THE ROLE OF INTERNAL AUDIT IN PROMOTING ORGANIZATIONAL PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA

BY

AGNES KWAMBOKA OYAGI

MASTER OF SCIENCE IN COMMERCE

(FINANCE AND ACCOUNTING)

KCA UNIVERSITY

2023

THE ROLE OF INTERNAL AUDIT IN PROMOTING ORGANIZATIONAL PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA

BY

AGNES KWAMBOKA OYAGI

A RESEARCH DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING) DEGREE IN THE SCHOOL OF BUSINESS AT KCA UNIVERSITY

OCTOBER, 2023

DECLARATION

I certify that my dissertation is entirely original and has never been published or applied for a degree anywhere. I further declare that this does not include any content created or published by others, except for instances where an appropriate citation is given, and the author is fully acknowledged.

Student name: Agnes Kwamboka Oyagi   Registration number: 21/02396

Signature……………………………   Date 5/10/2023

I do hereby confirm that I have examined the master's dissertation of Agnes Kwamboka Oyagi. And have approved it for examination.

Signature ………………   Date 13/10/2023

Dr. Peter Njuguna

Dissertation Supervisor

KCA University

ABSTRACT

Many state enterprises in Kenya have recently suffered poor performance patterns, which has jeopardized the sustainability of most of these vital institutions. Some state corporations have a reputation for repeatedly producing poor results, relying excessively on the exchequer, and losing their viability. The study's specific goals were to ascertain the extent to which audit quality affects the organizational performance of commercial state corporations in Kenya, to investigate the impact of audit independence on those organizations' performance, and to ascertain the impact of audit standards on those corporations' performance. At a 95% level of confidence, a similar number of hypotheses were developed and tested. Three theories served as the study's foundation: the agency theory, the contingency theory, and the auditor's theory of inspired confidence. In this Cross-sectional study, descriptive, and correlational research designs were used. The study's target population consisted of all commercial state corporations, The study used primary data giving a total of 33 targeted respondents out of which 31 were filled and returned. The questionnaire was used in data collection. Data were summarized using descriptive statistics, by use of frequencies and percentages (%), while the causal relationship between the variables was determined using inferential statistics, using correlation analysis (R-value) and regression analysis (beta coefficients, R2 & p values). For ease of comprehension and interpretation, the collected data were analyzed using SPSS version 20.0 and Excel and then presented as tables and figures. The results showed that audit standards ($\beta = 0.399$, $p=0.001$), audit independence ($\beta = 0.326$, $p=0.009$), and audit quality ($\beta = 0.254$, $p=0.018$) all significantly and positively affect the organizational performance of commercial state firms in Kenya. Therefore, the study draws the conclusion that audit standards, audit independence, and audit quality all significantly and favorably affect the organizational performance of Kenyan commercial state firms. The study advises policymakers to pay great attention to internal audit, particularly in monitoring and evaluating procedures to ensure quality standards. For accountability and openness, the study advises routinely monitoring the audit department. The results of the study suggest that risk analysis be encouraged at the level of individual enterprises as well as across the whole range of functions and extensions of the established organization. The researcher suggests that commercial state organizations might improve the quality of their audits by creating and putting into practice methods to assess the auditor's likelihood to find and disclose errors.

Keywords: *Internal Audit*, *Audit quality, Organizational performance*

ACKNOWLEDGEMENT

First and foremost, I want to express my gratitude to God for his love, wisdom, and help in guiding me through this challenging postgraduate program and for the strength and grace I needed to complete this assignment. He is the reason I have come this far, and this project would not exist without Him. I appreciate the financial and moral support that my parents Stanslaus Oyagi and Elizabeth Nanjala gave me during my studies. I would also like to thank Dr. Peter Njuguna, who oversaw my project and for his assistance with my dissertation. I owe a huge debt of gratitude to KCA University and the entire team there for giving me the skills, tools, and knowledge that I needed to complete this project.

