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**DETERMINANTS OF THE EFFECTIVENESS OF THE AUDITOR GENERAL IN KENYA IN PUBLIC FINANCIAL
MANAGEMENT OVERSIGHT**

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**DETERMINANTS OF THE EFFECTIVENESS OF THE AUDITOR GENERAL IN KENYA IN PUBLIC FINANCIAL
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Abstract

Audit is an integral part of the financial management of public sector. Over the years, the precise role of audit has shifted from mere detection oriented procedures to prevention and advocacy oriented performance evaluation approach.

The purpose of this study was to explore the factors that influence the effectiveness of the auditor general's oversight role in the Kenya public financial management. The specific objectives of the study were to establish the effect of statutory position, institutional management, resources availability and audit processes on the effectiveness of the Auditor General's oversight role.

The target population for this study was the entire staff establishment in the Office of the Auditor General who were 1226 in number and spread in 70 branches across the country. Stratified random sampling was used to select a sample of 302. Questionnaires were used to collect data and analysis was through descriptive and inferential statistics.

The results indicated that statutory position of the OAG, institutional management of the OAG, resources availability and audit processes were significant in influencing effectiveness of OAG in providing oversight into public financial management in Kenya.

Key words: *Audit, Effectiveness, Oversight, Public sector, Resources, Statutory position.*

Introduction

Audit is an integral part of the financial structure of public sector (Stapenhurst & Titsworth, 2001). Over the years, the precise role of audit has shifted from mere detection oriented procedures to prevention and advocacy oriented performance evaluation approach. To deal with this changing scenario, the audit organizations are trying to cover more relevant tasks in the financial sector to ensure accountability of the budget recipients. In Kenya, there existed actors and factors which play crucial role in achieving the constitutional goal of ensuring efficiency, effectiveness, economy while spending public money and this task is done by applying tools of accountability by the government auditor (Lin & Wang, 2011).

The Public Finance Management (PFM) Act, 2012 of Kenya provides for the effective management of public finances by the national and county governments, the oversight responsibility of Parliament and county assemblies, and the different responsibilities of government entities and other bodies (Kenya Law Reports- KLR, 2010). Oversight efforts in Kenya are undertaken by various institutions which include Ethics and Anti-corruption Commission (EACC), Office of the Auditor General (OAG), the efficiency monitoring unit in the Office of the President, the Inspectorate of State Corporations and the internal audit departments. Of all the oversight institutions, the OAG is the only independent office mandated by the constitution to provide statutory review of government operations and report to Parliament (PFM Act, 2012).

Classic audit theory states that audit effectiveness is the probability that the auditor will both discover and report a breach in the client's accounting system (Dyskta, 2012). A clear understanding of audit effectiveness is a prerequisite of audit evaluation. Effectiveness has many aspects, relating both to the particular audit and to the audit firm in general. Furthermore, effectiveness is to some extent in the eye of the beholder – it means different things to auditors and to audit committee chairs, and may also differ

between companies and over time. Effectiveness can be regarded as a composite of competence, procedural arrangements, quality control and quality assurance (Brown, 2010).

When it comes to government audit in China, Lin and Wang (2011) proposes a fairly complete characteristic framework that divides the factors related to the effectiveness of government audit into three categories: technical factors (professional competence, auditor size and audit hours), independence factors (auditor reputation and the organizational design of audit institutions) and administrative factors (determining the nature of irregularities, making the right decisions and checking on rectification results). Of these, administrative factors are unique under the special setting in China.

In Malaysia, Hussain (2011) reports that educational background, experience and professional competence are significantly related to the effectiveness of government auditing. In Easter European countries, Bayou, Reinstein and Williams (2011) document that the mandate, independence and institutional environment of the state supreme audit institutions can exert strong influence on their effectiveness. Whittington and Pany (2004) demonstrate that both political competition and frequency of power alternation affect the independence of the audit bodies and thus are significantly related to the activism and autonomy of the latter.

