EFFECTS OF RISK-BASED AUDIT ON FINANCIAL PERFORMANCE OF STATE OWNED CORPORATIONS IN THE MINISTRY OF EAST AFRICAN COMMUNITY, LABOUR AND SOCIAL PROTECTION IN KENYA

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DECLARATION

I declare that the work in this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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and have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Signature…………………........................... Date………………………………………..

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DEDICATION

I dedicate this project to my family. My husband Silas, our children Austin, Ignatius and Fabian. Without your forbearance, empathy, backing and, above all,your adoration, it would not have been. Thank you for your great inspiration throughout my academic journey.

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ABSTRACT

Risk-based auditing guides a firm's usage of its own internal audit function so as to enhance risk management and controls. It enhances accountability and accuracy of financial statements thereby improving financial performance of institutions. The general objective of this study was to establish the effect of risk based audit on performance of state owned corporations in the Ministry of East African Community, Labour and Social Protection in Kenya. The research design used was descriptive research design. The population of the study comprised 160 senior managers of State corporations in the ministry. The study was a census. The study used primary data that was collected through self-administered questionnaires. The data was analyzed by the use of descriptive statistics which included inferential statistics such as regression and bivariate correlation. The study established that risk assessment, internal audit standards, control environment and information system positively affected the financial performance of state owned corporations in Kenya. The study recommends that the Management of state corporations should implement effective risk based audit practices to enhance performance. It also recommends that the management of the commercial state corporations in Kenya should bear the responsibility of equipping their firms' internal audit functions with adequate resources so as to enable them to develop effective annual risk based audit plans. The study also recommends that in order to improve the financial reporting of state corporations in Kenya, the management of state corporations must embrace International Auditing Standards (ISAs),which guide ethical practices of internal audit personnel. The main limitation of the study was that it was based on data collected from one government ministry only. A study of additional ministries may have provided greater insights to the study topic. Similarly, future research could focus on the private sector for the purpose of making comparisons.

Keywords: Risk Based Audit, Financial Performance, State Owned Corporations, Ministry of East African Community, Labour and Social Protection

LIST OF ABBREVIATIONS

CG Corporate Governance

CR Control Risk

IA Internal Audit

IAC Internal Audit Capacity

IIA Institute of Internal Auditors

IR Inherent Risk

OECD Organization for Economic Co-operation and Development

RBA Risk Based Audit

RBIA Risk Based Internal Audit

RMD Risk Management Department

DEFINITION OF TERMS

Audit An examination which is not biased and assessment of the statements of finance of an institute which can be done internally (by employees of the organization) or externally (by an outside firm). (Hayes, 2005).

Control Environment A term of audit finance, internal audit and Enterprise Risk Management. It means the general attitude, awareness and actions of management and directors (i.e. those charged with governance) regarding the internal system control and its significance to the entity (Whittington and Pany, 2001).

Information System Concerned with the information that computer systems can provide to enable a company, non-profit or government organization describe and realize its objectives. It is also concerned with the procedures that an organization can implement using information technology (Alraja &Alomiam, 2013).

Internal audit standards Standards are principally focused on providing a framework for accomplishing and promoting internal auditing. The Standards are obligatory requirements entailing Statements of basic requirements for the professional practice of internal auditing and for appraising the effectiveness of its performance (Yung, 2008).

Risk assessment The determination of quantitative or qualitative worth of risk related to a tangible situation and a familiar threat (Liewellyn, 1998).

Risk based audit Methodology which is primarily focused on the inherent risk involved in the happenings or systems which offers assurance that risk is being managed by the management within the defined risk appetite level (Kirogo, Ngahu, &Wagoki,2014).

CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Organizations face challenges and difficulties while achieving their objectives. This is due to undefined economic conditions and growing business risks that result from market complexity, fraud and financial scandals, corporate governance failures, slow global economic recovery and the credit crunch (Mikes and Kaplan, 2013). Managing risks successfully is crucial for accomplishment of corporate objectives and sustainability of superior financial performance. As an outcome, these circumstances have led to the role and responsibility of different ingredients of the corporate governance mechanism and a bigger focus on risk based auditing. The effectiveness of the risk based audit function(RBA) has constantly received vast attention by principal regulators, investors, shareholders rating agencies, and corporate administrators, in an effort to realize higher returns. This is necessary in steering uncertain conditions (Sarens and De Beelde, 2005). Fresh voluntary corporate governance guiding principles have been imitated. In developing countries, the partisanship of audit area has created diverse levels of prominence on risk management and internal control and has, respectively, reproduced the governance guidelines (Basel Committee on Banking Supervision, 2006). Different organizations originate charitable guidelines which may offer altered levels of focus on governance and Risk based Audit. It is indeterminate to what extent these different levels of focus impact, either directly or indirectly, an organization’s risk management and internal control practices (Sarens and De Beelde, 2006).

According to Covey (2004) performance of organization is associated with the expansion of knowledge, skills, personal performance and experience, and this results to today’s vibrant and quickly evolving workspace and globalized economy. The ability to accomplish and uphold high performance and productivity in organizations is a key challenge for management today. Cohen (2008) salutes establishments that aim at improving efficiency and postulates that demanding planned schemes, maintaining staff with diverse thinking, and analyzing problem resolving tactics, can address circumstances better, project exclusivity and overcome the challenges of up-to-date projects. Risk based auditing can improve the precision of information on statements of finance by issuing qualified opinions to firms with variable statements.

Stakeholders are able to screen out such organizations with the aid of the auditors. The focus on voluntary corporate governance strategies, risk management and internal control activities has enlightened organisations on their levels of uncertainty, with organisations resorting to such voluntary guidelines (Beekes and Brown (2006). Improved quality financial reporting, shrinking losses and eventually improved bank financial performance has been the impact of risk based audit (Vafeas, 1999).

Risk-based internal auditing gives importance to strategic analysis, business process evaluation, and to measurement of goals, controls and risks that influence an organization's performance (Rivenbark, 2000). By diagnosing, appraising, and observing a company's risk, internal auditing helps guarantee that resources are adequate and concentrated on priorities (Kunkel, 2004). Customarily, sharp risk areas are assessed by risk-based auditing (Griffiths, 2006), and, exceptionally, conducts continuous risk assessments (O'Regan, 2002; Marks, 2001). The information gained from a complete risk assessment undertaken at the kickoff of every internal audit engagement and annual risk assessment, should be shared with the management and the board (Jackson, 2005). The key tasks of the audit committee is to screen and evaluate the audit process. Dynamic and independent audit committees can influence the degree of audit (Dezoort, 1997). Independent directors on audit committees have motivations to protect their reputation and avoid possible litigation. Demand-based perspective can be explained by the context of regulatory oversight and the scrutiny of the role of independent directors (Lorenzo, 2001). Differentially higher audit is sort by independent directors as suggested by demand-based perspective. Additional audit work is required as a result of greater assurance provided by the external auditor which is reflected in higher audit fees. Consistent evidence with this view is provided by Carcello (2002) and Abbott (2003).

The principles of good governance, fairness and equity, transparency and accountability, respect for the rule of law, efficiency and effectiveness, and high standards of ethical behavior characterize the foundation upon which to build (OECD, 2005). Public sector must uphold International Auditing standards that guide the internal audits ethics for Risk Based Audit (RBA). This is in order to provide good governance in work and sustain professional auditing standards. Current risk management becomes increasingly problematic as organizations grow in size and complexity, (Fraser and Henry 2007). Previous studies on demand for internal auditing have linked demand to the cost vs. benefit analysis undertaken during monitoring (Goodwin-Stewart and Kent 2006). Investment in fixed costs of internal auditing, from a transaction cost perspective, mean that larger firms have opportunities to gain economies of scale (Carey. 2006). Carcello(2005) emphasizes that companies with complex organizations face a higher risk and must increase their monitoring.

Kasiva (2012) notes that one region that merits important dependence on internal audit is fraud risk assessment. In addition to this, she opines that internal auditors are more privy to the operations of their firm than external auditors and are therefore better suited in carrying out fraud risk assessment. Kibaara (2007) in his research of internal auditors' risk management practices in the Kenya's banking sector, examined bank internal auditors' risk assessment practices and recognized that, banks in Kenya were in the practice of enlisting the enterprise resource management practices and strategies in line with risk assessment.

1.1.1 The Risk Based Audit Concept

Risk-based auditing is the process of ascertaining and reporting the risk of significant misrepresentations in financial statements. This approach increases the value of the product (financial statements), and makes auditing more profitable. In other words, risk-based auditing satisfies both the managers and the auditors (Smith, 2006). In this approach, the auditor first observes the accounting and internal control systems (through written narratives, questionnaires, flowcharts, and by performing a walk-through test), and then evaluates inherent and control risks. The reliability of the internal control system is initially estimated to determining the inherent and control risks of the auditor. If the internal control system is effective, the auditor performs the tests of control. The results can adjust and finalize the initial estimates of inherent and control risks (Moradi and Pourhosseini, 2009).Risk-based auditing is a new approach to the practice whose aim is to improve the quality and effectiveness of audits, since determining the appropriate nature, timing, and extent of substantive testing allows for higher quality audits at shorter time. Substantive testing is limited where there is internal control reliance and extensive where there is no internal control reliance (Forsati, 2002).

According to Gibson (2003), risk based audits should focus on both recorded and unrecorded risks. Additionally, they should aim to improve the credibility of financial statements and the entire financial reporting process. Smith (2006) notes that an organization’s operations are expanded when internal auditing is an independent, objective assurance and consulting activity designed to add value. Internal auditing is a reagent for refining an organization’s effectiveness and efficiency by providing understanding and references based on scrutinizing and assessments of data and business processes. With obligation to reliability and answerability, internal auditing compromises significance governing and senior management as an objective groundwork of independent advice. Auditors are engaged by organizations to accomplish the in-house auditing activity. An organization attains its objectives by attracting a systematic well-organized approach to evaluate and improve the effectiveness of risk management, governance practices and control. The components of risk-based audit are: risk assessment, internal audit capacity and control environment, annual risk based planning, risk management, and information system internal audit standards.

