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NELSON MOSE OSIORU, DR. GLADYS ROTICH, MR. WICLIFFE ANYANGO

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EFFECT OF AUDITING ON MANAGEMENT OF THE PUBLIC FINANCES IN KENYA: THE CASE OF GOVERNMENT MINISTRIES

[1] Nelson Mose Osioru, [2]Dr. Gladys Rotich, [3]Mr. Wicliffe Anyango

[1]Jomo Kenyatta University of Agriculture (JKUAT), Kenya
[2] Jomo Kenyatta University of Agriculture (JKUAT), Kenya
[3] Jomo Kenyatta University of Agriculture (JKUAT), Kenya

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ABSTRACT

The study sought to establish the relationship between auditing effectiveness variables and management of public finances in Kenya. The research design for this study was a descriptive research design. The target population of interest was all the Government ministries in Kenya. There were 21 ministries in Kenya which were all considered for the study. The target population for the study was 444 auditing staff from the 21 government ministries in Kenya. This study used a stratified proportionate random sampling method to select the respondents giving a sample size of 96 respondents. Primary data was used for this study. Primary data was obtained by issuing questionnaires to the participants of various ministries. The quantitative data collected was analyzed using descriptive statistics such as frequency, percentages, mean and standard deviation. A multivariate regression model was applied to determine the relative importance of each of the four variables with respect to management of the public finances in Kenya. The findings showed that audit independence and audit staff competence had a positive and significant relationship with the management of public finances in the government ministries in Kenya. From the findings, the study concluded that audit committees must have high level of independence and financial competence in order to execute their roles and mandate effectively. Based on the findings of this study, the following recommendations were made; the study recommended that audit committees in government ministry should be as independent as possible. The study also recommended that audit committees should consist of members with knowledge in accounting and finance which provides a good basis for audit committee members to examine and analyse financial information.

Key Words: *Audit Independence, Staff Competence, Management of Public Finances*

Background of the Study

For many years, internal auditing was confined to assisting organizations safeguard assets and check established control procedures. The aim of an audit committee in public sector is to improve public governance. As a subcommittee of the governing body, an audit committee aims to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources (MacCarthaigh, 2009). An audit committee may also serve an advisory function aimed at performance improvement within the organization.

Audits serve a vital economic purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting. As such, audits help enhance economic prosperity, expanding the variety, number and value of transactions that people are prepared to enter into. However, in recent years, and in the light of corporate scandals, we have witnessed ongoing global demands for improvements in audit quality (Abdul-Rahamon, 2014). Over the past decade, the role of auditing has become increasingly relevant, as high-profile corporate scandals such as Enron and WorldCom have intensified corporate governance requirements and expectations.

Most early studies concerning auditing investigated the reasons for their existence, given that auditing were initially set up voluntarily. Pincus et al. (2009) identified six characteristics to be associated with voluntary audit committee formation – lower percentage managerial ownership of the company's stock, higher leverage, larger firm size, a greater proportion of outside directors to total directors, Big-Eight auditors, and participation in the US National Market System.

Badara and Saidin (2013) found voluntary auditing are unrelated to incentives to reduce agency cost, but found a relation between voluntary formation and directors' incentives, suggesting that auditing may be created primarily for appearances. In another study, Johnathan and Sue (2010) found many of the firms they studied that had established voluntary auditing did not appear to rely on them. Some audits did not meet at all or met only once during the year studied. According to Feizizadeh (2012), for audit committee to be effective, they should have organizational independence, existence of approved mandate in the form of charter, unrestricted access to any forms of audit evidences and availability of defined audit standards to be adhered and unlimited scope to ensure the committee achieves the objective set.

The audit committee is a key contributor to good governance. It plays a crucial role in assisting the relevant governing body in discharging its responsibilities for overseeing financial and performance management, compliance with legal and other regulatory requirements and internal controls. Global economic crisis in 2008 has increased the focus on the role of audit committee in ensuring integrity and transparency in corporate reporting. Audit committee characteristics are crucial in determining the ability of audit committee in carrying out its responsibilities effectively (Arena & Azzone, 2009).

The desired effect or goal of the auditing is to strengthen the quality of financial information and to maintain or strengthen investor confidence in the quality of financial reporting and financial markets (Mu'azu & Siti, 2014). Audit Committee can improve the quality of information directly, by overseeing the financial reporting process, and indirectly through the oversight of internal and external auditing. In the end, improved information quality as well as strengthened controls may result in investors being more confident about the quality of financial reporting and the functioning of financial markets (Bedard & Gendron, 2009). By analyzing the perspective of two authors, Berdard and Gendron, the activity of Auditing and dimensions of Effectiveness in the public sector, think that in the end those who benefit from the quality of the information and from the recommendations of the authors are the taxpayers.

The audit committee is an independent oversight committee reporting to the relevant governing body. An audit committee's responsibilities vary depending on the entity's complexity, size and requirements. In this regard auditing make valuable contributions towards improving the governance, performance and accountability of public sector organizations. An effective audit committee has numerous benefits for public sector entities, including: giving guidance on sound corporate governance practices; monitoring the adequate and effective functioning of the system of internal controls; monitoring the implementation of recommendations made by internal and external audit and other review activities; ensuring that fraud and corruption is dealt with effectively; improving the quality of financial and performance reporting; facilitating an efficient audit process and improving risk management (Kinsella, 2010).