In United States (US) Tappen (2010) find that government auditing procurement practices is affected by the support from legal provisions of the government auditors. Saito and McIntosh (2010) examined audit effectiveness in United Kingdom (UK) public school operations and documented that state auditors can enhance effectiveness in their auditing by remaining independent and having requisite expertise to unearth fraud. Both Schelker and Eichenberger (2010) and Blume and Voigt (2011) indicate that government auditing can improve the transparency of public policies and reduce

wasteful spending. In Indonesia, Olken (2012) noted that effectiveness of government auditing is influenced by corruption, political interference and lack of support from institutions. In Zimbabwe, Zinyama (2013) argued that the efficiency and effectiveness of the Comptroller and Auditor General's (CAG) performance was affecting auditing of government accounts and identification of the causes of the inefficiencies and ineffectiveness in government. Zinyama revealed that the legislative framework does not give the CAG's office any sanction powers to compel ministries, departments and public agencies to observe and comply with the treasury instructions. It further found out that the factors that influence independence of CAG in Zimbabwe are appointment and removal procedures, financial autonomy and the lack of ability to employ staff.

In Kenya, Matendera (2013) assessed the factors affecting public audit institutions performance with a focus on Kenya National Audit Office (KENAO). The study established that in trying to carry out its functions, KENAO was affected by various factors that included inadequacy of resources, inadequate knowledge on issues such as corporate governance, lack of adequate training and development, professionalism, and integrity issues. However, this study by Matendera was conducted before the new PFM Act and other regulatory provisions in the constitution of Kenya 2010 fully took effect. This hence indicates that there was need to assess the factors influencing Office of Auditor general (OAG) as there had been various changes that had taken effect since 2013.

Despite the implied importance of public financial management oversight, it is still not clear how effective oversight efforts of government oversight institutions in Kenya, particularly in Office of the Auditor General is. This study therefore aimed at establishing the factors that influence the effectiveness of the performance of the Office of the Auditor General as an oversight institution and its role in public financial

management.

Study Objectives'

The purpose of this study was to explore the determinants of the effectiveness of public financial management oversight, with a focus on the office of the auditor general in Kenya. The specific objectives of were to;

- To determine the effect of statutory position on the effectiveness of the Office of the Auditor General.
- To examine the effect of institutional management on the effectiveness of the Office of the Auditor General.
- To establish the effect of resources availability on the effectiveness of the Office of the Auditor General.
- To evaluate the effect of audit processes on the effectiveness of the Office of the Auditor General

Theoretical Basis

In informing the study, the theories that were applied included the agency theory, the lending credibility theory, the theory of inspired confidence and the Resource Based View theory

Agency theory informs that the legal provisions put in place can affect the capacity of the auditor to effectively play their monitoring role. Effective statutory provisions are expected to enable the OAG to lessen the agency conflict between the public and public officials. The proponents of this theory were Jensen and Meckling (1976) who posited that agency costs occurs where there is separation of management and control. The Agency theory suggests that the auditor is appointed in the interests of both the third parties as well as the management (Kauzya & Balogun, 2005).

Lending credibility theory indicates that the manner in which the audit institution is managed is critical as it can affect the credibility of the institution and thus affecting perception of stakeholders in regard to the audit functions. The

lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements (Hayes et al, 2005). In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement) (Hayes et al, 2005).

The theory of inspired confidence indicates that the auditor is expected to inspire confidence that they can be able to effectively conduct an audit which is indicated by resource availability among other factors. The demand for audit services is the direct consequence of the participation of third parties (interested parties of a company) in the company (Goetz & Jenkins, 2005). These parties demand accountability from the management, in return for their investments in the company. Accountability is realized through the issuance of periodic financial reports. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information. With regard to the supply of audit assurance, it is suggested that the auditor should always strive to meet the public expectations (Lin & Wang, 2011).

Resource-based view theory views the firm as a bundle of assets and resources that if employed in distinctive ways can create competitive advantage (McIvor, 2008). The resource-based perspective holds that the possession of certain resources and capabilities defines what the organization will do and what it can obtain from outside parties. This view suggests that to gain competitive advantage, an organization must focus on those activities that constitute the core competencies and outsource the more peripheral activities (Karhunen & Kosonen, 2013).

Empirical Literature

Statutory Position of Supreme Audit Institution (SAI)

The key characteristic of external audit is that the auditor should be independent of the bodies

being audited so that s/he can give an objective opinion. Government auditors should have full independence to operate without undue pressures. In this way they can bring accountability and transparency in the public sector (Masood & Lodhi, 2015). Also Independence of a Supreme Audit Institution (SAI) and its leader is a hallmark of an effective SAI. If the SAI is going to audit the government, it must have the authority to do its job without threat of retaliation and the power to proceed with its plans. It must not be dependent on those that it audits to determine how auditing will be conducted (Dye & Stapenhurst, 1998).