1.1.2 Financial Performance

Carton (2004) defines financial performance of an organization as the measure of the change of the financial state of an organization or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization. He further argues that the outcomes are not universal in nature but largely depend on the organizational context hence selection of the measures that represent performance of a particular organization is done based upon the circumstances of the organization being rated. Financial performance is a measure of an organization's policies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period of time and can be used to compare similar organizations across the same industry or compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt (Lutta, 2012).

In the public sector, an entity is held accountable for managing and maintaining finances in order to meet its multiple public interest objectives in both the short and long terms. Financial performance is determined by a comparison of actual versus budgeted annual results. The resultant surplus or deficit provides cumulative information about the financial performance of the public entity (Fraser, 2013). According to Mishkin (2007), the financial industry, like other industries, is in business to earn profits by selling its products. To maximize the profits, financial institutions develop new products to satisfy their own needs as well as those of their customers. In other words, innovation is driven by the desire to get rich. This view of the innovation process leads to the following simple analysis: A change in the financial environment will stimulate a search by financial institutions for innovations that are likely to be profitable.

1.1.3 Ministry of East African Community, Labour and Social Protection

The mandate of the Ministry of East African Community, Labour and Social Protection in Kenya includes the origination, appraisal and application of the Social Security Fund, employment, national human resource planning and development, national labour productivity, child labour and regulation management. It also encompasses facilitating and tracking employment creation, co-ordination of national employment, internship and volunteers for public service, community development, protection and advocacy of needs of persons with disabilities, social assistance programs, workplace inspection and workman's compensation.

The Ministry, formed in 2013, combines the roles of the former Ministry of Labour and part of the former Ministry of Gender, Children and Social Development. The two former ministries have existed in various forms since independence in 1963. The state-owned corporations under this ministry were ideal for the study because of their accessibility for data collection. These corporations include National Industrial Training Authority (NITA), National Social Security Fund (NSSF), and National Council for Children, National Human Resource Planning and Development, National Council for Persons with Disability, Registrar of Trade Unions, the National Employment Bureau and Productivity Centre for Kenya.

1.2 Statement of the Problem

Kenya's development goal is to create and sustain a high level of economic growth whose benefits are invested to ensure a just and cohesive society enjoying equitable social development in a clean and secure environment (GoK, 2007). This development is to be driven by an issue-based, people centered, results oriented, accountable, and democratic political system. The Public Financial Management Reforms (PFMR) in Kenya forms a critical pillar to Kenya's development goals as it strengthens the Public Financial Management (PFM) systems in order to enhance transparency, accountability and responsiveness of public expenditure to policy priorities. The need for an effective public sector audit approach becomes more acute today as government operations become increasingly dispersed and decentralized, and citizens' demand for accountability grows even stronger. With the increasingly tighter budgets faced by internal audit departments, their ability to expand the depth and breadth of their audits is constrained (Vani et al., 2008).

1.3 Research Objectives

1.3.1 General objective of the study

The general objective of study was to determine the effect of risk based audit on performance of state owned corporations in Kenya.

1.3.2 Specific objectives of the study

The specific objectives were to:

1. Establish effect of risk assessment on performance of state owned corporations in Kenya.
2. Determine the effect of internal audit standards on performance of state owned corporations in Kenya.
3. Determine the effect of control environment on performance of state owned corporations in Kenya.
4. Determine the effect of information system on performance of state owned corporations in Kenya.

1.4 Research Questions

The research questions were:

1. What are the effects of risk assessment on performance of state owned corporations in Kenya?
2. To what extent does an internal audit standard affect performance of state owned corporations in Kenya?
3. What are the effects of control environment on performance of state owned corporations in Kenya?
4. To what extent does information system affect performance of state owned corporations in Kenya?

1.5 Justification of the Study

Many corporate downfalls and monetary scandals have triggered universal concern with corporate governance emphasized on obvious disappointments of accountability (Spira and Page 2003). Internal procedures in state corporation organizations are mostly archaic and highly ineffective in as far as classifying business risks to enable inhibition or mitigation from its occurrence. State corporations in Kenya have in the recent past had corporate failures related to corporate governance structures. Many of the state corporations still grapple with liquidity problems, financial reports are not made on time, accountability for the financial resources is still deficient, fraud and misappropriation of institutional properties have been unearthed and a number of decisions made have not borne the expected results.

Few studies have been carried out in relation to how risk assessment, internal audit standards, and control environment and information systems influence organizational performance in Kenya's state owned corporations. This study therefore sought to establish the effect of risk based audit on performance of state owned corporations in Kenya.

1.6 Significance of the Study

The study offers insights into the relevance of risk based internal audit in enhancing corporate governance and as a result, improve performance in state owned corporation. The results of this study should enable directors and management appreciate the importance of risk based audit practices and assist them in rating their level of compliance against those of their competitors or the entire market, and in determining whether risk based audit practices improve state corporation performance.

The study may also guide the government in development of policy on risk based audit. The outcomes of the study can guide regulatory bodies, financial and government institutions to derive programs and policies designed to enhance accountability in state owned corporations in Kenya.

Academicians are furnished with pertinent information on the relationship between risk based audit and performance of state corporations. The study is also a contribution to the general body of knowledge and forms a basis for further research.

1.7 Scope of the Study

The research study was conducted among directors, managers and supervisors in state-owned corporations falling under the Ministry of East African Community, Labour and Social Protection. These state-owned corporations include NITA, NSSF, Registrar of Trade Unions, National Council for Children, National Human Resource Planning and Development, National Council for Persons with Disability, National Employment Bureau and Productivity Centre for Kenya. The study was concluded within the set budget and time frame.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a theoretical framework. This background theoretical framework informed the study by use of various theories. Information obtained from research papers, books, conference proceedings, journals, web articles, and session papers are discussed. The chapter also offers an empirical literature review. In the empirical literature review, previous research outcomes are appraised to establish knowledge gaps. The relationship between Independent and dependent variables is also clearly portrayed by use of a conceptual framework.

2.2 Theoretical Literature

The agency theory, auditing theory and transaction cost theory are the three main theories considered for this study. Pertinent issues are articulated and discussed with a view to explain compelling organization and financial performance.

2.2.1 Auditing Theory

Mautz and Sharaf (1961) explain how a pie chart may be used to illustrate the scheme of auditing knowledge. At the center, it holds the hard core of the most fundamental types of knowledge, mathematics and logic. The philosophical ground involves the verification of the core and drawing strength from the foundation level of auditing knowledge. It shows this level of knowledge to be an important part of the field of auditing as well as the nature of its knowledge and methodology. It further illustrates that the basics for concluding concepts must relate harmoniously and recognize the strength and weakness of their development, and the evaluation of risk-based audit approaches and methodology.

The audit approach or audit methodology followed by an auditor represents the theory of auditing. Auditing theory serves to explain the need for auditing in organizations and unveils several laws that administer the audit procedures and activities. The theory augments the appreciative relationships and interrelationships between diverse parties of an organization. Auditing theory has a sub-theory called policeman theory. The auditor is accountable for searching, discovering and reducing fraud, according to this theory. In the debate on the auditor's obligation fraud detection is a major issue. Normally where frauds in financial statement have been found, the weight of responsibilities of auditors in detecting fraud increases (Hayes, 2005). Lately, the chief focus of the auditors has been to provide rational assurance and prove the truth and independence of the financial statements.

The lending credibility theory is also a sub-theory of auditing theory. It states that the primary function of the audit is to add reliability to the financial statements. In light of the foregoing, the auditors are alleged to sell `credibility' to the customers. Audited financial statements are viewed as having elements that improve the confidence of the financial handlers in the results presented by the directors. Users gain from the increased credibility and a higher quality of investment decisions is possible thanks to more reliable information (Ittonen, 2010).

Hayes (2005) noted that audit theory consists of the Theory of inspired confidence which is also known as the theory of rational expectations. This theory addresses the demand and supply of audit services. It postulates that the demand for audit services is a direct consequence of the influence of third parties in the organization. Management are obliged to show accountability for their investments in the firm. However, accountability is developed through the issuance of periodic financial reports. Further, the information provided by the management is probably biased, therefore outside parties have no direct means of monitoring. According to the theory, RBA is required to validate this information.

2.2.2 Agency Theory

Jensen and Meckling (1976) formulated the agency theory which explains the relationship between agents and principals. The theory has been used for purposes of governing a financial institution to achieve financial performance. The theory is based on the premise that agents have more information than principals, and the information asymmetry adversely results in a moral hazard whereby the principals' ability to monitor effectively whether their interests are being properly served by agents is constrained. The theory also assumes that principals and agents act rationally in using the contracting process to maximize their wealth. Managers of public resources are agents charged with controlling the public resources, and are also accountable for the resources provided in activities of government programs and services. The relationship between principal and agent has significantly impacted the decisions of local people and elected public officials. Internal audit departments have been put in place to help monitor operations, ensure regulatory compliance and minimize misappropriation risks.

Organizations with a loose ownership-control structure may put in place control mechanisms to prevent agents from adversely influencing monitoring mechanisms to suit their self-interests (Adams, 1994).For example, a government legislation may be aimed at preventing public managers from restricting the scope of the internal audit function or rejection of internal auditors' recommendations, by ensuring that the role and responsibilities of the internal audit are mandated in an audit charter, and that the head of the internal audit maintains independence by reporting directly to the legislature or audit committee. Agency theory postulates that there is an information asymmetry problem in the public bureau which hinders heads from effectively observing the opportunistic behavior of agents (Ittonen, 2010). The Government internal auditors can assist in minimizing of the problem through proper exercising of professional care in the audit procedures. This includes understanding the risks in the client's operations by interviewing management and personnel, reviewing policies and procedures, using sound judgment to select the audit methodology, using the acquired information to analyze the risks inherent in the client's operations, and developing risk-based audit programs for audit tests.