Effective public finance management, including the management of aid flows, is crucial to countries making progress in reducing poverty. Weaknesses in public financial management often reflect underlying interests and incentives, and the reform and strengthening of public financial management requires high-level political leadership and support as well as technical skills. For all these reasons, public financial management is likely to remain at the centre of dialogue between aid agencies and partner country governments. At the same time, donors have both a developmental and a fiduciary interest in the quality of their partners' public financial management (Koitaba, 2013). Auditing play a very important role in public financial management in most countries and it should be noted that each government ministry in Kenya has a functioning Audit Committee in place to assist in streamlining public finance management.

Audit committee is a mechanism of corporate governance so as to ensure the quality, credibility and objectivity of the financial reporting (Lindsell, 2011). They have a role of oversight responsibility and assist a board to monitor responsibilities of firm. Audit committee oversights many duties as a review vision of the business, review financial reporting process, review internal control and audit, consider external auditors. Moreover, they review all business risks management and review practice all rule a relevant to business. Thus, a role of audit committee is the most important to achieve corporate governance of listed firms. Prior research presents an audit committee more influence effective corporate governance mechanisms. The Blue Ribbon Committee (BRC, 2012) suggests audit committee has a strengthening both the independence and expertise.

Various researches of characteristics as board and audit committee influence of responsibilities included other issues as composition, independence, knowledge and expertise, effectiveness, power duties and responsibilities (Hendriks, 2012). Hence, audit committee has the most qualifications that can increase effectiveness. The BRC (2012) describes a role of audit committee's oversight as ensuring the quality accounting policies, internal controls, and independent and objective outside auditors are in place to deter fraud, anticipate financial risks and promote accurate, high quality and timely disclosure of financial and other material information to the board, to the public markets, and to shareholders.

Moreover, Valanciene et al., (2009) defined as an effective audit committee who has qualified members with the authority and resources to protect stakeholder interests ensuring reliable financial reporting, internal controls, and risk management through its diligent oversight efforts. Therefore, the audit committee plays a monitoring role or oversight activities of firm that supports to a board of director. Similarly,

Kalbers and Fogarty (2010) defined audit committee effectiveness as the competency of the audit committee to specified oversight responsibilities in a firm. This study focused on responsibilities of audit committee that refers to the audit committee effectiveness as a means to the achievement of audit committee to play a role of duties and responsibilities in the firm. Public auditing institutions aim to reduce the agency problem between citizens and government. In the limited literature available auditors serve as “watchdogs” of the executive and the bureaucracy to improve transparency, fight misappropriation, fraud, corruption, wasteful usage of public funds, and general inefficiencies (Marshall, 2013).

Statement of the Problem

The public reform, the financing of the public service system necessary to satisfy the needs of the population, as well as the current financial constraints have proved to be a major challenge in Kenya. Recent scandals that faced the Ministry of Health and Ministry of Devolution revealed huge gaps in internal control (ROK, 2016). Auditor General (2015) alluded to weaknesses in the public sector accountability systems by highlighting corruption by way of payments that are not supported by invoices and receipts from service providers, absence or lack of updated asset registers, weak risk management policies as required by the Public Finance Management Act, weak debt recovery systems and flouting of procurement regulations among others. These ought to have been picked and dealt with if the auditors were effective enough (Ogoro & Simiyu, 2015). Nevertheless, available literature indicates that in spite of elaborate system of controls in organizations, financial management has been elusive in most of these organizations (Beyanga, 2011).

Locally, studies focusing on auditing have also been carried out. Kimani (2010) contended that Uchumi supermarkets shareholders raised questions when the supermarket was declared insolvent and management was required to justify the retention of PWC as the auditors. Kibet (2008) carried out a survey on the role of internal audit in promoting good corporate governance in SOEs. Kibara (2010) similarly carried out a survey of internal auditors risk management practices in the banking industry in Kenya; Keitany (2013) studied the internal audit control function and its implication for risk assessment by the external auditor, Kimani (2011) carried out a survey of the use of assessment centers in multinational auditing firms in Nairobi and Chepkorir (2009) carried out a study on the roles and challenges of internal auditing in the banking industry in Kenya.

According to the International Standards on Auditing (ISAs) the role of the external auditor is not to unearth frauds and irregularities in organizations but to carry out his work with a skepticism mind and report any if they encounter. They rely on information provided by the management of which internal auditors are part of. The internal auditor should be aware of any irregularities even before the external auditor finds out. This means that the audit committee would have been made aware also through the internal audit reports.

There is no local study that has been carried out on empirical study on effectiveness of Audit committee in the Government Ministries to ensure the quality, credibility and objectivity of the financial reporting. To the best of the researcher's knowledge, there is no known local study that has focused on the determining effect of audit committee on management of the public finances in Kenya and particularly government ministries. The study sought to fill the existing knowledge gap by carrying out a study on effect of auditing on management of the public finances in Kenya.

Objectives of the Study

The general objective of the study was to explore the effect of auditing on management of the public finances in Kenya. The specific objectives were:

- To establish the effect of audit independence on management of public finances.
- To determine the effect of audit staff competence on management of public finances.

