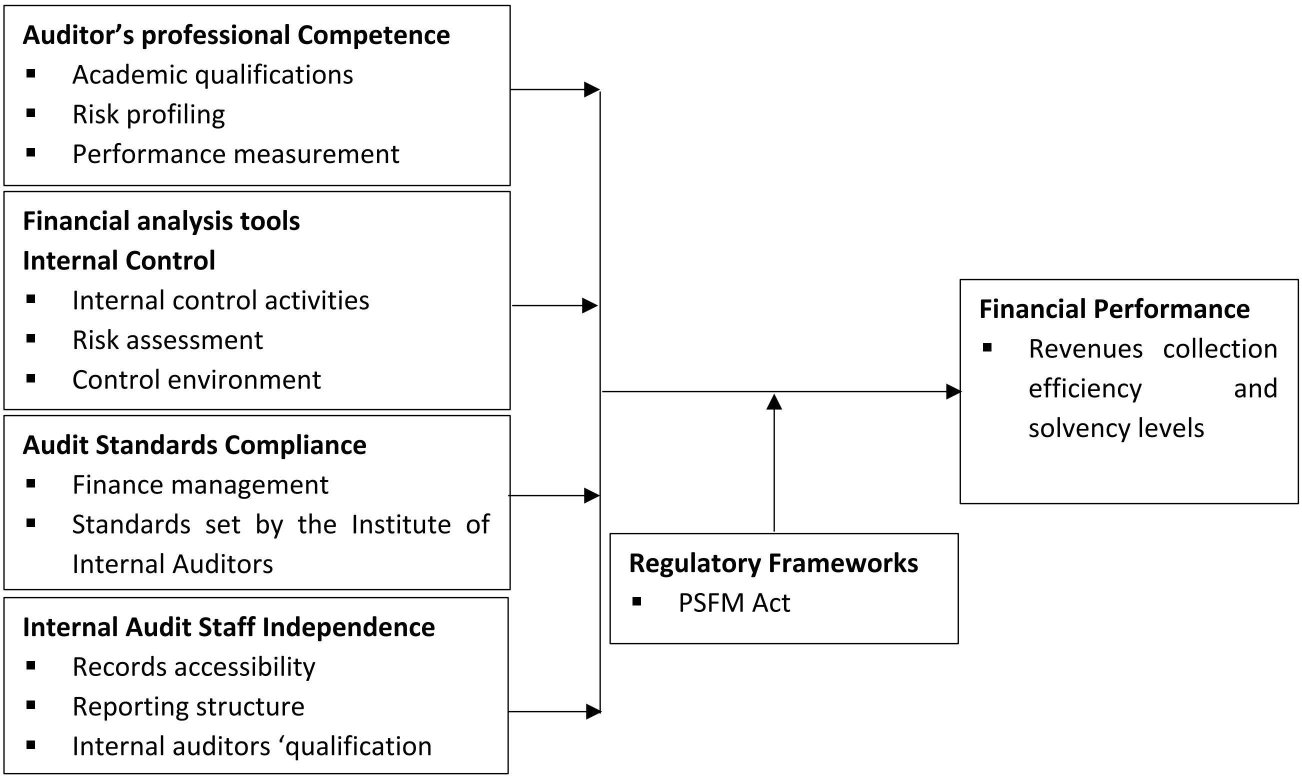
process and activity. There are two main types of performance indicators: financial and non-financial indicators.

The reason for setting up a county financing framework is in acknowledgment of the significant role by County Government as they act as agents of decentralization; grassroots democracy; and power source for development. Quite a number of developing countries who are mindful of this potential are moving more resources and administration obligations to County Government. Furnished with such resources, County Governments are progressively taking on more obligations to meeting Sustainable Development Goals (SDGs) while at the same being marred by globalization challenges. According to Ndungu (2013), Sections 163 to 165 of the Public Finance Management Act of 2013 mandate financial statements should be prepared systematically by the County Treasury that include County Government entity, receiver of revenue, and financial statements which are consolidated for each and every County Government entity at the end of each fiscal year in compliance with the standards set by the Public Sector Accounting Standards Board.