In the context of state corporations and issues of corporate control, agency theory views corporate governance mechanisms especially the board of directors, as being an essential monitoring device to try to reduce any difficulties that come from principal-agent relationship. Blair (1996) states that organizations must put in place checks and balances and supervise managers who are 'agents' of organizations so as to prevent abuse of power. There are two costs that emanate from agency theory, namely, abuse of power costs, and costs associated with monitoring and disciplining. These costs are called 'agency costs'. Considerably, agency theory relates to an organization's view of ownership and governance, as defined in the work of Berle and Pears (1932). The agents are the managers and the principals are the government/citizens, and this is the most important commonly cited agency relationship in the corporate governance context.

The relevance of the theory is that it informs the independent variable (control environment). Control environment is all about the board and managers who are entrusted with corporation's resources. Management, being the agents of the state corporations, are expected to act in the interest of the organization.

2.2.3 Transaction Cost Theory

Transaction cost economics (TCE) was explained in the exertion of Williamson (1984), and is seen to be closely interrelated to Agency Theory. It views the organization as a structure while the Agency Theory visions the organization as a link of contracts. Basically, Agency Theory proposes that there is an association between the groups or series of contracts amidst the several players, arising due to impossibility to have a contract that perfectly brings into line the benefits of principal and agents in corporate control experience.

Coase (1937) stated that efficiency of inner, as unswervingly opposed to outer, contracting is scrutinized by the rationale of a firm's existence framework. He explained that in the operation of market costs, by establishment of an institute and allowing some authority to direct the resources, certain marketing expenditures are saved. The organization aims to function at a less cost, taking into account factors of production at a lower price than the market transactions. Williamson (1984) also delved into the previous work of Coase (1937), and offered an explanation for the development of bigger firms and multinationals, which basically provide their own internal capital market. He supported the view that the costs of any miscellaneous actions may be reduced by a judicious choice of governance structures, instead of realigning enticements and valuing them out. Transaction cost theory is relevant to audit risk. This risk is composed of detection risk (DR), control risk (CR) and inherent risk (IR), and can be calculated thus:

$$AR = IR \times CR \times DR \qquad \text{(i)}$$

IR is risk that is in the nature of business or transaction before any controls are put in place. CR refers to the risk that a misstatement may not be noticed and corrected or barred by the organization's internal control mechanism. For example, control risk is high where there is no segregation of duties. DR is the likelihood that the audit procedures may not detect presence of a material error or fraud. This is due to failures of internal control procedures; DR is either due to human factors or sampling error.

2.3 Empirical Review

This section details some previous empirical studies done and which are relevant to the objectives of the current study.

2.3.1 Risk assessment and Performance

The term risk refers to uncertainty of outcome, it is the positive opportunity or negative threat, of actions or events. The risk has to be assessed in respect of the combination of the likelihood of something happening, and the impact which arises if it does actually happen (Griffiths, 2006). Each of these studies considered the role of risk assessment in the detection of errors. It was also suggested that auditors who have a good understanding of their auditee's business can accomplish such an assessment with relative ease (Verschoor, 2002). In addition to the auditee's previous history of errors, Spira and Page (2003) found out that non-systematic transactions and industry characteristics were associated with the incidence of errors. Contrary to the presumption in Statements of Auditing Standards (SAS) that inherent risk is difficult and costly to assess, these studies suggest that some inherent risk factors can and should be assessed (Spira and Page, 2003). Risk assessment is useful in classification of the different risks according to the amount of damage they could possibly cause (Goodwin, 2003). Classification enables management to separate risks that are threatening the existence of the corporation from those which can only cause minor damages. Assessing the risk of material misstatement at the financial statement level as well as at the planning stage, adds to and clarifies the direction on performing a combined assessment of inherent and control risk, leaving the auditor to assess other risk factors in an audit (McCord, 2002).

All government audit activities require attempts to understand IR assessment processes. O'Regan (2002) described the development of a conceptual model of how auditors assess inherent risk in a normal audit environment and its implementation as a knowledge-based (expert) system. Raghunandan, Read and Rama (2001) assert that the auditor begins the risk evaluation process through generating expectations of accounts balances. The auditor identifies changes that have occurred in the firm or its environment and determines how those changes should interact with historical trends, so as to produce an expected balance in the account (Sarens and de Beelde, 2006).

Kirogo, Ngahu and Wagoki (2014) conducted a study on the impact of Risk-Based Audit on financial performance of insurance companies in Nakuru town. The study found risk based auditing to have a positive effect on performance of the study firms. Liewellyn (1998) carried out a study of risk management practices as a lever for value creation in credit unions in Slovenia. To study differences and impacts of different risk management practices in Slovenia he carried out a survey on a sample containing data on 137 credit unions, firms predominantly operating in manufacturing (49 percent), merchandise (10 percent), real estate (19 percent), and transportation (8 percent). The study used time trigger and regressions using some constructed risk measure and financial characteristics (financial ratio analysis) to test financial performance of the firms. The study concluded that audit risk management has a positive impact on the performance of a firm.

Compared to other financial research, risk management behavior of firms is far less studied. The reason for this might be due to peculiarities in accounting practices of firms on the one hand, and availability of appropriate financial data on the other. As a result, risk management papers deal with only selected areas of risk management. For almost all performance ratios, Breusch-Pagan test does not reveal the problem of heteroscedasticity. The exemption is *GPM* for which homoscedasticity-consistent standard error term is used. In addition aggregate risk management variable (*RISK*), strategic, project, financial, and operational risk (*RISK_S, RISK_P, RISK_F*, and *RISK_O* respectively) are separately tested.

2.3.2 Internal audit standards and Performance

Yung (2008) conducted a study on risk based internal auditing in the Taiwanese banking industry. The study explored factors associated with Taiwanese Banks' demand for RBIA from perspectives of risk management, internal control, corporate governance and internal auditors' technical competence. It relied on data from a survey of domestic banks together with information from corporate annual reports. The survey was designed to gather information on the current use of RBIA in the banking industry. The questionnaire was developed based on the Standards for the Professional Practice of Internal Auditing (IIA 2004a) and the Implementation Rules for Bank Internal Audit and Internal Control Systems (FSC 2007), and included four parts: part one asked about current status of the bank's risk management, part two requested for the definition of RBIA activity in audit charter and technical competence of internal auditors, part three investigated the performance of RBIA in relation to audit planning, nature of work and communication, and part four inquired about basic information of the Banks. The sample consisted of all of the 39 domestic Banks, and of the 39 surveys mailed, 29 completed responses were returned for a response rate of 74.4%. The findings of the study indicated the existence of a significantly negative correlation between the level of RBIA employed by a bank and the board size. Results from the study suggested that a firm's risk management framework was highly associated with the role of internal auditing in the firm. However, the study did not establish the extent to which RBIA affected financial performance.

Kibara (2007) conducted a survey of internal auditor's risk management practices in the banking industry in Kenya. The study sought to establish banks' internal auditors' perception of their distinct role in the bank wide ERM process, and whether there was any conflict between internal audit and the risk management departments being established to take over the ERM process. Bank internal auditors' risk assessment practices in Kenya were also probed. To achieve the objectives set, a survey involving all heads of internal audit departments in the banking industry in Kenya was conducted. Data analysis was done, and out of the 27 banks sampled, 14 returned responses and with this response rate of 52%, it was concluded that the outcome of the study fairly represented the banking industry internal auditors' practices and perception of risk management. It also emerged that only 14% of the internal auditors could clearly list their distinct role and those of Risk Management Department. For institutions with both departments, a conflict was already brewing between IAD and RMD in 29% of the institutions. The conflict centered mainly on lack of clarity on the distinct roles to be played by the two departments during the entire ERM process. The study found that most banks in Kenya were in the process of drafting ERM processes and strategies.

Kibet (2008) concluded that the internal audit function played a role in corporate governance. The limitations of the study were time constraints, restriction to state owned corporations and having to make prior arrangement in order to meet the heads. Recommendations of further study were effectiveness and contribution of internal audit in promoting corporate governance for companies listed in the NSE. Additionally, a study on the influence of internal audit and audit committee on financial reporting quality was recommended.

2.3.3 Control Environment and Performance

According to Whittington and Pany (2001), the control environment of an organization is crucial in perpetuating the success of the organization since it moderates the internal operations of the firm. They further opine that control environment factors such as integrity and ethical values of personnel responsible for creating, directing, and monitoring the controls may be instrumental in establishing a well-organized structure that provides for proper planning, directing and controlling operations.

Javaid's (2014) study illustrates the connection between internal auditing and internal control systems on financial performance in a higher learning institution in Pakistan. Internal controls were looked at from the perspective of Control background, Internal Audit and Control Activities whereas financial performance focused on liquidity, responsibility and reporting as the test of financial performance and internal control. The Researcher embarked on identifying the causes of continual poor financial performance from the viewpoint of internal controls. The research was conducted using both quantitative and qualitative approach using Survey, relationship and case study as Research Designs. Data was collected from a population of 302 Pakistanis using questionnaires and interview guides as well as review of available documents and records, with respondents targeted being essentially deans, associate deans, heads of departments, management committee members, and Finance and Accounting staff. Data was analyzed using the Statistical Package for Social Sciences, and conclusions drawn.

The study established that management of the institution were passionate about the control systems, energetically participated in monitoring and supervision of the activities of the institution, and all the activities of the institution were initiated by the top level management. The internal audit department was not efficient. It was understaffed, did not conduct regular audit activities and failed to produce regular audit reports, although the few reports produced by the internal audit department addressed weaknesses in the system. It was further observed that there was a clear separation of roles, weaknesses in the system were addressed, and there was a training program for capacity building in the institution. However, the research also found out that there was lack of information sharing and inadequate security measures to safeguard the assets of the University. It was also noted that there were insufficient funds available to meet the intended University goals. Fees charged to students were not adequate to cover costs, and fees meant to be remitted to the University were not all collected. It was however, observed that all revenues and expenditures were properly classified, and assets of the University had generally increased. The study thus established a significant relationship between internal control system and financial performance.