TABLE OF CONTENTS

DECLARATION ii
ABSTRACT iii
ACKNOWLEDGEMENT iv
TABLE OF CONTENTS v
DEDICATION vii
LIST OF TABLES viii
LIST OF FIGURES ix
ACRONYMS AND ABBREVIATIONS x
OPERATIONAL DEFINITION OF TERMS xi
CHAPTER ONE 1
INTRODUCTION 1
1.1 Background of the Study 1
1.2 Statement of the Problem 10
1.3 Objectives of the Study 12
1.4 Research Hypothesis 12
1.5 Justification of the study 13
1.6 Significance of the Study 13
1.7 Scope of the study 13
CHAPTER TWO 15
LITERATURE REVIEW 15
2.1 Introduction 15
2.2 Theoretical Review 15
2.3 Empirical Review 20
2.4 Knowledge Gap 28
2.5 Conceptual Framework 30
2.6 Operationalization of Variables 30
CHAPTER THREE 33
RESEARCH METHODOLOGY 33
3.1 Introduction 33

3.2 Research Design 33
3.3 Target Population 34
3.5 Research Instruments 34
3.6 Pilot testing 35
3.7 Data Collection Procedure 36
3.8 Data Processing and Analysis 36
3.9 Diagnostic Tests 38
CHAPTER FOUR 39
DATA ANALYSIS, FINDINGS AND DISCUSSIONS 39
4.0 Introduction 39
4.1 Response rate 40
4.2 Reliability test 41
4.3 Demographic characteristics for the participants 42
4.4 Descriptive statistics 45
4.5 Diagnostic tests 57
4.6 Inferential Statistics 64
CHAPTER FIVE 71
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 71
5.1 Introduction 71
5.2 Summary of the findings 71
5.3 Conclusion of the study 73
5.4 Recommendations of the Study 74
5.5 Areas for Further Research 76
5.6 Limitations of the Study 76
REFERENCES 78
APPEDICIES 85
Appendix I: Commercial State Corporations 85
Appendix II: Questionnaire 86
Appendix III: Personal Letter of Introduction 91

DEDICATION

First and foremost, I dedicate this study to myself because I have defied all odds to advance in my academic career. This work is dedicated to commercial state enterprises in Kenya and throughout Africa in the hopes that it will have an impact on them. I also thank my family for their encouragement and belief in me as I completed this project.

LIST OF TABLES

TABLE 1 Operationalization and measurement of study variables 31

TABLE 2 Response rate...40

TABLE 3 Reliability of the instrument 41

TABLE 4 Level of education 42

TABLE 5 Age of respondents 44

TABLE 6 Years worked in the institution..44

TABLE 7 Audit quality on organizational performance 46

TABLE Audit standards on organizational performance 49

TABLE 9 Audit independence on organizational performance 53

TABLE 10 Organizational performance...55

TABLE 11 Test of Normality..57

TABLE 12 Test for Multicollinearity 61

TABLE 13 Correlation analysis 65

TABLE 14 Model of fitness...67

TABLE 15 ANOVA...67

TABLE 16 Regression of Coefficients .... Error! Bookmark not defined.

LIST OF FIGURES

FIGURE 1 Conceptual Framework 30
FIGURE 2 Gender of respondents 42
FIGURE 3 Professional qualification 43
FIGURE 4 Extent of effects of audit quality 45
FIGURE 5 Extent of effects of audit standards 49
FIGURE 6 Extent of effects of audit independence 52
FIGURE 7 Graphical P-P Plots 58
FIGURE 8 Error Variance of The Residuals 59
FIGURE 9 Linearity test for audit quality 61
FIGURE 10 Linearity test for Internal audit standards 63
FIGURE 11 Linearity test for audit independence 64

ACRONYMS AND ABBREVIATIONS

GOK Government of Kenya

NGO Non-Governmental Organization

IAF – Internal Audit Function

CSC – Commercial State Corporation

SPSS- Statistical Package for Social Science

ICPAK- Institute of Certified Public Accountants of Kenya

FCAM -Financial and Compliance Audit Manual

ISO- International organization for standardization

OPERATIONAL DEFINITION OF TERMS

Audit Standards – The standards offer a framework for conducting and promoting internal audits and are principle-focused. (Hock and Burch, 2016)

Audit in dependence – Independence is the absence of circumstances that could jeopardize internal audit activity's capacity to perform its duties impartially. According to The Institute of Internal Auditors (2016).