It can therefore be safely concluded that one of the principles of external audit is the principle of independence (Power, 2005). Various dimensions of independence can be guaranteed, such as financial independence, protection from interference in planning, selecting and executing audits and individual ethics among auditors (Bayou, Reinstein & Williams, 2011). This independence should be anchored in the country's constitution and legislation. Independence should encompass the empowerment of the SAI to audit all central government ministries, departments and other bodies, including those whose financing may be off budget. It is empowered to audit all regional and local public bodies and entities such as publicly owned companies in which the government has a significant investment and power to carry out all relevant types of audit activity, including performance (value for money) audit (INTOSAI, 1997).

Institutional Management

In order to be successful, a SAI's leadership should have an overall vision or mission statement, guiding its work. The SAI leadership will fully support and articulate the vision. Staff at all levels understand and are motivated by the vision and can explain it to others. MacDonald (1990) states that a vision statement sets out a company's long-term goals and aspirations clearly and concisely. It

is intended to inspire and motivate the company's workforce by providing a picture of where the organization is heading. A mission statement defines the business sector in which a company operates and sets out its key purpose. It summarizes what the company does and why. It also sets out how the company conducts its business and identifies key stakeholders, such as shareholders, customers and employees. A mission statement helps employees understand where their contribution fits into the company's objectives (Goetz & Jenkins, 2005).

The need for clear leadership and a coherent strategy is a prerequisite for a successful SAI. It is about how proactively the SAI determines its objectives and puts strategies in place to achieve them. Strategy can be defined as the company's long-term plan for how it will balance its internal strengths and weaknesses with its external opportunities and threats to maintain a competitive advantage (Schraeder, 2002). The SAI should have a development strategy for 5 to 10 years ahead which is based on research into stakeholder needs. In order for it to be realised, staff from all over the organisation should be encouraged and enabled to contribute to the strategy. Prioritisation of activities is an important ingredient for the success of an SAI and therefore it must manage its resources flexibly. This involves the formulation of an SAI's policies, plans, objectives and targets which flow from its vision and strategy. Decisions on which activities to prioritise should be based on informed analysis. This is facilitated by management information system and performance measures which should be in place. For prioritization of urgent work to be possible, the annual audit programme should be flexible (INTOSAI, 1997).

The governance of a SAI encompasses its accountability to others and proper conduct. The concept of accountability in Public Administration entails answerability, blameworthiness, liability and expectation of account giving (Dyskta, 1939). By general consensus, accountability ideally

involves both answerability – the responsibility of duty-bearers to provide information and justification about their actions – and enforceability – the possibility of penalties or consequences for failing to answer accountability claims (Goetz & Jenkins, 2005).

SAIs can influence others by the example they set in their own working practices. Seeking to meet the highest standards of accountability gives SAIs the moral authority to expect similar good practice from the bodies they audit (INTOSAI, 1998).

An effective internal communications policy should be a key vehicle for engaging staff in the vision and mission of the organisation. Internal communication should be open and regular, with staff being able to contribute to the development of office policies (Dye & Statenhurst, 1998). Similarly, external communication policy is an important contributor to the success of an SAI. The overall effectiveness of the SAI in achieving greater accountability, economy, efficiency and effectiveness in government entities depends critically on the relationships it establishes and maintains with others (OECD, 2004). The SAI identifies all external stakeholders and develops a communications strategy for each. Its senior management play a leading role in communicating formally and informally with key stakeholders. Other staff at all levels understand that they are ambassadors for the SAI in all their interactions with external parties. The SAI produces user-friendly reports and other outputs, tailored to the needs of the target audience (DFID, 2005).

International exchange of ideas, knowledge and experience among SAIs is an effective means of raising the quality of audit, harmonizing standards, sharing best practices and generally helping SAIs to fulfill their mandates. To this end, international congresses and training seminars, regional and inter-regional conferences and the publication of international journals have promoted the evolution and development of the auditing function (INTOSAI, 1977). Increasingly,

SAIs should cultivate positive working relations with audited bodies, based on mutual respect and two way communication. While SAIs need to remain independent of the bodies they audit, they should also seek to develop positive working relationships with them. There should also be mutual understanding and agreement on the role, rights and responsibilities of the SAI and audited bodies (DFID, 2005).