Hayes's (2005) five components are contained in internal control, the control environment, the process of entity's risk appraisal, the information and statement systems, control actions and the monitoring of controls. However, for the purpose of this study, the research narrowed down to only three components of the internal control system: the control situation, internal audit and control activities. The additional components of the internal control systems were held constant.

Gupta (2001), drawing from statements of Standard Auditing Practices No. 6 (SAP 6) defines internal control as the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objectives of ensuring as far as practicable, the orderly and competent performance of its production, including observance of organization policy, the protection of assets, prevention and detection of fraud and error, the accuracy incompleteness of accounting records and the timely preparation of reliable financial information. It is important to note from the above that suitably instituted systems of internal control will ensure completeness of all transactions undertaken by an entity.

2.3.4 Information system and Performance

Alraja and Alomiam (2013) conducted a ground study on the effect of general controls of information system auditing on the performance of information systems. Results showed that banks listed in Amman Stock Exchange applied general controls of information systems auditing in general, and also found that there was a significant relationship between general controls of information systems auditing and information systems performance.

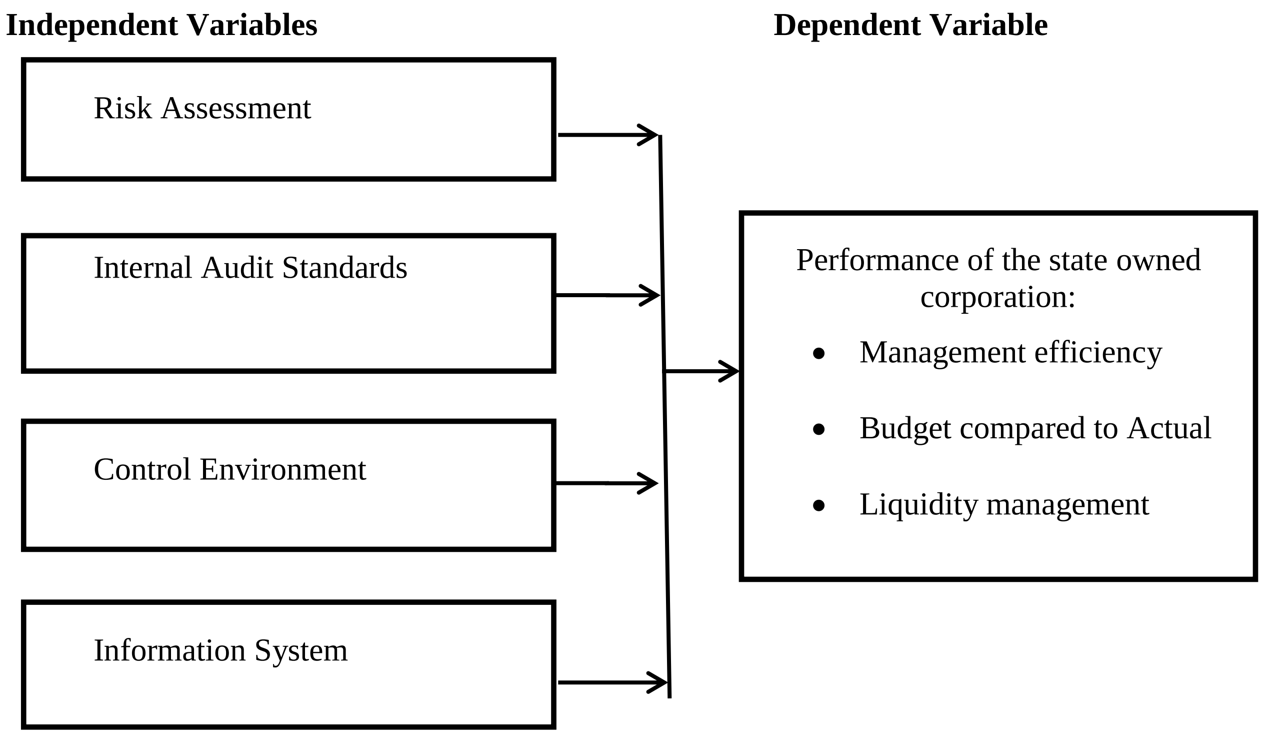
Ali and Younes (2013) also conducted an exploratory study on the impact of information systems on user performance in Tunisian companies. They advanced a model combining the Task Technology Fit (TTF), the Technology Acceptance Model (TAM) and the Delone and McLean model to evaluate user performance of some 314 users of the information system. The results showed that Task Technology Fit, system quality and information quality influence the performance of users directly and indirectly through perceived usefulness and perceived ease of use. Lotto (2013) also examined the impact of information technology on internal auditing effectiveness in Tanzanian organizations. The central finding in this research work reveal that the internal audit profession in Tanzania lags behind in effective use of IT to support their duties. Lotto (2013) postulated that several factors, which contributed to the hindrance of internal auditors' use of technology, were intertwined. In view of this, he concluded that there was lack of top management support demonstrated by a lack of inadequate training programs especially for internal auditors involved in information systems development, and low allocation of funds to the internal audit department.

2.4 Conceptual Framework

According to Kombo and Tromp (2009), a concept is an abstract or general idea inferred or derived from specific instances. A conceptual framework is a figurative representation of the relationships between such broad ideas and principles. The explanatory variable is the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain (Kothari, 2004). Below is a figurative representation of the variables to be explored by this study.

FIGURE 1

Conceptual Framework



Source: Author (2016)

2.5 Operationalization of Variables

Each dependent variable is deliberated below; Risk assessment is one of the components of risk based audit. The identification of customer and investigation of risks relevant in the preparation of the financial statements should be in line with GAAP. Risk calculation can be measured by customer management's risk assessment and audit risk assessments. Client management evaluates risk as part of scheming and operating internal controls to minimize errors and fraud. Three steps involve: Identify factors that may increase risk; determine importance of risk and likelihood of occurrence; develop precise actions to reduce risk to an adequate level. The auditor obtains knowledge about management's risk assessment procedure by: determining how management recognizes risks relevant to financial reporting; appraising their significance and likelihood of occurrence; deciding the actions needed to address the risks. For Risk Based Audit (RBA) the International Auditing standards must be implemented to guide the internal audits ethics of work and maintain specialized auditing standard to provide good governance in public sector. Internal audit standards can be measured by the degree of disclosure of information in the financial statements, degree of professional ethics and overall audit compliance.

Control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience & stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and Organizational structure (which may be a well-organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key players by creating unclear roles). As soon as data and management procedures are handled by automated systems, Information Systems Auditing comes into place. This includes new methodologies and control techniques, pertinent to an automated environment. Information System Auditing requires an opinion about the Information Systems and data that they process. The data must be accurate, complete and authorized. Errors must be properly detected and corrected in time and there must be planned and accurate procedures to guarantee the continuation of operations. Information system includes IT Governance, Integrated audit and control self-assessments.

Performance refers to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (1995) assert that, performance is measured by how efficient the organization is in using its resources to accomplish its objectives. Performance was measured using goal attainment, asset base of the company, and cash available to meet obligations as and when they fall due. According to Symcon (2003), the extent of performance is an integral part of assessment and control. Past performance can be a yardstick for continued achievement or the reagent for change. Without objective performance measures, it is difficult to make successful operational and strategic decisions. According to Chambers (1987), the gauges against which this performance was measured must be known in order to establish the relationship between internal audit and the performance of an organization. Management efficiency ratio is measured by efficiency and effectiveness of management. It refers to the ability of an organization to maximize surplus or minimize costs under given situations and is the most significant ingredient that guarantees the sound running of an Organization (Said & Mohd, 2011). Illogically, there seems to be almost no empirical studies on the relevance of managers to managerial efficiency.

The actual output is compared to planned output and degree of success in achieving targets. The current year’s results are compared with previous year to establish whether performance is more favorable or adverse. The current year’s results of companies are also compared with those of other companies in the same line of business to establish whether the company is performing better or worse. Current performance is also compared against a benchmark or standard of performance.

Information system that uses computer technology to realize some or all of its envisioned tasks is Computer-based information system (Turban et al., 2006). Information systems help businesses to realize their goals and objectives. The top ten dimensions of Information Systems performance include Information Systems impact on strategic direction, Integration of Information Systems planning with corporate planning, Function Information Systems operational efficiency, Information Systems contribution to organizational financial performance, Quality of information outputs, Use-management attitudes about Information Systems function, Information Systems staff competence, Integration with related technologies across other organizational units, Adequacy of system development practice, and Ability of Information Systems function to identify and assimilate new technologies (Chang, 2001).

TABLE 1

Operationalization of Variables

Variable/	Indicators	Measures
Risk assessment	• Client management's risk assessment • Control risk assessments • Auditors risk assessment	**Regression**
Internal audit standards	• Professional ethics • Audit compliance • Full disclosure	**Regression**
Control Environment	• Audit committee • Organizational structure • Board of directors	**Regression**
Information System	• IT Governance • Integrated Control • Self-assessments Audit	**Regression**

Source: Author (2016)

2.7 Research Gaps

Kibet (2008) carried out a survey on the role of internal audit in promoting good corporate governance in companies listed in NSE. The study focused on NSE and found that effectiveness and contribution of internal audit enhances corporate governance for companies registered in the NSE. The current study gives special attention to state corporations. Kibara (2007) similarly carried out a survey of internal auditor's risk management practices in the banking industry in Kenya and found that seven banks out of twenty-one (33 %) had not recognized a separate risk management department. The study used only one premise, that is, risk management, while the current study used all the identified constructs. In addition, the study focused on banking industry thus presenting a conceptual gap. Keitany (2000) studied the internal audit control functions and its implication on risk assessment by the external auditor. The extent of reliance on internal controls was not dependent on the strength of internal audit departments and hence companies should not ignore it. Unlike the study that used only one construct, that is internal audit control, the current study used four constructs. Several studies (Keitany, 2000; Rostum & Eikebrokk, 2008; Cohen and Sayag, 2010; Kasiva, 2012; Cummins, Scott & Greg, 1994) have been carried out relative to the current study. However, it appears that there are very scanty if any studies that have been carried out in relation to how risk assessment, internal audit standards, control environment and information system influence organizational performance in Kenya's state owned corporations. This necessitated the current study which sought to bridge the aforementioned research gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used in gathering the data, analyzing it, and reporting the results. The researcher's aim was to explain the methods and tools that were used to collect and analyze the data so as to get proper and maximum information related to the subject under study. The chapter also presents the research design and the sample sizes derived from the population. In addition, the chapter discusses the validity and reliability tests performed on the data collection instrument, and finally, it presents the ethical considerations made in conducting the research study.