LITERATURE REVIEW

Theoretical Review

Agency Theory

The 1976 article Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure by Jensen and Meckling (1976) helped establish Agency Theory as the dominant theoretical framework of the Corporate Governance literature, and position shareholders as the main stakeholder (Lan & Heracleous, 2010). Agency theory explains how to best organize relationships in which one party determines the work, which another party undertakes (Dey, 2008). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard, (Lin, Vargus & Bardhan, 2010). The agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals on financial reporting and management practices. This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship. Accordingly, agency theory has emerged as a dominant model in the financial economics literature which widely discusses the financial reporting and management practices in the public institutions.

The separation of management from ownership in the modern corporation provides an ideal context for the operation of agency theory. Shareholders (and debt holders) act as the principal with interests in deriving maximum utility from the actions of management, serving as the agent. Problems arise because of the separation of ownership and management and the resulting inability of the owners to observe the actions of management. Owners and agents have incentives to invest in various information systems and control devices to reduce agency costs associated with information asymmetry. These control devices might offer Pareto optimality (maximum gains for all parties) since the agent would otherwise bear agency costs that occur when principals discount the value of the firm, based on the likelihood of adverse selection, shirking, and moral hazard (Abdul-Rahamon, 2014).

Management may use various means to indicate to others the quality of the information they are providing. Demands for monitoring may result in external audits, the use of outside directors and auditors (Menon & Williams, 2009). The use of auditing can be considered an important part of the decision control system for internal monitoring by boards of directors. Agency theory suggests some firms will have incentives to incur costs to differentiate themselves from others. For example, in order to assert their higher quality, companies would submit to audits (Bar-Yosef & Livnat, 2010). Additional private information can be signaled through the selection of higher quality audits .However, when information is difficult to verify, an agent may attempt to mimic quality messages, which may lead to adverse selection. In a realistic multi-period world, agents have to be concerned about their human capital in the labor market. False communications may therefore have negative consequences for the agent as well as the principal.

Most public owned institutions now employ financial reporting and management practices given to executives on the basis of performances. If corporate performance is above the performance targets, the firm's managers earn more shares. If performance is below the target, however, they receive less than 100 percent of the shares. Incentive-based compensation plans, such as performance shares, are designed to satisfy two objectives. First, they offer executives incentives to take actions that will enhance shareholder wealth. Second, these plans help companies attract and retain managers who have the confidence to risk their financial future on their own abilities which should lead to better performance (Arena & Azzone, 2009).

From an agency perspective, the importance of strong governance stems from the need to align the interests of management with other stakeholders in the firm in order to reduce agency costs (IIA, 2014). Various corporate governance mechanisms can be used to monitor management's behaviour and these include independent directors on the board, an independent board chair, an effective audit committee and both external and internal audit (Hung and Han, 2011) describe the complex interactions between these governance mechanisms as the “corporate governance mosaic”. Lin, Pizzini, Vargus and Bardhan (2010) argue that internal audit is a substitute mechanism for monitoring by directors. However, information asymmetry problems between executive and independent directors suggest that internal audit is more likely to be a complementary mechanism. This is supported by research evidence examining the relationship between internal audit and performance (Scarbrough et al., 2011) and is also consistent with the IIA view that internal auditing helps an organization to evaluate and improve other governance processes (IIA, 2014).

Hence, expect a positive association between the use of internal audit and both an independent board chair and the proportion of independent directors on the board. We also expect a positive association between the internal audit function and a strong audit committee because the goals of both are “closely intertwined” (Scarbrough et al., 2011). While a strong internal audit function can enhance the effectiveness of the audit committee (Sterck & Bouckaert, 2013), an effective audit committee in turn strengthens the position of the internal audit function (Montondon and Fischer, 2013). Following prior research, an effective committee is assumed to be the one that meets frequently and is comprised of independent and appropriately experienced.

This theory is relevant and best suited to the study since it forms the basis of explaining the agency problem between the government and the auditing. The auditors are agents of the government and as such the government is the principal. The audit committee may not act in the best interests of the government as pertains to the oversight role in the institutions. As such the theory tries to explain that the audit committee should be in such a way as to work impartially for overall success in financial management in the public sector.

Institutional Theory

Institutional theory was developed by Di Maggio & Powell (1983) and states that an organization is designed and functions to meet social expectations in so far as its operations are visible to the public. Therefore organizational internal operations, which are often complex and difficult to identify, may take second place to the issue of external legitimacy (Goodwin, 2014). It is suggested that the external image of the organization may be "loosely coupled" with its operating processes (Sterck & Bouckaert, 2013). Institutional theory, initiated in one form by Meyer and Rowan (1977), suggests that organizational structures in such an environment become symbolic displays of conformity and social accountability. Simultaneously, the real work of the organization is accomplished by internal operating processes loosely coupled from the observable structures. Organizations with the appropriate structures in place avoid in-depth investigations of their operating core by external parties. This theoretical perspective has been applied to a wide set of social phenomena, including choice of accounting methods, the use of accounting by public sector organizations and the adoption of innovative technologies (King et al., 2009). The external expectations that have crystallized about corporate governance indicate the existence of an institutionalized environment which serves as the threshold for the application of institutional theory (Zucker, 2014). The recent concern over corporate control has reached the highest levels of government in the U.S. Demands for greater accountability have led to threats of more regulation and to a new wave of interest in oversight and self-regulation (Committee of Sponsoring Organizations of the Treadway Commission, 2010). Fogarty *et al*. (2011) developed this, asserting that the contribution of institutional theory is in the insight that the actual accomplishments of an organization and what its structure suggests it should accomplish are often different. The organization operates with internal processes that are not normally visible to those external to it, while other structures maintained for outsiders do not significantly add to output. Zamzulaila, Zarina and Dalila, (2010) observes that scrutiny by outsiders can be avoided if the right structures are adopted by organizations. Loose coupling enables organizations to show success in external problems whilst allowing flexibility in operational processes.