Conceptual Framework



Independent Variables **Intervening Variable** **Dependent Variable**

Figure 1: Conceptual Framework

METHODOLOGY

The descriptive survey approach was the main design utilized to carry out the investigation. As contented by Thomas (2011), research design is overall strategy which is a "blueprint conducive to carry out a study in a logical way without interfering with the findings validity". The study population comprised of Nairobi County Government. The target respondents were staff members who were job group from the department of Finance who comprised a total of 106 respondents. The study population happened to be significantly not large; the study encompassed all individuals or elements within the target population, adopting a census design approach. In accordance to the criteria stated above, census was found to be appropriate in this study because it abled to enhance generalization of the study population findings due to the fact that it was capable of eliminating the sampling error together with the sampling biasness. For data collection purposes, a structured questionnaire was employed as the primary tool in this study. The questionnaire was designed by following critical literature review involving the study variables regarding internal audit and financial performance. To validate the questionnaire reliability, the study utilized Cronbach's Alpha coefficient, considering a threshold of 7.0 or higher. The reliability of the study results obtained from the questionnaires was 0.8437. The study engaged an experienced research assistant who dropped and picked the questionnaires later. Quantitative data was coded with the aid of SPSS Version 26 which generated statistics. Using descriptive statistics like percentages, means, and standard deviation during data analysis and at the same time by making use of inferential statistics such as correlations and regression. The descriptive statistics were presented in form of frequency tables, percentages and mean scores.

FINDINGS AND DISCUSSION

Descriptive Statistical Analysis

Professional Competence and Financial Performance

The opening objective of the study was to assess the impact of professional competence on the financial performance of Nairobi County.

Table 1: Professional competence and financial performance

Professional Competence and Financial Performance	Mean	Std Deviation
Predicting and identifying fraud in recurring activities poses inherent challenges, and its occurrence has a substantial impact on the performance of the county government.	4.6	0.1962
The internal audit function is responsible for identifying frauds within the county government.	4.3	1.725
Enhancing the effectiveness of auditors through the implementation of measures is essential to improve capabilities in detecting fraud.	4.6	0.7575
Conscientiousness is strongly correlated with task performance, comparable to the correlation observed with cognitive ability.	4.6	0.6975
The auditors within my county government have the required qualifications to effectively perform their auditing responsibilities.	3.9	0.6099

(Source: Researcher 2023)

The data presented in the table indicates that the respondents generally believe that detecting and predicting fraud, as well as recurring activities, is quite challenging while at the same time impacting the county government's performance. The average rating for this statement is 1, indicating a high level of agreement among the respondents. Furthermore, when asked if the internal audit function is responsible for identifying fraud within the county government, the majority of the respondents agreed with a mean rating of 4.3. They also recognize the importance of implementing measures that enhance the effectiveness of auditors to improve fraud detection capabilities, as evidenced by a mean rating of 4.6. The data also suggests that conscientiousness is strongly linked to task performance, comparable to the correlation observed with cognitive ability, with a mean rating of 4.6. This indicates that respondents believe being conscientious plays a significant role in achieving good performance. Lastly, the majority of the respondents agree that auditors in the county government possess the necessary qualifications to carry out the audit function, as shown by a mean rating of 3.9.

Internal Controls and Financial Performance

The study's second aim was to evaluate how internal controls affect the financial performance of Nairobi County.