Organizational Performance: The ability of a company to use the resources at its disposal to achieve certain operational goals and meet its objectives. (Mocklas, 2018)

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

An audit is a key instrument for obtaining managerial and financial information about a company. The main purpose of an audit is to render a verdict on the truthfulness and fairness of the company's financial statements (Salleh et al., 2008). The client's loyalty can be maintained if the audit firm is able to provide high-quality service while also accommodating the client's needs. Creating common criteria for audit reports will increase accountability and objectivity while also improving government performance, hence reducing the audit expectation gap (Pontones & Perez, 2016). There are still many unanswered concerns and inconsistent evidence regarding the many roles that auditing plays in enhancing organizational performance because of the complexity of the audit function (Omwenga, 2016).

Audit is an impartial and documented method of reviewing and getting evidence of the level of objectivity obtained by an organization. (EU Twinning report,2014). The organization goes on to detail the various audit types that are available, including financial audits, IT audits, ISO standards audits, TQM audits, and statistical process and product audits. The demand for audits has been related to a rise in corporate accountability worries (Musa & Shehu, 2014). They continue by saying that the repercussions of the global financial crisis significantly highlighted the necessity for trustworthy and accurate financial reporting. Oluwagbemiga also claims that these discussions are largely concerning since both large and small corporations have underperformed and failed all over the world.

Because of the expansion of the economy in England due to the industrial revolution, it was necessary at the time to safeguard investors' informational interests. The audit requirement was consequently included in the UK's Companies Act in 1844 (Neamtu et al., 2012). The Institute of Chartered Accountants in England, which gained more than 1,000 members by 1881, was founded in 1880 because of the merger of five professional organizations. With the aim of preventing fraud and error, ensuring that there is conformity with accounting laws, and presenting the results in the audit report, auditors were regarded as professionals. The audits were needed by the state, banks, and shareholders (Laptes, Popa, & Dobre, 2014).

The process of integrating and regulating audit procedures was originally started by American academics. Since 1917, the American Institute of Professional Accountants has published a professional guidance outlining the scope of an audit (Dobroteanu and Dobroteanu, 2002). This manual was sufficiently detailed and went beyond the audit's current scope and the procedures that must be followed, referring to specific examination techniques as well as standardized balance sheet and profit and loss account models—the latter of which were the only accounting synthesis documents created at the time (Laptes, Popa, and Dobre, 2014).

The Institute of Directors in Southern Africa (PSACF) Public Sector Audit Committee Assessment of Finance Function Secretariat revealed that the number of administrative failures (in both the public and commercial sectors) throughout the years has highlighted the significance of oversight bodies, particularly that of the Audit Committee. The volume of work and increase in commitments directly influence audit committee persons. Therefore, a competent and effective internal review function is crucial to an organization from a management, risk to executives, and inside control viewpoint as well as from the point of view of assisting the audit committee members in the delivery of their oversight order through the arrangement of free and objective affirmation, counsel, and hierarchical knowledge (Institute of Directors in Southern Africa PSACF Secretariat, 2020).

In Nigeria, efforts are being made to gradually improve financial practices for the auditing profession in the public sector as well as a move away from the internal audit unit's historical focus on capital administration, which has been limited because of numerous instances of breaches that have led to the demise of public entities. As a result, the government places a high priority on oversight compliance, transparency in budgetary management, and accountability for ensuring effectiveness in public sector auditing (Adekola & Adewale, 2018). However, due to numerous instances of accounting irregularities that led to the closure of government institutions in Nigeria, steps have been taken to enhance auditing requirements in the public sector and move away from the internal audit department's traditional feature of being restricted to asset management (Adekola & Adewale, 2018).

A significantly high number of Kenyan Commercial State Corporations that have recently been recording trending bad performance (Office of the Auditor General, 2021). Riany (2021) pointed out that while certain State Corporations have constantly performed brilliantly, others have a reputation for underachieving, placing them in a position where they are excessively dependent on the exchequer. The number of financial scandals reported in various public institutions and corporations has decreased, including the Sh13 billion loss in graft deals in important state departments like the National Youth Service, Kenya Pipeline Company, the Anglo-Leasing corruption scandal (Bachelard, 2010), and the most recent KEMSA corruption scandal in the health care sector (Kabue, 2020). In addition, Kabue asserts that audit has significantly excelled in the execution of government administrative tasks. However, there is a dearth of research that focuses specifically on the role of internal audit function. As a result, more research on auditing in public sectors is necessary (Ferry & Ahrens, 2021). To improve organizational performance in commercial state firms, it is crucial to thoroughly study the role of internal audit in promoting organizational performance of commercial state corporations in Kenya.