Resource Availability

Knowledge, skills and competencies for all the jobs within the SAI should be defined and professionals encouraged to work towards relevant qualifications (Reichborn-Kjennerud 2013). Development needs of individual staff should be regularly assessed and there should be a structured training programme to develop the SAIs professional and support staff. Professionalism among officials conducting oversight activities is also argued by scholars to generate better outcomes in terms of improving performance of the auditee (Isaksson & Bigsten, 2012). If staff leading and working on audits do not have the appropriate skills for the job, the quality of the work done is brought into question. Audit reports are often late or of a poor quality when there are inadequate staff resources (Tisne, 2010). SAI staff must be adequately paid and trained. Effective SAIs provide competitive pay and benefits, and subscribe to the principle of continuous staff development. To ensure high-quality work, they need well-qualified, adequately remunerated staffs who are encouraged to improve continuously especially their subject-matter expertise (Cerullo, & Cerullo, 2003).

The adequacy of other key resources available to the SAI include finance, office space, utilities and equipment, IT and corporate knowledge base. The ability of the SAI to carry out its work depends on an adequate level of funding and physical resources to meet its operational needs (Dye & Stapenhurst, 1997). Moreover, effective SAIs subscribe to the principle of continuous development of their staff. To ensure high quality

work, they need to employ qualified staff, remunerate them adequately, emphasize continuous improvement and encourage subject-matter expertise. SAI should also maintain adequate premises including a head office and regional offices since the nature of audit work means that SAI staff are likely to have to travel to other locations to visit audit clients especially if the SAI is responsible for auditing regional and local levels of government, in addition to central ministries and departments (Lin & Wang, 2011).

The use of Computer Assisted Audit Techniques (CAATs) is often thought of as the key to successful development of SAIs. CAATs and IT systems are only tools and to be effective, they need to be operated by trained and knowledgeable staff, able to make appropriate audit judgements. They are defined as techniques utilized in conducting auditing procedures that use the computer as an audit tool (Debreceeny *et al.*, 2005). For effectiveness, the SAI should have appropriate IT equipment to which the staff should have access. The equipment is used and maintained to optimise its life cycle and performance. There should therefore be an IT strategy designed to meet the SAI's operational needs. Consideration should also be taken of the fact that the SAI's IT systems should also be compatible with those of its audit clients. An appropriately qualified IT support staff are necessary to manage the system. A training programme for SAI staff should be developed and implemented (DFID, 2005).

Audit Processes

To be effective, the SAI must have effective processes of examining accounts and reports of auditees. Quality controls are essential for ensuring that the planning, execution and reporting phases of the audit process are carried out properly (OECD, 2004). In order to ensure quality assurance a SAI's internal procedures should include a two-stage review of audit work and benchmarking its own performance regularly. This may include the SAI opening itself to external

review of its operations which can be carried out through the use of peer reviews, sub-contracting some audit work to private sector auditors and comparing their approach and results with the its own methodology, requesting the SAI's external and/or internal auditors to review aspects of its work, or using quality assurance services which national accountancy bodies may offer (INTOSAI, 1977). Auditing is a function that serves accountability as it adds credibility to the assertions of the person rendering the accounts as it provides valuable insights and information to the person or entity conferring the responsibility. Audit can be a very cost-effective measure of promoting transparency and openness in government operations, and can contribute to the improvement in government performance (Zinyama, 2013). Also, the audit function contributes to public information about violation of accepted standards of ethics and deviations from principles, legality, accounting, economy, efficiency and effectiveness (Dye & Stapenhurst, 1998).