Fundamentally, the internal audit function is now much more part of the organization and less introspective. It involves the organization more in the audit process and produces recommendations which contribute to its objectives. At the same time it has to be careful not to lose its independence and objectivity, as a result of getting closer to the operations (Brown, 2015). The United Nations has identified the basic characteristics for good governance in the public sector as portrayed under. Among these core elements of good governance in the public sector, the Internal Auditing Forum can emphatically focuses on the functioning and performance of the public sector. The four related characteristics of good governance are transparency, public accountability, effectiveness/efficiency and responsiveness. As a result, the IAF has always been viewed as an integral part of the government financial management and increasingly as an instrument for improving the performance of the government sector (Hung & Han, 2011). Government auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations achieve accountability and integrity, improve operations, and instill confidence among citizens and stakeholders (Scarbrough et al., 2011). The Government auditor's role supports the governance responsibilities of oversight, insight, and foresight. Oversight addresses whether government entities are doing what they are supposed to do and serves to detect and deter public corruption.

Institutional theory is regarded as an important theory in association to auditing practices and corporate governance because it complements the legitimacy theory and organizational culture and identity theory, in explaining the motivations of organization managers, and the involvement of audit committees and auditors in responding to institutional and social expectations of having a better and reliable corporate governance. Moreover, changes in structure, organizational culture, and goals or objectives involves adequate auditing practices which depend on independence of the audit, audit staff competence, composition of the audit and availability of resources to enable technical and vocational institutions to adjust to the changes in linkages to the organizational policies, practices and accountability, contributing to improvement of the corporate governance of the organizations. The institutional theory is relevant to the study and the best choice in that it is best suited to explain why organizations incorporate practices, or management structures among departments in seeking to increase their overall performance. The audit committee being an oversight body helps to improve public financial management through application of the principles of the institutional theory. Such principles and practices can be incorporated to better explain the adoption structures and systems into practice and hence in improvement of overall performance of the public sector.

Conceptual Framework

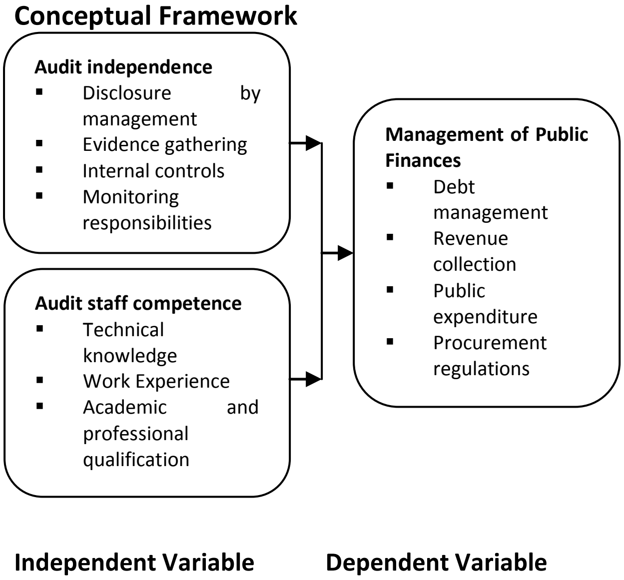

Figure 1: Conceptual Framework

Audit Independence

Audit independence is an essential aspect for all the commission of audit. An independent audit committee member is a person who is not employed by, or providing any services to, the organization beyond his or her duties as a committee member. The Commission encourages the use of auditors composed of independent directors for efficient auditing procedures. An independent committee has the free well to conduct their assignments without any fears or bias regardless of the report they will present to the relevant authorities (Arena &Azzone, 2009).

An audit committee comprised of independent directors is better situated to assess objectively the quality of the issuer's financial disclosure and the adequacy of internal controls than a committee that is affiliated with management. Management may face market pressures for short-term performance and corresponding pressures to satisfy market expectations. These pressures could be exacerbated by the use of compensation or other incentives focused on short-term stock appreciation, which can promote self-interest rather than the promotion of long-term shareholder interest (Abdul-Rahamon, 2014). An independent audit committee with adequate resources helps to overcome this problem and to align corporate interests with those of shareholders.

The independent non-executive directors should, apart from their director's fees and permitted shareholdings, be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgment as a committee member. When independent non-executive directors become aware of any dealings in which they have an interest, they should always declare their interest and withdraw from the discussion. In relation to independence, it is equally important to observe the spirit of the law as to stick to the letter (Asamba, 2010).

Audit independence is enhanced by implementing the two basic criteria for determining independence enumerated in Section 10A (m) of the Exchange Act which prohibits the receipt of "any" consulting, advisory or compensatory fees. While the Sarbanes-Oxley Act specifically included a de minimis exception with respect to other requirements, such as the audit committee pre-approval requirements in Exchange Act Section 10A(i)(1)(B), it provided no similar de minimis exception in Exchange Act Section 10A(m), even though several SROs currently have such exceptions in their listing standards. Bull and Sharp (2009) postulates that the provision of such acts promotes the independence of the committee thereby improving the management of the public finances in the country.