Table 2: Internal controls and financial performance

Internal controls and financial performance	Mean	Std Deviation
Control audits within the organization incorporate specific elements designed to identify and prevent fraudulent transactions, making them more detectable or challenging to transact.	3.7	0.1765
Intentional errors tend to be concentrated in a small number of audits, and their occurrence can be relatively predictable based on industry patterns.	3.8	1.6435
The absence of segregation tied to accounting and custodian functions creates obstacles in detecting and reporting fraud.	3.6	0.5486
Cash receipts are subject to robust controls.	3.4	0.5115
Organizations that openly disclose internal control problems often witness a substantial increase in public confidence.	4.6	0.8943

(Source: Researcher 2023)

The majority of respondents expressed agreement that control audits conducted within the organization incorporate specific elements aimed at identifying and preventing fraudulent activities, as indicated by a mean rating of 3.7. They also acknowledged that intentional errors are typically concentrated in a trivial audits numbers, and their occurrence can be relatively predictable based on industry patterns, with a mean rating of 3.8. Additionally, respondents recognized that the absence in terms of segregation linking accounting and custodian functions creates obstacles in detecting and reporting fraud, as shown by a mean rating of 3.6. They also believed that robust controls are in place for cash receipts, with a mean rating of 3.9. Furthermore, the data suggests that organizations that openly disclose internal control problems often experience a significant increase in public confidence, as indicated by a mean rating of 4.6.

Internal Audit Standards and Financial Performance

The third objective of the study was to assess the impact of internal audit standards on the financial performance of Nairobi County.

Table 3: Internal audit standards competence and financial performance

Internal audit standards and financial performance	Mean	Std Deviation
Adhering to internal auditing standards plays a crucial role in enhancing the effectiveness of auditing work.	3.9	0.6569
The professional standards adherence is regarded as the primary factor that contributes to the added value of internal auditing.	4.7	0.7505
The standards governing audits and audit-related services have a direct impact on the performance of county government	4.6	0.6705
Formal auditing standards acknowledge that internal auditors have a role in providing services related to information beyond financial reports.	3.9	0.6239
Auditors fulfill their responsibilities with objectivity and adhere to recognized criteria for professional practice.	3.4	0.5195
The systematic and disciplined approach of IA is crucial for evaluating and improving risk management, control, and governance within the county government.	4.6	0.7843

(Source: Researcher 2023)

Based on the responses provided, it is evident that the majority of the respondents agreed on several key points. They believe that adhering to internal auditing standards is crucial for improving the

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effectiveness of auditing work, as indicated by a mean rating of 3.9. Furthermore, they recognize that adherence to professional standards is the primary factor contributing to the value added by internal auditing, with a mean rating of 4.7. The respondents also acknowledge that the standards governing audits and audit-related services have a direct impact on the performance of county governments, as shown by a mean rating of 4.6. Moreover, formal auditing standards recognize that internal auditors have a role in providing services related to information beyond financial reports, as reflected by a mean rating of 3.9. However, there was a slightly lower level of agreement that auditors fulfill their responsibilities with objectivity and adhere to recognized criteria for professional practice, as shown by a mean rating of 3.4. Additionally, the respondents agree that the systematic and disciplined approach of IA is crucial for evaluating and improving risk management, control, and governance within the county government, as indicated by a mean rating of 4.6.

Independence of Internal Audit and Financial Performance

The fourth objective of the study was to assess the impact of independence of internal audit on the financial performance of Nairobi County.

Table 4: Independence of internal audit and financial performance

Audit standards and financial performance	Mean	Std Deviation
The essence of auditing lies in its independence.	4.5	0.9962
An internal auditor must maintain independence from both the personnel and operational activities of an organization.	4.7	0.7505
Independence is a critical factor in ensuring the effective fulfillment of the function and IA aim.	3.9	0.6239
In the national government, internal audit recognizes the need for every county government to have its own internal audit department.	3.4	0.5195
The internal audit department within a county government must maintain independence from the activities it controls and operate independently from the day-to-day internal control processes	4.6	0.7843
Internal auditors should not have any conflicts of interest with the county government.	3.6	0.5486