3.2 Research Design

Research design has been defined variously by scholars but these definitions seem to move towards the same direction. Both Lavrakas (2008) and Kothari (2004) describe research design as an overall plan for obtaining answers to study questions while navigating through the challenges faced during the process of research. Thus the conditions for collection and analysis of data are efficiently arranged in such a way as to combine relevance of the research purpose with economy in procedure.

This study employed a descriptive research design. The major purpose of descriptive research design is to describe the state of affairs as it is at the time. According to Mugenda and Mugenda (2008), a descriptive research involves the collection of data aimed at answering questions relating to the current status of the subjects in the study. This approach helped the researcher find out the effects of risk based audit on financial performance of state owned corporations in Kenya.

3.3 Population of the study

Burns and Grove (2003), and Mugenda and Mugenda (2003) describe population as all the elements that meet the criteria for inclusion in a study. Population thus refers to an entire group of individuals, events or objects that share a common observable characteristic. The population of the study was 160 senior managers which included directors, senior managers, and supervisors of departments of state owned corporations in the Ministry of East African Community, Labour and Social Protection.

The state corporations under this Ministry are: National Council for Children, National Human Resource Planning and Development, National Council for Persons with Disability, Registrar of Trade Unions, NITA, NSSF, National Employment Bureau and Productivity Centre for Kenya.

TABLE 2

Population of the study

	Category	**Total population**
NITA	Directors	5
	Senior managers	6
	Supervisory staff	10
		21
NSSF	Directors	6
	Senior managers	8
	Supervisory staff	12
		26
National Council for Children	Directors	4
	Senior managers	7
	Supervisory staff	9
		20
National Human Resource Planning and Development	Directors	8
	Senior managers	10
	Supervisory staff	13
		31
National Council for Persons with Disability	Directors	3
	Senior managers	6
	Supervisory staff	10
		19
National Employment Bureau	Directors	5
	Senior managers	7
	Supervisory staff	8
		20
Productivity Centre for Kenya	Directors	6
	Senior managers	7
	Supervisory staff	10
		23
TOTAL POPULATION		**160**

Source: Ministry of East African Community, Labour and Social Protection (2016)

3.4 Instruments

Primary data was collected through the administration of questionnaires. A questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within rather closely delineated alternatives. A Likert scale of five responses was used. This scale is an interval scale that specifically uses five anchors of strongly disagree (1), Disagree (2), Neutral (3), Agree (4) and strongly agree (5). The scale measures the level of agreement or disagreement and is good in measuring perception, attitude, values and behavior. The Likert scale is convenient in converting qualitative responses into measureable values (Mugenda & Mugenda, (2003) and Zikmund, Babin, Carr &Griffin, (2010). Moreover, open ended questions are more often returned unfilled since many respondents find it tedious to fill such questionnaires. Thus this study preferred Likert scale.

3.5 Data Collection Procedure

The study used primary data and secondary data. The primary data gives more accurate data and hence ease for control over errors (Cooper and Schindler, 2011). Primary data was collected using semi structured questionnaires. Distribution was through drop and pick method after which questionnaires were self-administered to all the respondents. A free environment see up encouraged the use of questionnaires. The study used secondary data which was collected from existing reports that showed risk based auditing in the financial sector.

3.6 Pilot testing

3.6.1 Validity Test

Out of the questionnaires, five were used to pilot test in order to test and enhance the validity of the questionnaire, (Kothari, 2004). According to Mugenda and Mugenda (2003), based on the research results validity refers to the accuracy and meaningfulness of inferences. Validity exists if the data measures what it is supposed to measure. Industry experts and the research supervisor went through the questionnaire to enhance validity.

3.6.2 Reliability Test

When the outcome of the measuring process is reproducible, the measuring instrument is reliable. Reliability is broadly defined as follows: yield consistent results degree to which measures are free from errors. Several precautions were taken to reduce sources of errors for this study, and thereby increase reliability. During the interview, the interviewer had a tape recorder with the permission of the interviewee, to verify that all the replies were correctly noted and the interviewer could concentrate on the responses. The respondents were asked control questions to test whether the respondent understood them and whether they responded correctly. Furthermore, several repeated personal interviews were conducted and the closeness of the main respondents made sure that nothing went uncaptured on meaningful formulations and gestures (Fowler, 1993).

A pilot test was undertaken to increase the instrument validity. The data from the pilot test was analyzed using Cronbach's alpha to determine the internal consistency or average correlation of items in a survey instrument to gauge its reliability, it was 0.839. Considering a threshold alpha figure of 0.7 to demonstrate that the questionnaire is reliable. The smaller the variability (or stronger the correlation), the greater the internal consistency reliability of this survey instrument.

3.7 Data Analysis

Once the data was collected, the questionnaires were edited for accuracy, consistency and completeness. However, before final analysis was performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variance).

Data was analyzed using statistical package for social sciences (SPSS) based on the questionnaires. In particular mean scores, standard deviations, percentages and frequency distribution was used to summarize the responses and to show the magnitude of similarities and differences. Results were presented in tables and charts. Inferential statistics such as correlation analysis and regression analysis were used. The organized data was interpreted on account of concurrence to objectives using assistance of computer packages especially Statistical Package for Social Sciences (SPSS) version 20 and STATA version 13 to communicate the research findings.

A simple regression model was used to test the significance of the influence of the independent variables on the dependent variable

The regression model to be adopted was in the form:

$$Y= \beta_0+\beta_1 X_1+\beta_2 X_2+\beta_3 X_3+ \beta_4 X4+ e \text{...}(ii)$$

Where:

Y = performance

X_1 = Risk assessment

X_2 = Internal audit standards

X_3 = Control environment

X_4 = Information System

E is error term

$\beta_0$represents the constant

$\beta_{1, 2, 3, 4}$ are regression coefficients

3.8 Ethical Issues

Ethical considerations relate to the moral standards that the researcher should consider in all research methods in all stages of the research design. After approval from the University was obtained to conduct the study, permission was obtained from the management of state owned corporation. In this research, beneficence, respect for human dignity and justice were the three principles upheld (Polit, 2003). In accordance with these three principles, psychological harm or other adverse situations, were observed greatly to take care of the sensitivity to the emotions of respondents. Informed consent was sought and the participants were reassured that any information they provided would not be exploited for commercial and selfish personal gains, but purely for academic analysis. Full disclosure, fair treatment and privacy were observed.

CHAPTER FOUR

ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter comprised of data analysis, findings and interpretation. Results were presented in tables and diagrams. The analyzed data was arranged under themes that reflected the research objectives.

4.2 Response Rate

The number of questionnaires managed was 160. A total of 120 questionnaires were correctly filled and returned. This represented an overall efficacious response rate of 75% as shown in Table 3. Mugenda and Mugenda (2003) and Kothari (2004) recommends an answer rate of above 50% which is acceptable for descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to investigate and publish, while a rate of 60% and 70% is good and very good respectively.

From these well-known scholars, the response rate of 75% showed a very strong answer rate.

TABLE 3

Response Rate

Response	Frequency	Percent
Returned	120	75
Unreturned	40	25
Total	160	100.0

Source: Author (2016)

4.3 Demographic Characteristics

This segment consists of evidence that defines basic physiognomies such as gender, age, level of education and years worked in current position of the respondents.

4.3.1 Gender of the respondents

The respondents specified their gender. The male were the majority which was 60% of the sample whereas 40% were female. This implies that the top places of state owned corporations (National Council for Children, National Human Resource Planning and Development, National Council for Persons with Disability, Registrar of Trade Unions, NITA, NSSF, National Employment Bureau and Productivity Centre for Kenya) under the ministry of labour are male dominated. There is a gender balance which is consistent with the constitution of Kenya and gives the female a chance to work in high offices.

TABLE 4

Gender of Respondents

Gender	Frequency	Percent
Male	72	60
Female	48	40
Total	120	100.0

Source: Author (2016)

4.3.2 Age of the respondents

Respondents indicated their age brackets with the majority of the respondents being in the age bracket of 31-40 years which was 35%, the age bracket of 41-50 years was 30%, while 50 years were 20% and only 15%were less than 30 years old. This implies that most of the employees in these organizations under the ministry of labour are older employees and are expected to be well experienced and understand the operations of the organization well. This is also dangerous as an aging staff composition exposes the organization to young generation which is not experienced. The age of between 30-40 years should be the majority since they will work longer and are more energetic.

TABLE 5

Age of Respondents

Years	Frequency	Percent
Less than 30	18	15
31 – 40	42	35
41 – 50	36	30
Above 50	24	20
Total	120	100.0

Source: Author (2016)

4.3.3 Highest Level of Education

Highest level of education was one of the parameters of the questionnaire. As shown in figure 4.3, 50% dominated the scene with university level of education, 40% tertiary college qualification and 10% had secondary qualification. The study outcome means that, the respondents have knowledge of the questions and know how to fill the questionnaire. They gave effective answer since they understood the organizations as shown by their education level. The employees are well educated which implies that these organizations have well packaged staff skills development plan. The recruitment is also based on the experiential merit, meaning qualified people are recruited.