Audit Staff Competence

In determining the composition of an audit committee, consideration of the personal attributes of members is critical. According to The IIA Audit Executive Center's Knowledge Report from 2009, Audit Committee Trends and Activities, CAEs say the top three attributes audit committee members should demonstrate are inquisitiveness, outspokenness, and courageousness. Other personal attributes valued by CAEs, as well as recommended by best practice guides, include sound judgment; objectivity and integrity; a healthy, constructive skepticism; a high level of ethics; and strong communication skills (Hendriks, 2012).

Additionally, the committee members should collectively be knowledgeable, or have expertise in, finance and accounting, industry specific and overall business knowledge, internal and external auditing, risk management, regulatory compliance, legal, and IT and information security. In addition, certain skills and experience may be required due to the nature of the organization's operations (Burke et al, 2013).

As a leading practice, many organizations require that an audit committee to have at least one person who is a financial expert. The U.S. Securities and Exchange Commission (SEC) defines an audit committee financial expert as a person who has all of the following attributes: an understanding of financial statements and Generally Accepted Accounting Principles, an ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves. An individual should further have experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that generally are comparable to those that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities according to Caplan (2011). An understanding of internal controls and procedures for financial reporting as well as an understanding of audit committee functions is also an essential characteristic.

If audit committee members are to be effective, it is important that they have sufficient knowledge of the organization which entails an understanding of the organization's mission and current significant issues, organization's structure, including key relationship and the organization's culture. The expertise of an individual should also entail any relevant legislation or other rules governing the organization, key risks the organization faces in meeting its objective and the government environment, particularly accountability structures (Chen et al, 2010).

Empirical Review

Stevens and Thevaranson (2010) in their study examined the effectiveness of internal audit and external audit in determining financial reporting irregularities. They conducted an experimental study that examined the effects of manager's perception of internal and external auditing on the potential of financial irregularities. A total of 264 subjects, the majority of who were experienced managers were required to make decisions on three cases involving materiality type of irregularity, perceived extent of Generally Accepted Accounting Standards (GAAP) violation and incentives for misstating income. The decisions were made in a situation where there was no auditing at all, only internal auditing or external auditing. The results clearly supported internal and external auditing as deterrents to financial reporting irregularities when all of the four factors were present. It was also found that internal auditing effects were similar to those of external auditing. The study, however, suffered from the inability to explain why the existence of audits was perceived as having deterrent effects.

Rono (2013) studied on the effectiveness of the internal control system in the management of finances in public universities in Kenya. The study sought to determine whether there was a significant difference in the evaluation of the effectiveness of the internal control system in the financial management between the academic and non-academic departments in Egerton University. It concluded that the evaluation of the effectiveness of the internal control systems in the university depended on the category of the departments.

The research revealed that the internal control systems in Egerton university were effective due to the well-established departments charged with the responsibility of implementing the internal controls as they carry out the financial processes for example, finance, supplies and personnel departments with their various sections like cash office, salaries, computer, debtors and creditors (Rono, 2013).

Likewise, Mihret and Yismaw (2010) did a study entitled Internal Audit Effectiveness: An Ethiopian Public Sector Case Study. The study which used structured questionnaire, interview and observations as instruments of data collection discovered that certain factors such as internal audit quality, support from management, etc. strongly affect effectiveness of internal audit while organizational structure and internal auditor's attributes have less impact on the same variable.

In a study carried out by Ahmad, Othman and Jusoff (2009) on effectiveness of internal audit in Malaysian public sector in which simple percentage was used as the tool for date analysis, they found that lack of audit staff was a major impediment to effective internal auditing. One of the major limitations of the study was a narrow scope. In another study conducted by Theofanis, Drogalas and Giovanis (2011) on the 'relationship between elements of internal control system and internal audit effectiveness' with the use of 52 Hotels in Greek through mail survey, the results reveal positive relationship between the variables. However, they suggested that with larger samples the outcome of the study might differ significantly from their own.

Cohen and Sayag (2010) equally conducted an empirical study on the effectiveness of internal auditing in Israeli organizations. The study employed the following variables in examining the internal audit effectiveness; sector – private versus public, professional proficiency of internal auditors, quality of audit work, organizational independence, career and advancement and finally top management support. The study revealed that, support of management is almost crucial to the operation and success of internal audit. And other determinants of internal audit effectiveness derive from support of top management. The study recommends more research to be conducted on internal audit effectiveness.

Unegbu and Kida (2011) carried out an empirical study on the effectiveness of internal audit as instrument of improving public sector management in Nigeria within the Kano state public sector organization, and finally the study showed that, internal audit can effectively check fraud and fraudulent activities in the public sector and that public sectors in Kano state have significant numbers of internal audit departments to function effectively.

In addition, Endaya and Hanefah (2013) conducted another conceptual study on internal audit effectiveness: An approach proposition to develop the theoretical framework. The study concluded that sufficient theories should be used toward supporting the internal audit effectiveness (the study utilized three theories, agency, institutional and communication theories). Finally, the study observed that only limited studies been conducted on internal audit effectiveness all over the world and thereby stressed the need for more future studies on such internal audit effectiveness.

Enofe, Mgbame, Osa-Erhabor and Ehiorobo (2013) did an empirical analysis of the role of Internal audit (IA) in an effective management control in public sector. It examine if effective management can be achieve in local government, IA effectiveness does play a role in ensuring effective management in public sector, and If IA effectiveness does affect management control in public sector in Edo State using Z –test statistical tool. The Z-test results shows that effective management can be achieve in local government, IA effectiveness play role in ensuring effective management in public sector, while IA effectiveness does not affect management control in public sector in Edo state.