Methodology

Descriptive research design was adopted since it enabled the collection of data on group characteristics, attributes and experiences reported using descriptive statistics (Tappen, 2010). The adoption of descriptive design method

enabled the examination of the existence of the factors that affected the effective performance of the OAG in Kenya. The target population for this study was all staff in the Office of the Auditor General who were 1226 in number and spread in 70 branches across Kenya (OAG, 2016). Stratified sampling was employed to select 302 respondents of which 208 responded which was a 69% response rate. Self-administered structured questionnaire was the data collection instrument. Data analysis was through the Statistical Package for Social Sciences (SPSS). The study applied descriptive and inferential analysis methods. Descriptive analysis was employed where the responses were analysed in form of percentages and mean scores. Regression analysis was used to assess the effect of the four factors on effectiveness of OAG in oversight.

Results and Discussion

Statutory Position of the Office of the Auditor General

Some statements on statutory position of the OAG were provided and respondents were asked to indicate their level of agreement to the statements. The ratings were on a scale of one to five (1- Fully Agree, 2 – Agree, 3 – Not sure, 4 – Disagree and 5 – Totally Disagree). Results were presented in Table 1.

Table 1: Statutory Position of the Office of the Auditor General

Statement	MS
The AG has adequate independence in his operations	2.38
The AG has free access to records and documents of auditees in whatever form they exist	2.02
The legislative provisions for the AG are fully complied with by the government	2.51
The AG exercises fully the powers given under the constitution	2.27
The AG provides independent reports	2.22
The AG is adequately financed in his annual budget	2.77
The AG reports and recommendations to parliamentary accounts committee are seriously considered and acted upon	2.82
There are no other statutory audits on government entities besides that carried out by the AG	2.87
The AG is allowed to hire independent professionals to help in specialized audit assignments	2.28

The study results presented in Table 1 indicated that respondents agreed to the statement that the OAG had free access to records and documents of auditees in whatever form they exist (MS= 2.02) and also agreed that the AG provided independent reports (MS= 2.22). Respondents also agreed that the AG exercised fully the powers given under the constitution (MS= 2.27). More results indicated that respondents agreed that the AG was allowed to hire independent professionals to help in specialized audit assignments (MS= 2.28) and also agreed that the AG had adequate independence in his operations (MS= 2.38). Respondents however, were not sure on a number of statements in regard to statutory position of the OAG. These statements had mean scores between 2.51 and 3.5. These statements were on

Government fully complying with the legislative provisions for the AG, the AG being adequately financed in his annual budget, the consideration of the AG's reports and recommendations to parliamentary accounts committee and the lack of other statutory audits on government entities besides that carried out by the AG. These findings indicated that though the OAG had a strong statutory position under the constitution, it faced some challenges on adequacy of budgets, lack of strong government support, and failure by the parliamentary accounts committee to act on the reports and recommendation of the OAG.

Institutional Management

Responses were analyzed through mean scores and results presented in Table 2.

Table 2: Institutional Management

Statement	MS
The leadership in the OAG has provided vision/mission statements to guide its work	1.87
The OAG has a published strategic plan	1.89
OAG resources are managed flexibly such that urgent assignments can be prioritised	2.48
The OAG publishes its corporate reports and annual plans	3.29
The books of accounts of the OAG are audited by a private external auditor	2.42
The OAG has adequate internal controls including internal audit	2.54
There is a code of conduct which all employees understand and have signed	2.13
The OAG has an effective management information system through which important official information can be communicated to staff	2.20
There is an external communication policy for communicating external stakeholders in the OAG	2.18
The AG sends and facilitates staff to attend international seminars and/or conferences	2.18

Results presented in Table 2 indicated that the leadership in the OAG had provided vision/mission statements to guide its work (MS = 1.87). Further, respondents also agreed to the statement that the OAG had a published strategic plan (MS = 1.89). Findings also indicated that there was a code of conduct which all employees understood and had signed (MS = 2.13), there was an external communication policy for

communicating external stakeholders in the OAG (MS = 2.18) and the AG sends and facilitates staff to attend international seminars and/or conferences (MS = 2.18). Respondents also agreed that the OAG has an effective management information system through which important official information can be communicated to staff (MS = 2.20), the books of accounts of the OAG are audited by a private external auditor (MS = 2.42)

and that the OAG resources are managed flexibly such that urgent assignments can be prioritised (MS = 2.48). However, findings indicated that respondents were not sure on other statements listed. These included statements that the OAG published its corporate reports and annual plans (MS = 3.29) and that the OAG had adequate internal controls including internal audit (MS = 2.54). These findings indicated that there was effective institutional management at the OAG in

regard to management of resources, provision of strategic direction, communications, staff development and management information systems. However, the OAG had mild challenges in internal controls and publishing of corporate and annual plans.