1.1.1 Internal Audit

An effective audit has a positive effect on national accountability and reduces corruption. Public administrations with a lower risk of corruption and theft may benefit from auditing (Gustavson, 2016). The Internal Audit Contract is a legally mandated report that outlines the purpose, authority, and responsibility of the auditing process (IIA, 2016). According to Dessalegn (2010), the Independent Audit Charter is crucial for enhancing internal auditing. Internal auditor operations are severely hampered by a lack of a defined mission, top management resistance, and unrestricted access. Consequently, effective auditing plays a crucial role in the business and leads to increased performance when senior management comprehends the charter and supports the audit function. Internal auditors should assess risks pertaining to management, activity, and data management within the organization, including asset protection, operational and policy efficiency, financial information integrity and credibility, and compliance with relevant laws and regulations (IIA, 2010).

Deyganto (2014) states that internal audit standards, capable leadership, and unrestricted access are the greatest ways to gauge internal audit effectiveness. When these factors are combined, they have a beneficial effect on both the organizational performance of bureaus and the quality of internal audits. According to Ahmad (2018), the most effective ways to quantify internal auditing are through professional competence, internal controls, internal audit standards, and internal audit independence. It is the duty of internal audit to identify and stop financial theft in the public sector, which will improve performance. The State Civil Service's internal auditors are also not independent, which limits its ability to report instances of financial embezzlement to the legislative branch so that appropriate action can be taken (Oyadonghan & Ogoun, 2017).

According to IIA, internal auditing must support the organization in ensuring effective measures by assessing its performance and efficacy and by promoting quality growth. The company must evaluate the effectiveness and sufficiency of controls to address risks in leadership, operations, and information technology to help it meet its strategic goals, safeguard its properties, and guarantee compliance with laws, regulations, policies, procedures, and contracting (IIA, 2016). Graycar (2012) discovered that the control system's vulnerability has a favorable and significant impact on the prospects for corruption that exist today. The American Institute of Certified Public Accountants (AICPA) (2014) states that safeguards are essential to guarantee that your approach will appropriately fulfill your fiduciary obligations because errors and abuses can and will happen. It is possible to implement an effective internal management system.

Nwannebuike and Nwadialor (2016) point out that several Kenyan state enterprises do not have appropriate implementation views. In this instance, a few issues, such as inadequate asset utilization and debasement practices, have prevented the public sector organizations from carrying out their directives. According to Kitolo (2016), there are several hierarchical execution issues that semi-independent offices in Kenya must deal with, such as inadequate support delivery and other functional issues. One of the main issues with semi-independent government departments' hierarchical displays is financial disparities. The measures taken by hierarchical specialists to evaluate the effectiveness and viability of controls put in place by the executives to ensure the organization runs smoothly are linked to interior reviews, as demonstrated by Chepkonga (2018).

Njung'e (2019) asserts that internal auditors possess instructional, competent, and technological skills and knowledge that can effectively support economic achievement through efficient implementation of their obligations with competent employees who ensure that control failures are promptly flagged, and necessary action taken to prevent financial loss and waste in the company. Many state firms can relate to the importance of risk management to their organization's success, (Mutirithia, 2017). The significance of risk management has grown recently, and all organizations should make sure that their procedures are routinely assessed to incorporate fresh, more potent approaches and guarantee the success of their individual businesses.

Thus, it is safe to say that internal audits significantly affect organizational performance in light of the facts shown above. However, despite the urgent need for improved administration, there are times when there is limited knowledge of internal review and its dedication to management. The resources available for preparation are limited (in addition to the high cost of planning and network problems for online preparation). Across the landmass, initiatives to support the development of excellent administration are not well-organized. Thus, there is a greater need than is currently being met for persuasive internal evaluations in both public and private domains with the assistance of sound administration (IIA Global, 2018). Therefore, the study will examine audit standards, audit independence, and audit quality to determine the role of internal audit on organizational performance of Commercial State-owned enterprises in Kenya.