Source: Researcher 2023

Based on the data presented in the table above, it is evident that a substantial number of county staff members agree on several important points related to auditing and internal audit departments. They recognize that the essence of auditing lies in its independence, with a mean rating of 4.5. Furthermore, they believe that internal auditors must maintain independence from both personnel and operational activities within an organization, as indicated by a mean rating of 4.7. Independence is viewed as a critical factor for ensuring the effective fulfillment of the internal audit function and its objectives, with a mean rating of 3.9. In the context of the national government, there is an acknowledgment that every county government should have its own IA department, a mean rating of 3.4 provide this evidence. Additionally, a large portion of the county government staff interviewed agree that the IA department within a county government should maintain independence from the activities it controls and operate independently from daily or routine internal control processes, as specified by a mean rating of 4.6. It is also agreed that internal auditors should not have any conflicts of interest with the county government, a mean rating of 3.6 provide this evidence.

Financial Performance of Nairobi County Government

The study's participants were surveyed regarding their opinions on the financial performance related to the County Government of Nairobi in relation to internal audit practices.

Table 5: Financial performance of Nairobi County Government

	SD		D		N		A		SA		Mean	Std
	(F)	(%)	(F)	(%)	(F)	(%)	F)	(%)	(F)	(%)		Deviation
Rating of financial performance	.2	2.4	2	2.4	10	12.1	42	50.6	27	32.5	4.4	1.0802

(Source: Researcher 2023)

The respondents' views on the impact of internal audit (IA) practices on the financial performance (FP) of the Nairobi County Government were as follows: "32.5% strongly agreed, 50.6% agreed, 12.1% were neutral, 2.4% disagreed, and 2.4% strongly disagreed." These results indicate that a majority of the respondents agreed or strongly agreed that IA practices have a positive influence on the FP. Furthermore, when asked about the frequency of IA practices affecting FP, the mean score was 4.4 on a scale of 1 to 5, indicating a high agreement level among the respondents. The low std. of 1.08 suggests that the responses were tightly grouped around the mean, indicating a limited dispersion and a consistent agreement among the respondents.

Inferential Statistical Analysis

Correlation Analysis

Table 6 displays the outcomes of the Pearson correlation analysis performed to assess the relationships between variables.

Table 6: Pearson Correlation

Pearson Correlations	Financial Performance	Professional competence	Internal controls	Internal audits standard	Independence of Internal Audit
Financial Performance	1.00000	0.54654	0.56632	0.476217	0.365654
Professional competence	0.54654	1.00000	0.056321	0.31200	
Internal controls	0.56632	0.056321	1.00000	0.296142	
Internal audits standard	0.476217	0.31200	0.296142	1.00000	
Independence of Internal Audit	0.365654				1.00000

Source: Researcher 2023

The Pearson correlation coefficients presented above indicate varying patterns of positive correlation among the variables. These results align with empirical work by Backer (2015), which proposed that internal auditing practices are highly interrelated. According to this study, when one practice demonstrates high performance, it tends to positively influence the performance of other practices as well.

CONCLUSION AND RECOMMENDATIONS

The study's objective was to empirically find out the impact of professional competence on the financial performance. The findings indicate that respondents agreed that fraud detection and recurring activities present significant challenges and contributes to the county government's performance. The majority of respondents also acknowledged the responsibility of the IA function in identifying frauds within the county government. Enhancing the effectiveness of auditors was identified as crucial for improving fraud detection capabilities. Moreover, conscientiousness was strongly linked with task performance, similar to cognitive ability. However, there was a slightly lower agreement regarding the necessary qualifications possessed by auditors in the county government. Overall, findings of the study indicate that an increase in professional competence has a significant positive effect on the county government financial performance.

The second study's aim was to examine the impact of internal controls on the financial performance. The findings indicate that a majority of respondents agreed that control audits within the organization incorporate specific elements aimed at identifying and preventing fraudulent activities. There was also agreement that intentional errors in audits tend to be concentrated in a small number and can be predicted based on industry patterns. The absence of segregation between accounting and custodian functions was identified as a challenge in detecting and reporting fraud. Additionally, it was noted that cash receipts are subject to robust controls. Furthermore, organizations that openly disclose internal control problems often experience a significant increase in public confidence. Therefore, the presence of robust internal controls systems positively impacts financial performance.