TABLE 6

Highest level of Education of Respondents

Level of education	Frequency	Percent
Secondary	12	10
Tertiary	48	40
University	60	50
Total	120	100.0

Source: Author (2016)

4.3.4 Employment Duration

The bulk of the respondents (55%) have worked for 4-6 years, 20% have worked for 6 years, and 15% have worked for 1-3 years while 10% have been in employment for a period less than 1 year. This suggests that majority of them have been in the service for a respectable period of time thus are well experienced.

TABLE 7

Duration of being in employment

Years	Frequency	Percent
Less than 1	12	10
1 – 3	18	15
4 – 6	66	55
Over 6	24	20
Total	120	100.0

Source: Author (2016)

4.4 Descriptive Statistics

This division represents the descriptive outcomes on risk assessment, internal audit standards, control environment and information system. The use of risk based audit was undertaken in order to determine the extent to which it affects the performance of corporations in a five point Likert scale. The range was ‘strongly disagree (1)’ to ‘agree’ (5). The scores of disagreeing have been taken to represent a variable which had a mean score of less than 2.5 on the continuous Likert scale. The scores of ‘Neutral’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale while the score of both agree and strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale. A standard deviation of > 0.9 implies a significant difference on the impact of the variable among respondents.

4.4.1 Risk Assessment

The assessment of the effect of risk assessment was the first objective of the study on performance of state owned corporations. The respondents responded to statements on risk assessment. Rated on a five Likert scale, the responses were as obtainable in Table 8. The respondents were in agreement that the corporations undertake risk monitoring in order to identify errors in financial reporting with a mean score of 4.3. The low standard deviation of 0.984 indicates that the variation among the respondents was low. The respondents were further in agreement that the risk assessment is a continuous and permanent process (mean=3.78). Risk identification and management is a responsibility of all employees of the organization (mean=4.28). Risk assessment in the detection of errors exist (mean=4.22) and that control is focused upon avoiding the unacceptable business/performance risks in order to reduce it to an acceptably low level(mean=3.83). The high standard deviation of 1.088 indicated that there was high variation among the respondents.

These finding was consistent with that of Kirogo, Ngahu and Wagoki (2014) who found out that risk based auditing through risk assessment positively influenced the financial performance of insurance companies in Nakuru Town. Risk assessment permits the insurance companies to spot risks on time and concentrate on high risk areas, leading to enlarged transparency and accountability and boosted financial performance of insurance companies. The results indicate that assessment of risks by the corporations was important as it enabled the organization to identify errors in financial reporting thus ensuring that corrective measures are taken early. Assessing the risk of material misstatement at the financial statement level as well as at the planning stage, adds to and clarifies the direction on performing a combined assessment of inherent, and control risk, leaving the ability for the auditor to assess other risk factors in an audit.

TABLE 8

Risk Assessment

Risk Assessment	N	Mean	Std. Deviation
In the organization, risk assessment is a continuous and permanent process.	120	3.78	1.088
Control is focused upon avoiding the unacceptable business/performance risks in order to reduce it to an acceptably low level	120	3.83	.984
Risk identification and management is a responsibility of all employees of the organization.	120	4.28	.862
There is consideration of risk assessment in the detection of errors	120	4.22	.871
Risk monitoring is carried out to identify errors in financial reporting	120	3.99	.921
Valid N (listwise)	120		

Source: Author (2016)

4.4.2 Internal Audit Standards

The next objective of the study was to establish the effect of internal audit standards on performance of state owned corporations in Kenya. The results were that the corporations have complied with the accepted auditing standards (mean=4.05) and that there is an active and independent audit committee (mean=3.63). The standard deviation of 1.037indicates that there was moderate variation among the respondents. The respondents further noted that internal auditors observe professional ethics and standards (mean=3.92); the organization use International Auditing standards (IAS) to guide the internal audits ethics (mean=3.98) and that full disclosures about compliance risk and risk management exists in the corporation's (mean=3.68).

The results show that the corporations have adopted internal audit standards and these ensures that they provide good governance in public sector through internal audits ethics of work and maintenance of professional auditing standards. The findings were consistent with Yung (2008) who suggested that a firm's risk management framework is highly associated with the role of internal auditing in the firm. The study explored factors associated with Taiwanese Banks' demand for RBIA from perspectives of risk management, internal control, corporate governance and internal auditors' technical competence, by use of data from a survey of domestic banks together with information from corporate annual reports

TABLE 9

Internal Audit Standards

Internal Audit Standards	N	Mean	Std. Deviation
Internal auditors observe professional ethics & standards.	120	3.92	1.042
The organization use International Auditing standards (IAS) to guide the internal audits ethics	120	3.98	1.126
There is compliance with accepted audit standards	120	3.58	1.074
There is an active and independent Audit Committee	120	3.63	1.037
There is full disclosures about compliance risk and risk management	120	3.68	0.989
Valid N (listwise)	120		

Source: Author (2016)

4.4.3 Control Environment

The third objective was to determine the effect of control environment on performance of corporations in the Ministry of Labour. The results presented in table 10 shows that the respondents were in agreement that the management closely monitors implementation of internal control systems in the institution (Mean=4.24). The standard deviation of 0.756 indicated that there was low variation among the respondents on implementation of internal control systems. The respondents further agreed that the institution have an accounting and financial management system (mean=4.35); management acts with a great degree of integrity in execution of their roles (mean=3.93); appropriate measures are taken to correct misfeasance in operation of accounting & finance management system (mean=4.18) and that management provides feedback to the junior officers about the operation of the system (mean=4.36). From the results, the control environment in the corporation has resulted in close monitoring of internal control systems thus enabling the corporations to set the tone of the organization by influencing the control consciousness of people.

These findings are consistent with those of Whittington and Pany (2001) who noted that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties.

TABLE 10

Control Environment

Control Environment	N	Mean	Std. Deviation
Our institution has an accounting and financial management system	120	4.35	.729
Appropriate measures are taken to correct misfeasance in operation of our Accounting & Finance Management System	120	4.18	.785
Management closely monitors implementation of Internal control systems in our institution	120	4.24	.756
Management provides feedback to the junior officers about the operation of the system	120	4.36	.818
Management acts with a great degree of integrity in execution of their roles	120	3.93	1.030

Source: Author (2016)

4.4.4 Information System

The fourth objective was on how the information system affects performance of state owned corporations in Kenya. Results in table 11 show that (mean=3.88) of the respondents agreed that there is a clear methodology for strategic planning for information systems related to the general strategy of the organization. The mean of 4.05 of the respondents agreed that the organization count on specific actions periodically carried out to ensure the accuracy of the information system. A mean of 4.17 of the respondents agreed that the information provided by the systems is modern. A mean of 4.25 of the respondents agreed that the information has the required accuracy and reliability in spite of the growing size of operations while a mean of 3.93 of the respondents indicated that information provided by the information systems used at the organization meet the needs of decision makers at all administrative levels.

On an average Likert scale, the responses had an overall mean of 4.054 which indicated that the respondents agreed to the majority of the questions asked. The standard deviation of 0.8218indicates that the responses were varied. The results imply that information system influence the performance of state owned corporations in Kenya. The results were found to be consistent with Alraja and Alomiam (2013) findings that there is a significant relationship between general controls of information systems auditing and information systems performance, and general controls of information systems auditing has a significant impact on information systems performance.

TABLE 11

Information System

Information System	N	Mean	Std. Deviation
There is a clear methodology for strategic planning for information systems linked to the overall strategy of the organization	120	3.88	0.826
The organization relies specific actions are periodically carried out to ensure the accuracy of the information system.	120	4.05	0.776
The information which provided by the systems is Features with modernity.	120	4.17	0.813
The information has the required accuracy and reliability in spite of the size growing of operations.	120	4.25	0.736
Information provided by the information systems used at the organization meet the needs of decision makers at all administrative levels.	120	3.92	0.958
Average		4.054	0.8218

Source: Author (2016)

4.4.5 Performance

Risk based internal audit not only highlight risks that are not properly controlled, but it also highlights risks that are overly controlled so that internal audit resources are directed towards risks that pose serious threats to organizations. RBIA therefore has the potential to make the internal audit function more focused, effective and efficient in its operations and resource usage, thereby creating value for the organization.

TABLE 12

Performance measures

Performance indicators	N	Mean	Std. Deviation
The organization's asset base has greatly increased over time	120	3.83	.950
Our organization has enough cash to meet its obligations effectively (as and when they fall due).	120	3.82	.935
The organization goals/objectives are always attained.	120	3.94	.941
There is an efficient management that ensures the sound functioning of the Organization.	120	4.22	.825
Our organization's Accounting system adequately identifies the receipts and expenditure of grant contracts	120	4.31	.861

Source: Author (2016)

From the results above, the respondents were in agreement that the adoption of risk based audit has resulted in the corporations accounting system that adequately identifies the receipts and expenditure of grant contracts (mean=4.31). The standard deviation value of 0.861 indicates that the respondents were in agreement with the statement. The respondents further indicated that the corporation's goals/objectives are always attained (mean=3.94); there exist an efficient management that ensures the sound functioning of the corporation (mean=4.22); corporation asset base has greatly increased over time (mean=3.83) and has enough cash to meet its obligations effectively (as and when they fall due) (mean=3.82). From the results, the usage of risk based audit by the corporations has resulted in adequate identification of receipts and expenditure, attainment of corporate goals, sound functioning of the corporation that increase asset base and cash over time that enables the corporation to meet its obligations.

4.5 Inferential Statistics

Correlation results were generated by inferential analysis, model of fitness, and analysis of the regression coefficients and variance.