Mu'azu and Siti (2014) empirically examine the moderating effective of effective audit committee on the relationship between audit experience and internal audit effectiveness in the public sector using the perception of internal auditors. Data of the study were collected through research assistant employed, in which 300 questionnaire were sent to internal auditors in the North West geo-political zone local government in Nigeria. The study used simple random sampling technique; data were analyzed using Statistical Package for Social Science (SPSS) version 21. Descriptive statistic, factor analysis, correlation matrix and finally, hierarchical multiple regression analysis were carried out. The result findings of the analysis revealed that, audit experience has a significant positive relationship with internal audit effectiveness and effective audit committee were significantly moderates such relationship. Finally, conclusion was provided and the direction for future research was also provided.

Arena and Azzone (2013) on identifying organizational drivers of internal audit effectiveness in which they used these variables; resources and competencies of an internal audit team, activities and processes performed and organizational role in determining the dependent variable and uses 153 Italian companies and survey method of data collection, found that the effectiveness of internal auditing is influenced by; the characteristics of the internal audit team; the audit processes and activities; and the organizational links.

Firsteberg (2014) carried out a study on internal audit committee function and financial performance of a public organization, a case study of the National Social Security Fund (NSSF), Uganda to determine whether the internal audit function impacts the performance of NSSF. The main findings were that internal audit function had a significant positive effect on performance in terms of control environment, risk assessment, control activities, information & communication, monitoring and advisory services.

Bedard (2014) examined auditors' assessments of planning and pricing decisions related to earnings manipulation risk and corporate governance risk, and showed that auditors plans increased effort and billing rates for clients with earnings manipulation risk and that the positive relation between earnings manipulation risk and both effort and billing rates are greater for clients that have heightened corporate governance risk.

Bou-Raad (2015) explored the association between internal (audit experience and accounting qualification) audit and firm performance (ROA) with growth opportunities and audit committee independence in Malaysia. The sample was selected by two methods namely questionnaire and secondary data from the annual reports. It involved 60 firms which were listed on Malaysia Bursa in 2013. This study used multiple regression analysis to test the association between internal audit and firm performance and found a significant relationship between experience of internal audit quality and firm performance.

Njeru (2013) in his study sought to establish the independence of internal audit committee and how it relates to corporate governance among commercial banks in Kenya. The study found out that there was indeed a threat to internal audit independence since the Chief Executive Officer (CEO) had powers in most banks to approve the internal audit budget, determine the compensation of the Chief Audit Executive (CAE) as well as hire and fire the CAE.

Mugo (2013) carried out a study to establish the relationship between internal control systems and financial performance in Technical Training Institutions in Kenya. The study found that management of the institutions is committed to the control systems, actively participates in monitoring and supervision of the activities of the Technical Training Institutions in Kenya, all the activities of the Institution are initiated by the top level management, and that the internal audit department is not efficient.

Kibet (2014) in his study a survey on the role of internal audit in promoting good corporate governance in SOEs aimed to explore the role and the use of internal audit function in promoting good corporate governance in public sector enterprises and the challenges faced by the internal auditors in SOEs. The study followed an exploratory research design and the population comprised of all SOEs with government equity of over 50% located in Nairobi. A sample of 43 state corporations was selected by way of geographical location and government shareholding. Data collection was by way of questionnaires and the respondents were the heads of internal audit departments. Data collected was analysed using the SPSS and the output presented in frequency distribution tables, pie and bar charts. The study concluded that internal audit function played a role in corporate governance.

Mutua (2015) carried out a study aimed at establishing the relationship between internal audit and effective management in Embu water and sanitation company limited. Primary data was collected from staffs in the different levels as per the organization structure using a questionnaire and secondary data included cost of internal audit from the payment cash book and salaries journals. The data was analyzed using SPSS tool and the following conclusion was noted: with commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. A fact that ensures proper processes are followed in generating and safeguarding the organizations wealth.

Ndege (2015) sought to examine the effects of corporate governance practices among the audit committee on financial performance of Savings and Credit Cooperatives. The independent variables that were used are: board size, internal audit function and frequency of board meetings. Return on Capital Employed was used as a measure of financial performance. Financial information for the period between year 2013 and 2009 was used. The findings of this study indicate that there is a negative relationship between the size of the board and the financial performance; the average board size being seven.

RESEARCH METHODOLGY

A descriptive survey research design was used in this study. A descriptive research design determines and reports the way things are (Mugenda & Mugenda, 2003). A target population of 444 internal auditors was used for this study from the 21 Ministries in Kenya. Stratified sampling was used where 96 was sampled from a population of 444 employees. The study relied on primary sources to collect data from auditors of Government ministries using a self-administered semi structured questionnaire. On data Collection Procedure the study used primary data. The questionnaire designed for the study was based on the research questions and testing to refine the questions before it can be administered to the selected sample. A pilot test was conducted to detect weakness in design and instrumentation and to provide proxy data for selection of a probability sample. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. The researcher selected a pilot group of 20 individuals from the target population to test the reliability of the research instruments. Data analysis was done with help of software program SPSS version 24 which is the most current version in the market and Microsoft excels to generate quantitative reports and the findings presented using frequency tables and graphs.