Resources Availability

Mean scores were used for analysis and results are presented in Table 3.

Table 3: Resources Availability

Statement	MS
The OAG has the authority to freely determine the appropriate number of appropriately qualified staff that it needs	2.03
The AG has a free hand in the recruitment and employment of staff as and whenever vacancies arise	2.48
Staff are adequately remunerated in the OAG	2.01
There is a HRM manual	2.10
The OAG has adequate training programmes for the staff	2.54
The HRM manual is strictly adhered to by the OAG	3.21
Staff at the OAG are adequately experienced	2.20
Academic and professional qualifications in the OAG affect the performance of staff	2.32
Professionals in the OAG are encouraged to work towards relevant qualifications	3.88
The AG has adequate space for the headquarters and regional / local offices	2.49
The AG has procedures in place to protect its reputation in case of adverse publicity	3.26

The results (Table 3) indicate that the respondents agreed to the statement that staff are adequately remunerated in the OAG (MS = 2.01) and also agreed that the OAG has the authority to freely determine the appropriate number of appropriately qualified staff that it needs (MS = 2.03). Results also indicated that respondents agreed that there is a HRM manual at the OAG (MS = 2.10), that staff at the OAG are adequately experienced (MS = 2.20), and that academic and professional qualifications in the OAG affect the performance of staff (MS = 2.32). Moreover, respondents agreed that the AG has a free hand in the recruitment and employment of staff as and whenever vacancies arise (MS = 2.48) and that the AG has adequate space for the headquarters and regional / local offices (MS = 2.49).

Study results further revealed that the respondents were not sure on statements

regarding adequacy of training programmes for staff in the OAG (MS = 2.54), strict adherence to HRM manual (MS = 3.21) and the procedures in place at the OAG to protect its reputation in case of adverse publicity (MS = 3.26). Findings however, revealed that respondents disagreed with the statement that professionals in the OAG are encouraged to work towards relevant qualifications (MS = 3.88). The study findings regarding resource availability implied human resources were effectively managed in terms of remuneration, determination of quality and quantity, having policies and manuals to guide HRM, and having requisite experience for the staff. Similarly, human resources had requisite professional and academic qualifications. The OAG had adequate office space for its operations. However, the OAG had weaknesses in its HR training, and procedures in reputation management.

Audit Processes

The study sought to evaluate the effect of audit processes on the effectiveness of the Office of the Auditor General. Respondents were asked to

indicate their level of agreement to statements provided where the rating was on a scale of one to five. Mean scores were used to summarize the results as presented in Table 4.

Table 4: Audit Processes

Statement	MS
The OAG applies both international standards and national standards	1.91
The OAG has technological and human capacity to conduct CAATS audit	2.53
The OAG staff rely heavily on the work of internal audit in government entities	2.84
The OAG has the capacity to conduct ICT audit	2.72
There is an Audit manual on which the OAG staff rely upon to ensure quality and consistency	2.12
The audit procedures include at least two-stage review to ensure quality work	2.16
The OAG regularly opens itself to peer review	2.13

Study results (Table 4) revealed that the respondents agreed that the OAG applies both international standards and national standards (MS = 1.91) while they also agreed that there is an audit manual on which the OAG staff rely upon to ensure quality and consistency (MS = 2.12). Further, respondents agreed that the OAG regularly opens itself to peer review (MS = 2.13) while they also agreed that the audit procedures include at least two-stage review to ensure quality work (MS = 2.16).

Findings however, indicated that respondents were not sure on whether the OAG had technological and human capacity to conduct CAATs audit (MS = 2.53) and also whether the OAG staff relied heavily on the work of internal audit in government entities (MS = 2.84). Respondents also indicated not to be sure about the capacity of the OAG to conduct ICT audit (MS = 2.72).

These results indicated that the OAG had adopted both the international and national standards in its work, had an effective audit manual to ensure

quality and consistency, is open to peer review and had adopted at least two-stage review to ensure quality work. However, audit processes had some weaknesses in regard to technological and human capacity to conduct CAATs audit and the capacity of the OAG to conduct ICT audit.