1.1.2 Organizational Performance

To meet financial and social demands while also addressing market shortcomings, commercial state organizations are formed with the Kenyan government as the owners. The; organizations give public services to the broader public to effect social transformation (Mbo & Adjasi, 2017). Thus, the performance of Kenya's commercial state businesses poses questions for the government as well as the public and other stakeholders. (Mutinda, 2021). Although some state firms have achieved higher performance, there is evidence that some have consistently underperformed. For instance, the Kenyan government's assessment of the performance of state businesses indicated that just four of the eighteen state firms were profitable and that others were unable to fulfill their mandate (National Treasury, 2021).

State-owned corporations serve a variety of functions that correspond to their goals and aims. Although the term "performance" is frequently used, it has no established meaning. When compared to its anticipated aims and/or objectives, an organization's performance reveals a great deal about its actual yield or after consequences (Lisa, 2016). One of the metrics an organization uses to assess whether its objectives have been met is organizational performance. Organizational performance, according to (Ongeti & Machuki, 2018), is the capacity of an organization to meet its goals by making efficient and effective use of the resources at its disposal. Numerous academics in the business and finance disciplines have been paying close attention to the idea of organizational performance. Since financial performance cannot be well explained by a single variable, (Ongeti and Machuki, 2018) contend that this may be the case. Researchers must therefore investigate many factors whose combined influence may have an effect on performance. Organizational performance is still being studied as an endogenous variable by an increasing number of financial and accounting researchers. However, there are arguments that it should be considered an exogenous variable, which is currently up for debate (Chepkosgei, Mwangi, & Kinyua, 2020). Furthermore, there is still lack of agreement on how to measure organizational performance, which presents a challenging problem not only for academics but also for practitioners.

Even though some of the literature now in print uses financial accounting-based metrics like return on assets, return on investment, and return on equity (Cheruiyot, et. al 2017; Waweru & Simiyu, 2019; Apunda & Ndede, 2020). Other studies employ non-financial metrics such as learning and customer satisfaction in addition to other Balanced ScoreCard (BSC) components. Due to its short-term and self-centered perspective, the use of financial data to gauge success has drawn criticism (Waweru & Simiyu, 2019). Financially focused performance indicators disregard the long-term horizon and fail to consider the interests of stakeholders other than the owners (Owino, Senaji, & Ntara, 2017). The balanced score card and the triple bottom line method have been used as non-financial measurements of organizational performance to address the shortcomings of financial measures of performance (Ongeti & Machuki, 2018). With a balanced scorecard, organizations can assess their performance from four different angles: financial, internal business process, customer, and learning and development. The triple bottom line, on the other hand, integrates economic, social, and environmental factors when evaluating an organization's performance (Mutaiet al., 2018). Waweru and Simiyu (2019) assert that different stakeholders increase the necessity for using non-financial measures to evaluate performance with reference to government institutions. To evaluate organizational performance, this study intends to combine triple bottom line and balanced score card metrics.

1.1.3 Commercial State Corporations in Kenya

State corporations, commonly referred to as parastatals, public corporations, or government-owned businesses, are quasi-government organizations connected to government departments. They are body corporates, which suggests that the government owns and controls most of the shares. Commercial state corporations have risen to prominence in the economic world because they are crucial for creating value that benefits society (Akinyemi & Adejumo, 2018).

There are eight basic categories of state businesses in Kenya: higher institutions of learning, universities, financial institutions, regional authorities, service organizations, manufacturing, commercial, and regulatory. Kenyan commercial state enterprises engage in trading and other direct market activities to further the nation's escalating economic and social objectives. These commercial entities, however, have lagged other parastatals in terms of financial performance (Apunda & Ndede, 2020). As a result, commercial government-owned enterprises are now a tremendous financial burden on the government.