RESEARCH FINDINGS AND DISCUSSIONS

A total of 96 questionnaires were administered to auditors from 21 Ministries in Kenya. A response rate of 88 was recorded. This constituted 91.7% response rate. A pilot test was conducted to detect weakness in design and instrumentation and to provide proxy data for selection of a probability sample. A total of 20 questionnaires were administered to the auditors who were not part of the actual sample size. All the variables were reliable since their Cronbach's alpha was above 0.7 which was used as a cut-off of reliability for the study. On age bracket of the respondents, the results revealed that 40.9 percent of the respondents were between 31 and 40 years, 37.5 percent were between 41 and 50 years, 15.9 percent were 51 years and above while those below 30 years were the least. The study further sought to establish the education level of the respondents this is because the auditing field requires high level of professionalism. The findings indicated that respondents with college education and university degrees were equal at 44 percent while 12 percent indicated to have other education which included master's degrees and PhD degrees. The finding implied that majority of the auditors working in the government ministries were highly educated. On work experience of the respondents, the findings revealed that a combined 84 percent of the respondents had over 6 years of work experience while 13.6 percent had between 2 and 5 years' experience. Respondents with below 2 years of work experience were the least at 2.3 percent.

On management of public finances, the study sought to find out whether there had been a significant increase in revenues collection as a result of auditing effectiveness in the recent past within the ministry. The results showed that 45.5% of the respondent agreed, 36.4% strongly agreed while 3.4% and 1.1% disagreed and strongly disagreed respectively. The findings implied that indeed there had been a significant increase in revenues collection as a result of auditing effectiveness in the recent past within the ministry.

Further, the study sought to establish whether there has been an efficient reduction of Public expenditure in the ministry and this has been as a result of auditing effectiveness. The results showed that the statement had a mean response of 4.09 and a standard deviation of 1.04. Similarly, this was an indication that most of the respondents agreed with the statements and the response varied slightly from one respondent to the other which also implied that auditing effectiveness had led to reduction of public expenditure in the ministry. The results also showed that majority of the respondents indicated that the frequency of debt management among various departments in the ministries had been increased hence leading to higher effectiveness in the audit on financial management. Finally the results showed that to large extent there had been strict adherence to procurement regulations in the ministries as a result of having effective auditing. The findings generally implied that effective auditing at the government ministries had led to effective management of public finances.

Audit Independence

Respondents were asked to what extent did audit independence affected management of public finances. The results showed that 39.8% of the respondents felt that audit independence moderately affected management of public finances, 37.5% indicated to large extent, 12.5% indicated very large extent, 6.8% indicated little extent and finally 3.4% indicated no extent at all. The results generally revealed that majority of the respondents felt that audit independence affected management of public finances. On the effects of audit independence on management of public finance in government ministries the findings showed that 44.3% and 33.0% of the respondents strongly agreed and agreed that the auditors in the ministry were independent of the management to perform the oversight role and protected shareholders' interest through disclosures. On whether the internal control systems in auditing helped reduce the incidence of financial fraud, 43.2% agreed, 35.2% strongly agreed. The statement had a mean of 4.00 and a standard deviation of 1.02. Similarly, on whether the auditors in the ministry were very particular in evidence gathering relating to any allegation of misappropriation, 39.8% of the respondents strongly agreed while 37.5% agreed. Finally, the study sought to find out whether auditors independence was needed for carrying out its monitoring responsibilities delegated by the board in order to add value to the ministry, the results revealed that 39.8% and 38.6% agreed and strongly agreed respectively.

Generally all the statement on the audit independence and management of public finances had a mean of above 4 and standard deviation of close to 1 which implied that most of the respondents agreed and the responses varied slightly across respondents. The implication of the findings was that the respondents felt that audit independence was critical in ensuring effective management of public finances.

These finding concur with the arguments of the theories such as Agency Theory and Stewardship Theory adopted in this study. Further the finding concur with those of Abdul-Rahamon (2014) who suggested that an independent audit committee with adequate resources helps to overcome this problem and to align corporate interests with those of shareholders. According to Feizizadeh (2012), for audit committee to be effective, they should have organizational independence, existence of approved mandate in the form of charter, unrestricted access to any forms of audit evidences and availability of defined audit standards to be adhered and unlimited scope to ensure the committee achieves the objective set.

Audit Staff Competence

The respondents were asked to what extent audit staff competence affected management of public finances in government ministries in Kenya. The results showed that 39.8% of the respondents felt that audit staff competence greatly affected management of public finances, 38.6% indicated to moderate extent, 11.4% indicated very large extent, 5.7% indicated little extent and finally 4.5% indicated no extent at all. The results generally revealed that majority of the respondents felt that audit staff competence affected management of public finances. On the effects of audit staff competence on management of public finance in government ministries the findings showed that 39.8% and 36.4% of the respondents strongly agreed and agreed that inclusion of auditors with rich technical knowledge enhances the ministry performance significantly. The results further showed that the statement had a mean of 3.93 and a standard deviation of 1.22 which confirmed that most of the respondents agreed. The finding also showed that the statement having auditors with a long work experience could influence the functioning of the audit department in other ways. Similarly, on whether the presence of auditors with a good academic and professional qualification in auditing decreased the likelihood that a ministry had to restate their financial reports thus increase the quality of the financial statements, the findings showed that 47.7% and 39.8% of the respondents strongly agreed and agreed respectively.