Effectiveness of Oversight of Office of Auditor General

The dependent variable in the study was effectiveness of the OAG in Kenya to provide oversight in public financial management. The effectiveness of the OAG was assessed using various measures on a five point likert scale (1- Fully Agree, 2 – Agree, 3 – Not sure, 4 – Disagree and 5 – Totally Disagree) where respondents indicated their level of agreement with the statements. Mean scores were used to summarize the results as presented in Table 5.

Table 5: Effectiveness of Oversight

Statement	MS
The OAG submits its reports to parliament timeously as per statutory requirement	3.07
The OAG submits quality reports to parliament	2.56
The comments and views expressed in the audit reports are objective and well grounded	2.07
Audit reports are based on verifiable facts not on hearsay, subjective judgment or witch-hunting	1.91
Audit reports by OAG have enough information to enable government institutions to make informed decisions on controls or prosecution	1.82
The audit reports by OAG are comprehensive	1.83
The audit reports by OAG are in a format that is prescribed by the statutes	1.87
Audit reports adequately offer insights on the risks that face public finance management in Kenya	1.87
Audit reports have an analysis of the control weaknesses that are significant in public financial management	1.76
Audit reports have an analysis of any thematic issues that have been unearthed by the audit in the entire government	2.00
Audit reports provide an assessment of the entire effectiveness of risk, governance and controls that the government has put in place	2.00

Study results (Table 5) revealed that the respondents agreed that audit reports had an analysis of the control weaknesses that were significant in public financial management (MS = 1.76) and they also agreed that audit reports by OAG have enough information to enable government institutions to make informed decisions on controls or prosecution (MS = 1.82). Further, respondents agreed to the statements that the audit reports by OAG were comprehensive (MS = 1.83), the audit reports by OAG are in a format that is prescribed by the statutes (MS = 1.87), audit reports adequately offer insights on the risks that face public finance management in Kenya (MS = 1.87) and also agreed that audit reports are based on verifiable facts not on hearsay, subjective judgment or witch-hunting (MS = 1.91). Results also indicated that respondents agreed that audit reports had an analysis of any thematic issues that had been unearthed by the audit in the entire government (MS = 2.00), audit reports provided an assessment of the entire effectiveness of risk, governance and controls that the government had put in place (MS = 2.00) and the comments and views expressed in the audit reports are objective and

well grounded (MS = 2.07). The study findings however, indicated that respondents were not sure on whether the OAG submits its reports to parliament timeously as per statutory requirement (MS = 3.07) and whether the OAG submitted quality reports to parliament (MS = 2.56). These results indicated that the OAG was mostly effective in regard to objectivity, offering insights into governance, risks and controls, completeness of reports, and comprehensiveness. However, there were some weaknesses observed on timeliness of reporting.

Regression Results

A multiple linear regression analysis was performed to test the cause and effect relationship between the independent and the dependent variables. The average ratings for the four independent variables (statutory position of the OAG, institutional management, resources availability and audit Processes) were used as the indicators for input into the regression model. The average ratings for the measures of effectiveness was used as input for the dependent variable. The coefficient of determination and standard error of the regression model indicated that the adjusted

r^2 was 0.577 indicating that the independent variables explained 57.7% of the change in effectiveness of the OAG in providing oversight for public financial management in Kenya. This indicates that the model had good explanatory power. Moreover, the results indicate that the

overall model was significant (f value = 69.584; $p < 0.05$) and could provide important results. This indicates that the model could provide some predictive significance and was a good fit. Further, the regression output on significance of the independent variables is presented in Table 6.

Table 6: Significance of Factors in Determining Effectiveness of OAG

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	1.535	.335		4.585	.000
Statutory Position	.267	.047	.368	5.668	.000
Institutional management	.172	.041	.239	4.169	.000
Resources Availability	.205	.094	.136	2.182	.030
Audit Processes	.478	.048	.617	9.904	.000

The results indicated that statutory position of the OAG significantly and positively affected effectiveness of the OAG in providing insight into public financial management in Kenya ($\beta = 0.267$; $t = 5.668$; $p < 0.05$). This indicates that adhering to the statutory provisions in regard to the OAG could enable the OAG to be effective in providing insight into public financial management in Kenya. These results related with the agency theory which posits that for audit to be effective, there needs to be some minimum statutory provisions put in place to ensure that the OAG is able to effectively audit government institutions (Kauzya & Balogun, 2005). The study results also support the findings by Masood and Lodhi (2015) that having legal provisions to support government auditors enhances their independence which enables them to perform effective audits. The study findings are also in agreement with the results from a study by Bayou et al. (2011) that various dimensions of independence can be guaranteed, such as financial independence, protection from interference in planning, selecting and executing audits and individual ethics among auditors. These guaranteed dimensions enhances effectiveness of SAIs.