4.5.1 Correlation Analysis

The relationship between the dependent and the independent variable indicators were examined using correlation analysis, Pearson correlation coefficient (r) and p-value analysis. A correlation was perceived significant when the probability value was below 0.05 (p-value $\leq$ 0.05). Correlation values (r), when close to zero meant a weak relationship and r close to one meant a strong correlation existed

Table 13 below represents the results of the correlation analysis. The results revealed that risk assessment and performance are positively and significant related (r=0.539, p=0.00). The table further indicated that internal audit standards and performance are positively and significantly related (r=0.578, p=0.000). It was also established that control environment and performance were positively and significantly related (r=0.587, p=0.042). Similarly, results showed that information system and performance were positively and significantly related (r=0.614, p=0.000). This implies that an increase in any unit of the variables leads to an improvement in performance.

TABLE 13

Correlation Matrix

		Risk assessment	Control environment	Performance	Internal Audit standard	Information system
Risk assessment	Pearson Correlation	1				
	Sig. (2-tailed)	0.000				
Control environment	Pearson Correlation	.539**	1			
	Sig. (2-tailed)	.000				
Performance	Pearson Correlation	.432**	.587**	1		
	Sig. (2-tailed)	.000	.000			
Internal audit standard	Pearson Correlation	.490**	.632**	.578**	1	
	Sig. (2-tailed)	.000	.000	.000		
Information system	Pearson Correlation	.477**	.731**	.614**	.510**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Author (2016)

4.5.2 Regression Analysis

The results in table 14 represent the fitness of model used by the model regression in elucidating the study phenomena. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (corporations' performance) is explained by all the four independent variables (Internal audit standards, control environment, risk assessment, and information system). The four independent variables studied explain only 48% of performance among the corporations under Ministry of labour. This therefore means that other factors not studied in this research contribute 52% of the corporation's performance.

TABLE 14

Model Fitness

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.693[a]	0.48	0.461	0.46637	0.48	26.495	4	115	0

Source: Author (2016)

4.5.3 Analysis of Variance

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 15 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of implementation of youth development projects. This was supported by an F statistic of 24.495 and the reported p value (0.001) which was less than the conventional probability of 0.05 significance level.

TABLE 15

Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.051	4	5.763	26.495	.000[b]
	Residual	25.013	115	.218		
	Total	48.064	119			
a. Dependent Variable: Performance						
b. Predictors: (Constant), information system, risk assessment, internal audit standard, control environment						

Source: Author (2016)

4.5.4 Regression Coefficients

Regression of coefficients results are shown in table 16. As regards risk assessment, the results show that; T=0.695 and p-value =0.488 since p>0.05 at α=0.05 level of significant there exist enough evidence to conclude that the risk assessment is greater than 0.05, hence, thus appreciating the study conclusion that risk assessment is not useful as a predictor of performance.

Internal audit standard was equally tested and from these result T=3,389, p-value=0.001 atα =0.05 level of significant; there exist enough evidence to conclude that the internal audit standard is not zero and hence, that internal audit standard is useful as a predictor of performance.

As regards, control environment, the results show that; T=0.949 and p-value =0.345 since p>0.05 at 0.05 level of significant there exist enough evidence to conclude that the control environment is great than 0.005, hence, that appreciating the study conclude that control environment is not useful as a predictor of performance

Finally, information system was equally tested from these result T=3.55 p-value=0.001 then at 0.05 level of significant; there exist enough evidence to conclude that the information system is not zero and hence, that information system is useful as a predictor of organization performance. The multiple linear regression models is as shown below.

TABLE 16

Regression of Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	0.977	0.333		2.935	0.004	0.318	1.636
Risk assessment	0.057	0.081	0.058	0.695	0.488	-0.105	0.218
Internal audit standard	0.234	0.069	0.303	3.389	0.001	0.097	0.372
Control environment	0.11	0.116	0.106	0.949	0.345	-0.119	0.339
Information system	0.363	0.102	0.354	3.55	0.001	0.161	0.566

Source: Author (2016)

From the data, the established regression equation was

$Y = 0.977 + 0.057X_1 + 0.23X_2 + 0.11X_3 + 0.363X_4$

Y = performance

Where'

Y= Performance

X_1 = Risk assessment

X_2 = Internal audit standards

X_3 = Control environment

X_4 = Information System

The model shows internal control as having a positive coefficient, which showed that they were directly proportional to performance. This mean that a unit increase in internal audit standard increases the performance with 0.234 unit and a unit increase in information system will increase the performance by 0.364. The results obtained in the table indicted that when all the variables are zero, that is internal audit standard =0, and information system then the performance will increase by unit.0.977. In conclusion, the inferential statistic showed that corporation performance was explained by independent variable; internal audit standard, and information system whose significance level was below 0.05 although internal audit standard and information system were the predictor of organization performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives reports on the summary of the findings, the conclusions and the recommendations. This is done with respect to the objectives of the study.

5.2 Summary of Findings

This section provides a summary of the findings from the analysis. This is done in line with the objectives of the study.

5.2.1 Risk Assessment

The first objective of the study was to establish the effect of risk assessment on performance of state owned corporations in Kenya. The findings revealed that risk assessment has a positive and significant effect on the performance of state owned corporations in Kenya. This is also supported by the statements which majority of the respondents agreed with. These findings are consistent with that of Kirogo, Ngahu and Wagoki (2014) who steered a research on effect of Risk-Based Audit on Financial Performance: A Nakuru Town Survey of Insurance Companies in Kenya found out that risk based auditing through risk assessment positively influenced the financial performance of insurance companies in Nakuru Town. Risk assessment permits the insurance companies to spot risks on time and concentrate on high risk areas, leading to enlarged transparency and accountability and boosted financial performance of insurance companies. In addition, the findings were in consistence with that of Kasiva (2012) who led a Kenya's insurance companies study on the influence of risk-based audit on financial performance. Kasiva (2012) argues that fraud risk assessment is one area that deserves significant reliance on internal audit work. In this light, it is reasoned that due to the fact that internal auditors are more privy with the operations of the firm, they work more than external auditors, and are particularly suited to carry out fraud risk assessment.

5.2.2 Internal Audit Standards

The second objective of the study was to establish the effect of internal audit standards on performance of state owned corporations in Kenya. Results reveal that internal audit standards have a positive and significant on performance of state owned corporations in Kenya. Auditing standards affect many of the other factors that impact on auditor's conduct such as inspections and enforcement and firm methodologies. Effective audit standards take account of the complex environment that influences auditor behavior and improves the quality and effectiveness of audits by substantially changing audit practice

This finding are consistent with that of Yung (2008) who conducted a Taiwanese banking industry study on risk based internal auditing. Yung (2008) suggested that a firm's risk management framework is highly associated with the role of internal auditing in the firm. The study explored factors associated with Taiwanese Banks' demand for RBIA from perspectives of risk management, internal control, corporate governance and internal auditors' technical competence, by use of data from a survey of domestic banks together with information from corporate annual reports. In addition, the study was consistent with that of Kibara (2007) who conducted a banking industry in Kenya survey of internal auditor's risk management practices.

Kibara (2007) found out that the outcome of the study fairly represented the banking industry internal auditors' practices and perception of risk management.

5.2.3 Control Environment

The third objective of the study was to establish the effect of control environment on performance of state owned corporations in Kenya. The control environment has a significant and positive effect on performance of state owned corporations in Kenya. This finding were consistent with that of Whittington and Pany (2001) who noted that the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering, and monitoring the controls, commitment and competence of persons performing assigned duties.

5.2.4 Information System

The forth and the last objective was to establish the effect of information system on performance of Parastatals in Kenya. The regression results suggest that information system has a significant and positive effect on performance of Parastatals in Kenya. In another similar study conducted by Alraja and Alomiam (2013) on the effect of general controls of information system auditing in the performance of information systems: by using appropriate statistical tests, results of the study showed that banks listed in Amman Stock Exchange apply General controls of information systems auditing in general, has a significant relationship between general controls of information systems auditing, information systems performance and general controls of information systems auditing on information systems performance. In addition, the findings were consistent with those of Ali and Younes (2013) who conducted a study on the Impact of Information Systems on user performance and found out that Truong Thanh Furniture (TTF), system quality and information quality directly influences the performance of users and indirectly through perceived usefulness and perceived ease of use.

5.3 Conclusions

The ISO 31000 enterprise risk management and how the ISO 31000 standard is established build-out the initial risk program policy. Risk based audit aims at recognising risk and helping the management and the board run the organisation better. Better knowledgeable strategic decisions and high operational efficiency come as a result of effective enterprise risk management (ERM) initiative, this can affect the possibility and magnitudes of risks, and bring benefits. A platform and approach for managing risk is important and since information security, business continuity/disaster recovery, environmental health and safety, and other critical management systems have the primary purpose of identifying and treating risk, it is essential that an organization establish a common platform. An analysis of the role of internal audit in implementing risk management portrayed in a study of state corporations in Kenya carried out by Odoyo, Omwono and Okinyi (2011) analysed the role of internal audit in enterprise risk management (ERM). It examined the impact of involvement in ERM by auditors and internal auditors' willingness to report a breakdown in risk procedures and whether a strong relationship with the audit committee affects willingness to report. The study also investigated the use of ERM and the role of internal audit in ERM. From the findings, the study concluded that management of State Corporation needs to create an environment that will harness commitment and support to internal audit if it is to effectively perform, the study recommended that the process regarding internal audit and regulatory compliance certification will have the desired effect which leads to stronger internal controls and standardization of operations. The study suggested further research should be carried out to find out how the auditors themselves contribute to the effectiveness of internal audit function. The international journal of business and management invention alluded the effect of risk based audit approach on the implementation of internal control systems in Uasin Gishu county (Nyarombe, Musau, Kavai and Kipyegon. The study was on effect of risk based audit approach on internal control systems in government departments, with the aim to establish the risk based audit approach strategies used in implementing internal control activities in government departments. To examine the extent to which Risk-Based Assurance and Acceptance (RBAA) has influenced the implementation of internal control activities in government departments the research findings indicated that risk based audit approach are used in Uasin Gishu county government departments. Results indicated that RBAA influences internal control systems in the government departments,

The attraction of RB regulations accounting for the emergence in regulation by Bridget M. Hutter revealed that growth in academic studies of risk and rapid development of a risk industry. (Gabe, 1995). The impact of risk based audit on financial performance in commercial banks in Kenya by Kasiva showed that financial performance requires appropriate risk based audit practices hence effective and efficient internal audit. The study recommended that management in commercial banks in Kenya should adopt effective risk based audit practices. The risk-based audit and evaluation plan (RBAEP) reconfirms the objective of allocating audit resources to those areas that represent the most significant areas and to ensure that internal audit services will be of greatest benefit to the organization as a whole.