The findings further revealed that respondents agreed that auditors with a wider experience in accounts training were able to decide on some of the complex accounting related interpretations crucial for the ministry performance. The finding implied that the respondents felt that audit staff competence enhanced management of public finances in government ministries in Kenya.

These finding concur with those of Burke et al, (2013) who contended that the committee members should collectively be knowledgeable, or have expertise in, finance and accounting, industry specific and overall business knowledge, internal and external auditing, risk management, regulatory compliance, legal, and IT and information security. In addition, certain skills and experience may be required due to the nature of the organization's operations. Mu'azu and Siti (2014) findings further revealed that, audit experience had a significant positive relationship with internal audit effectiveness and effective audit committee were significantly moderates such relationship.

Effects of Audit Independence on Management of Public Finances

The findings showed that audit independence had a positive and significant relationship with the management of public finances in the government ministries in Kenya. The findings implied that a unit increase in audit independence would result to an increase in management of public finances in the government ministries in Kenya other factors held constant.

These finding concur with the arguments of the theories such as Agency Theory and Stewardship Theory adopted in this study. Further the finding concur with those of Abdul-Rahamon (2014) who suggested that an independent audit committee with adequate resources helps to overcome this problem and to align corporate interests with those of shareholders. Similarly, Arena and Azzone (2009) argued that an independent committee has the free well to conduct their assignments without any fears or bias regardless of the report they will present to the relevant authorities.

According to Feizizadeh (2012), for audit committee to be effective, they should have organizational independence, existence of approved mandate in the form of charter, unrestricted access to any forms of audit evidences and availability of defined audit standards to be adhered and unlimited scope to ensure the committee achieves the objective set.

Effects of Audit Staff Competence on Management of Public Finances

The findings showed that audit staff competence had a positive and significant relationship with the management of public finances in the government ministries in Kenya. The findings implied that a unit increase in audit staff competence would result to an increase in management of public finances in the government ministries in Kenya other factors held constant.

These finding concur with those of Burke et al, (2013) who contended that the committee members should collectively be knowledgeable, or have expertise in, finance and accounting, industry specific and overall business knowledge, internal and external auditing, risk management, regulatory compliance, legal, and IT and information security. In addition, certain skills and experience may be required due to the nature of the organization's operations. Mu'azu and Siti (2014) findings further revealed that, audit experience has a significant positive relationship with internal audit effectiveness and effective audit committee were significantly moderates such relationship.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The first objective of this study was to establish the effect of audit independence on Management of Public Finance in government ministries in Kenya. These findings insinuated that the respondents were of the opinion that audit independence played a significant role in Management of Public Finance in government ministries in Kenya. The findings also showed that audit independence had a positive and significant relationship with the Management of Public Finance in government ministries in Kenya. The findings implied that an increase in audit independence would lead to an increase in the Management of Public Finance in government ministries in Kenya. The findings also showed that audit independence had a positive and significant relationship with the Management of Public Finance in government ministries in Kenya. Similarly, the findings implied that an increase in audit independence would result to an increase in the Management of Public Finance.

The second objective of this study was to establish the effect of audit staff competence on Management of Public Finance in government ministries in Kenya. The results showed that majority of the responded agreed and strongly agreed with the statement on the effect of Audit staff Competence on Management of Public Finance in government ministries in Kenya. These findings insinuated that the respondents were of the opinion that Audit staff Competence played a significant role in Management of Public Finance in government ministries in Kenya. The findings also showed that Audit staff Competence had a positive and significant relationship with the Management of Public Finance in government ministries in Kenya. The findings implied that an increase in Audit staff Competence would lead to an increase in the Management of Public Finance in government ministries in Kenya. The findings also showed that Audit staff Competence had a positive and significant relationship with the Management of Public Finance in government ministries in Kenya. Similarly, the findings implied that an increase in Audit staff Competence would result to an increase in the Management of Public Finance.

Conclusion

Based on the finding the study concluded that auditor independence at its core was a key element in governments, demonstrating their accountability to the public and upholding the public trust. By maintaining their status as objective, auditors lend a degree of credibility to the work of government finance managers that would otherwise be difficult to obtain. Independent auditors go a long way in assuring the public that the financial information provided by their government is both accurate and reliable.

The study also established a positive relationship between audit staff competence and management of public finances in the government ministries. From the findings, the study concluded that audit committees must have high level of financial competence, in order to execute their roles and mandate effectively. This will enhance the management of public finances. The results of the study have shown that the presence of audit members with experience reduces the chances of financial misreporting. The primary objective of management of public finances is to reduce the loss of taxes through ill vices such as corruption.

Recommendations

Based on the findings of this study, the following recommendations were made; the study recommended that audit team in government ministries should be as independent as possible. Independence has been accepted as a good practice in corporate governance. The study also recommended that auditing should consist of members with knowledge in accounting and finance which provides a good basis for audit members to examine and analyse financial information. The educational background becomes an important characteristic to ensure audit members perform their roles effectively. The auditing members who have accounting and auditing experience can play a leading role in the team by providing valuable views, justification, and comments, which can increase auditing productivity.

Suggestions for Further Research

This study sought to explore the effect of auditing on management of the public finances in Kenya. The results revealed that audit independence and audit staff competence affected Management of public finances at the government ministries in Kenya. Further studies should focus on other factors that affect the management of public finances.

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