Results also indicated that institutional management positively and significantly influenced effectiveness of OAG in providing insight into public financial management in Kenya ($\beta = 0.172$; $t = 4.169$; $p < 0.05$). This result indicated that there was effective institutional management at the OAG that enabled the OAG to be effective in providing oversight in public financial management in Kenya. These results were supported by the lending credibility theory which postulates that management of the audit institution can affect effectiveness of the audit. Its management could affect the credibility of the institution and thus affecting perception of stakeholders in regard to the audit functions (Hayes et al, 2005). The study findings also concurred with the findings of Schraeder (2002) that leadership and a coherent strategy was a prerequisite for a successful SAI. Schraeder established that how proactively the SAI determines its objectives and puts strategies in place to achieve them enables the SAI to achieve its audit objectives effectively.

Resources availability had a significant influence on effectiveness of OAG in providing oversight into public financial management in Kenya ($\beta = 0.205$; $t = 2.182$; $p < 0.05$). This result indicated that enhancing the resources available to the OAG

would have a positive effect on oversight into public financial management in Kenya. These study results supported the theory of inspired confidence which posits that the resources available to the auditor could enable the auditor to have confidence to conduct an effective audit (Goetz & Jenkins, 2005). The findings also concurred with the results by Tisne (2010) that if staff leading and working on audits did not have the appropriate skills for the job, the quality of the work done was brought into question. Moreover, DFID (2005) established that for effectiveness, a SAI should maintain adequate premises including a head office and regional offices since the nature of audit work means that SAI staff are likely to have to travel to other locations to visit audit clients especially if the SAI is responsible for auditing regional and local levels of government, in addition to central ministries and departments. This in essence was similar to the findings in the study about the effect of resource availability on effectiveness of the OAG in oversight on public financial management. Lastly, study results indicated that audit processes was the most significant factor in influencing effectiveness of OAG in providing oversight into public financial management in Kenya ($\beta = 0.478$; $t = 9.904$; $p < 0.05$). This indicates that adhering to best auditing practices and processes had a significant positive effect on the effectiveness of OAG in providing oversight into public financial management in Kenya.

Conclusions

From the study findings, the following conclusions were made. First, the statutory position of the OAG significantly and positively affected effectiveness of the OAG in providing insight into public financial management in Kenya. The OAG had free access to records and documents of auditees in whatever form they existed, exercised fully the powers given under the constitution, was independent and was allowed to hire independent professionals to help in specialized

audit assignments. However, the government did not fully comply with the legislative provisions for the OAG and there was no adequate financing for the OAG.

Secondly, institutional management positively and significantly influenced effectiveness of OAG in providing insight into public financial management in Kenya. The OAG had provided vision and mission statements which guided its work and also published strategic plan. The OAG also had code of conduct, staff development plans, effective management information system and effective management of resources. OAG had weaknesses in publishing its corporate reports and annual plans and adequacy of internal controls.

Third, resources availability had a significant influence on effectiveness of OAG in providing oversight into public financial management in Kenya. The OAG had the authority to freely determine the appropriate number of qualified staff that it needed and it adequately remunerated its staff. Human resources had the requisite professional and academic qualifications whereas the OAG also had adequate space for the headquarters, regional and local offices. Moreover, SAI should have adequate utilities, equipment and IT and corporate knowledge base.

Lastly, audit processes was the most significant factor in influencing effectiveness of OAG in providing oversight into public financial management in Kenya. The OAG applied both international standards and national standards in its audit work and had an audit manual on which the OAG staff relied upon to ensure quality and consistency. Moreover, the OAG regularly opened itself to peer review and had two-stage review process. There were weaknesses however, in regard to adequacy of technological and human capacity to conduct CAATs and IT audits.

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