Based on the findings above the study concluded that risk based auditing through risk assessment positively affected the financial performance of state owned corporations in the Ministry of Labour. Risk assessment enables the state owned corporations to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability and enhanced performance of state owned corporations. Thus the study has found a strong association between risks based auditing and performance of state owned corporations.

In addition, the study concluded that a state owned corporation's performance is highly associated with the role of internal audit standards. Risk based internal auditing when enhanced enables the organization to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing performance.

Finally, the study concluded that information system ensures; completeness of all transactions undertaken by state owned corporations. Control environment which comprised of board size, organization culture and management philosophy has a strong association with the performance of the state owned corporations.

Auditing Theory supports to explain the need for auditing in organizations and unveils several laws that administer the audit procedures and its activities. The theories augment the appreciative relationships and interrelationships between diverse parties of an organization. Auditing theory has a sub-theory called policeman theory. The auditor is accountable for searching, discovering and reducing fraud.

Agency theory explains on the relationship between agents and principals used for purposes of governing a financial institution to achieve financial performance. The theory is based on the premise that agents have more information than principals; the information asymmetry adversely results in moral hazard which influences the principals' ability to monitor the organization effectively thus the need for RBIA.

Transaction cost theory aims to reduce costs of organization by taking into account factors of production at a lower price than the market transactions. Transaction cost theory is relevant to audit risk as it assists this function to be achieved with the auditor making sure that all the costs are low.

5.4 Recommendations

The following recommendations based on the study findings are suggested to help boost the performance of the state owned corporations in the Ministry of East African Community, Labour and Social Protection. The study established that the performance of state owned corporations was affected by risk based audit. It is therefore recommended that the management of State Corporations in the Ministry of East African Community, Labour and Social Protection should emphasize on internal auditors understanding the risk based internal audit approach and in particular embrace risk assessment in the detection of errors. Auditors should understand their work environment in risk assessment, involve management in the risk evaluation process and identification of changes in order to effectively control risks improve the quality of personnel in internal audit. They should also adhere to internal auditing standards, undertake proper and efficient annual planning. The organization should have independent directors and an audit committee, responding to risk based internal audit reports in time thereby increasing transparency and accountability to achieve efficiency, accuracy, completeness, timeliness, convenience. Clarity in financial reporting which in turn will improve on performance of state owned corporations in the Ministry of East African Community, Labour and Social Protection.

The study recommends that the management of the commercial state corporations in Kenya should bear the responsibility of equipping their firm's internal audit function with adequate resources to enable it to develop effective annual risk based audit plans. The plans will provide the basis for performance of internal auditing. This would enhance transparency and accountability through improved efficiency, accuracy, completeness, timeliness, convenience and clarity.

The study also recommends that in order to improve the financial reporting of the commercial state corporations in Kenya, the management of the state corporations in Kenya must embrace the International Auditing Standards (ISAs) that guide the ethical guide of internal audit personnel. This would enhance the independence, confidentiality, integrity and technical skills/competence of the internal auditors which would have a positive effect on a firm's financial performance.

5.5 Limitations of the study

The major limitation of the study was that it focused only on one ministry out of nineteen, the use of additional ministries may have provided greater insights to the study topic.

Some officers were reluctant to fill in the questionnaires and some did not return them at all. Some of the questionnaires I had issued were not given back.

The study was limited to the management of the state owned corporations who are charged with implementation of the organizations' management strategies so most of them were too busy to bother with the questionnaire. The use of junior officers would have been more yielding in the collection of data.

Since the information on audit is confidential in organizations it post slags in data collection and a lot of convincing had to be done thus time wasting.

5.6 Areas for Further Studies

The study sought to find the effects of on risk assessment, internal audit standards, control environment and information system. This called for the analysis of state owned corporations only, thus area for further studies could consider private sectors for purpose of making a comparison of the findings with those of the current study.

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APPENDICES

Appendix I: Letter of Introduction

Dear Respondent,

I am carrying out a research on the assessing the effects of risk based audit on the performance of state owned corporations in Kenya: a case study of Ministry of East African Community, Labour and Social Protection. This is in partial fulfillment of the requirement for the award of the Master's Degree Programme in KCA University

Attached is a questionnaire, please answer all the questions with your own true agreement to each. There are no wrong responses for any of these statements. All information given in the questionnaire will be treated with strict confidentiality and used for the purpose of this research only.

Thank you for taking your time to fill in the questionnaire.

Thank you in advance,

Yours sincerely,

Irene Muraguri

Appendix II: Research Questionnaire

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

SECTION A: DEMOGRAPHIC CHARACTERISTICS

1. What is your gender?

Male ( ) Female ( )

2. What is your age?

Less 30 years ( ) 31-40 years ( )

41-50years ( ) Above 50 years ( )

3. What is your highest level of education?

Primary school ( ) Secondary school ()

Tertiary college ( )University ( )

4. Years worked with the organization

Below 1 year ()1 – 3 years ( )

4 – 6 years () Over 6 years ( )

SECTION B: RISK ASSESMENT

This Section is concerned with assessing the effects of risk assessment on performance of state owned corporation. Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are:

Strongly Disagree – 1; Disagree – 2; Neutral – 3; Agree – 4; Strongly Agree – 5

Statement	1	2	3	4	5
In the organization, risk assessment is a continuous and permanent process.					
Risk identification and management is a responsibility of all employees of the organization.					
Control is focused upon avoiding the unacceptable business/performance risks in order to reduce it loan acceptably low level					
There is consideration of risk assessment in the detection of errors					
Risk monitoring is carried out to identify errors in financial reporting					

SECTION C: INTERNAL AUDIT STANDARDS

This Section is concerned with assessing the effects of internal audit standard on performance of state owned corporation. Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are:

Strongly Disagree 1

Disagree 2

Neutral 3

Agree 4

Strongly Agree 5

Statement	1	2	3	4	5
Internal auditors observe professional ethics & standards.					
The organization use International Auditing standards (IAS) to guide the internal audits ethics					
There is compliance with accepted audit standards					
There is an active and independent Audit Committee					
There is full disclosures about compliance risk and risk management					

SECTION D: CONTROL ENVIRONMENT

This Section is concerned with assessing the effects of control environment on performance of state owned corporation. Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are:

Strongly Disagree 1

Disagree 2

Neutral 3

Agree 4

Strongly Agree 5

Statement	**1**	**2**	**3**	**4**	**5**
Our institution has an accounting and financial management system					
Appropriate measures are taken to correct misfeasance in operation of our Accounting & Finance Management System					
Management closely monitors implementation of Internal control systems in our institution					
Management provides feedback to the junior officers about the operation of the system					
Management acts with a great degree of integrity in execution of their roles					

SECTION E: INFORMATION SYSTEM

This Section is concerned with assessing the effects of information system on performance of state owned corporation. Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are:

Strongly Disagree 1

Disagree 2

Neutral 3

Agree 4

Strongly Agree 5

Statement	**1**	**2**	**3**	**4**	**5**
There is a clear methodology for strategic planning for information systems linked to the overall strategy of the organization					
The organization relies specific actions are periodically carried out to ensure the accuracy of the information system.					
The information which provided by the systems is Features with modernity.					
The information has the required accuracy and reliability in spite of the size growing of operations.					
Information provided by the information systems used at the organization meet the needs of decision makers at all administrative levels.					

SECTION D: PERFORMANCE

This Section is concerned with assessment of performance of state owned corporations. Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are:

Strongly Disagree 1

Disagree 2

Neutral 3

Agree 4

Strongly Agree 5

Statement	**1**	**2**	**3**	**4**	**5**
The organization's asset base has greatly increased over time					
Our organization has enough cash to meet its obligations effectively (as and when they fall due).					
The organization goals/objectives are always attained.					
There is an efficient management that ensures the sound functioning of the Organization.					
Our organization's Accounting system adequately identifies the receipts and expenditure of grant contracts					

Has your organization achieved surplus profits for the last five years?

(a) Yes

(b)No

If yes indicate the range using the interval scale below (annually) by ticking appropriately.

Year	Less than 500,000	500,000-1000,000	Above 1,000,000
2010			
2011			
2012			
2013			
2014			

Appendix III: Study Work Plan

Activity	Month 1				Month 2				Month 3				Month 4			
	Week				Week				Week				Week			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Topic selection & approval																
Supervisor appointment																
Produce draft proposal																
Incorporate supervisors' reviews																
Proposal ready for presentation																
Incorporation of panel comments																
Pilot testing of questionnaire																
Data collection																
Data processing and analysis																
Review of draft by supervisor																
Incorporate supervisor comments																
Submit project to board of postgraduate studies																

Appendix IV: Estimated Research Budget

Item Description	**Quantity Description**	**Quantity**	**Unit Price - Kshs**	**Cost- Kshs**
Stationery	pieces	1	3,000	2,000
Photo copying Services	Pages	2000	5	10,000
Spiral binding	pieces	20	200	4,000
Book binding	pieces	15	400	6,000
Travel Charges	person	5	6500	32,500
Research Assistants for data collection	person	2	25,000	50,000
Research Assistants for data analysis	person	2	30,000	60,000
Contingency				30,000
Total				**194,500**