The next study's aim was to evaluate the internal audit standards impact on the financial performance. Based on the responses, it was found that a large portion of the county staff interviewed agreed that adhering to IA standards is crucial for enhancing the effectiveness of auditing work. Furthermore, the adherence to professional standards was identified as the primary factor contributing to the added value of internal auditing. The standards governing audits and audit-related services were also seen to directly influence the performance of county governments. Formal auditing standards were recognized for acknowledging the role of AI in providing services related to information beyond financial reports. However, there was slightly lower agreement regarding auditors fulfilling their responsibilities with objectivity and adhering to recognized criteria for professional practice. Finally, respondents agreed that internal audit plays a vital role in assessing and improving risk management, control, and governance within the county government through a systematic and disciplined approach. Overall, the study reveals that adhering to internal audit standards leads to an increase in financial performance.

The fourth objective of the study aimed to evaluate the impact of the independence of internal audit on the financial performance of Nairobi County. The findings suggest that a significant number of county staff agreed on the importance of independence in auditing, recognizing it as the essence of the auditing function. It was also acknowledged that internal auditors should maintain independence from both the personnel and operational activities of the organization. Independence was deemed a critical factor in ensuring the effective fulfillment of the internal audit function and its objectives. Additionally, respondents agreed that each county government should have its own independent internal audit department. Maintaining independence from the activities it controls and operating independently from daily or routine internal control processes were considered essential for the internal audit department within a county government. Finally, it was generally agreed that internal auditors should not hold any conflicts of interest towards the county government. Overall, increasing the independence of IA was found to significantly contribute to improved FP. The study identified a strong Pearson correlation coefficient tied to the responses related to the performance of the independent variables.

In conclusion, findings suggest that an improvement in professional competence positively impact financial performance from the context of Nairobi county government. Enhancing the effectiveness of auditors, improving fraud detection capabilities, and emphasizing conscientiousness were identified as important factors contributing to financial performance.

The presence of robust internal controls systems positively impacted financial performance of the county government. Control audits incorporating elements to identify and prevent fraud, addressing segregation issues, and implementing strong controls for cash receipts were highlighted as crucial factors.

Adhering to internal audit standards significantly influenced the financial performance of the county government. Compliance with professional standards, recognizing the role of IA beyond financial reports, and ensuring effective risk management and governance were identified as key factors.

The independence of IA was deemed essential for the financial performance of the county government. Maintaining independence from personnel and operational activities, having independent internal audit departments, and avoiding conflicts of interest were emphasized as important factors.

Based on the findings, researcher recommended strengthening internal auditing practices within Nairobi County government to enhance financial performance. It is crucial to ensure that internal audits are conducted effectively and reported comprehensively to promote the proper utilization of County resources. To instill confidence in staff performance and financial duties, independent assurance should be emphasized and reinforced. It is important to involve staff and ensure their understanding of the significance of these practices for maximum cooperation. Additionally, the study suggests implementing more robust financial reporting procedures to enhance accountability in the utilization of County resources. County administrators should ensure that executives follow these reporting procedures consistently and on a regular basis.

Furthermore, it is recommended to assess and enhance auditors' competence to mitigate threats of financial loss. County staff should explore alternatives, undergo training, and conduct frequent risk management assessments before initiating County projects. These recommendations aim to improve financial performance and strengthen governance within Nairobi County government.

Suggestions for Further Research

Based on the research findings, the researcher recommended conducting further studies using different variables such as monitoring and evaluation, quality control, and governmental regulation to investigate their impact on financial performance in county governments. It is also suggested that there is a need to conduct similar research in various counties across Kenya, as this study was focused solely on Nairobi County. Furthermore, the researcher proposes conducting a similar study to identify the reasons behind the failure of financial performance based on previous evaluations that many county projects often deviate from their intended purpose. By conducting these additional studies, a more comprehensive understanding of the factors influencing financial performance in county governments can be obtained.

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