Since its inception, the Inspectorate of State Corporations has been active. However, in November 1989, the number of senior specialized officials was reduced from 30 to 5, and the majority of State Corporations were also exempted from the provisions of the State Corporations Act Cap 446. As a result of the mismanagement of assets, the State Corporations presentation fell apart. The Statute Law (Miscellaneous Amendments) Act of 2002 made extensive corrections to the State Corporations Act in response to this appalling performance (Kamau, 2013), including the removal of exceptions and the renaming of the Office of the Inspector of State Corporations to Office of the Inspector-General (Corporations). As a result, the Office was strengthened in 2003 by adding seventeen (17) additional specialist teams.

Analysis of the performance of the State Corporations shows a marginal improvement in performance in the FY 2020/2021 compared to the FY 2019/2020, with the Commercial/Manufacturing Functional Category being the worst performing during the same period, albeit with an improvement. The average composite score increased from 3.1972 to 3.1191 during this time (Government of Kenya, 2021). The general expansion of any economy depends heavily on how the state-owned enterprise’s function (Ongeti & Machuki, 2018). The Government of Kenya (GOK) recognizes that the entities' poor financial performance has prevented the accomplishment of sustainable economic growth (Institute of Certified Public Accountants of Kenya, 2017).

1.2 Statement of the Problem

State Corporations have been experiencing performance challenges as reported by the Organization for Economic Co-operation and Development (OECD, 2013). Many commercial state corporations have recently recorded poor performance patterns, (Office of the Auditor General, 2021) which has jeopardized the sustainability of most of these vital institutions. (Riany, 2021) While some state enterprises are known to perform well over time, others have been proven to regularly perform worse, rely too heavily on the exchequer, and lose their viability. Given the rising rivalry for resources, talent, and capital on a worldwide scale. Commercial state enterprises have evolved into tools for some nations to better position themselves for future global economies (PwC, 2017). Over the years, state-owned businesses in Kenya have not consistently delivered at a high level. This has occurred even though the government allocates billions of shillings each year to businesses it owns (Njiru, 2010). In the most recent instance, despite ongoing bailouts of state firms like Kenya Airways, Telkom Kenya, and Mumias Sugar Company, there is little evidence to suggest that the institutions are ending their streak of short-term losses (Ochieng, 2015). Additionally, the performance of several Kenyan State Corporations has been declining. 17 out of 30 (57%) commercial state corporations for the 2019–2020 fiscal year reported losses during that time, according to the consolidated financial accounts for state corporations (Government of Kenya, 2020).

Nevertheless, there are research gaps in previous studies that this one aims to close. The themes of the study, the setting in which it was conducted, and the choice of research methods are all tied to the gaps in the body of literature. On the other hand, studies on Kenyan government-owned businesses have been done contextually. For instance, Kamau et al. (2017) only looked at Kenyatta National Hospital when they evaluated the impact of the budgeting process on the performance of state companies in Kenya. Even though the study discovered a favorable and significant correlation between the variables, since only one organization was examined, the study's findings cannot be generalized to the total population of commercial state corporations. The hospital is not a for-profit state organization either.

Due to the complexity of the audit function, there are still unresolved concerns; there are some contradictory findings regarding the many roles that auditing, particularly internal auditing, plays in improving organizational performance. For instance, Matoke and Omwenga, (2016) studied the financial performance and audit quality of companies listed on the NSE. The study adopted agency theory, auditors' theory of inspired confidence as well as stakeholders' theory, the study's findings confirmed that audit quality has a beneficial impact on financial performance and that a corporation is more likely to achieve better results the more independent the auditors are. Methodologically, in a study on how financial audits affect non-governmental organizational performance in Kenya, (Salat, 2018) used descriptive research design and collected data using structured questionnaire from a sample of 324 and found a substantial correlation between audit methods and audit quality, independence, and size with organizational performance. These studies, however, have not specifically examined the performance of Kenya's Commercial State Corporations, and as a result, their conclusions are not very generalizable. Accordingly, this serves as the context for the current study, which aims to ascertain the role of internal audit in promoting organizational performance. Considering the trends, this study examined the role of internal audit in promoting organizational performance of commercial state enterprises in Kenya to close knowledge gaps.

1.3 Objectives of the Study

1.3.1 General Objectives

The main objective of this study was to examine the role of internal audit in promoting organizational performance of commercial state corporations in Kenya.

1.3.2 Specific Objectives

The study was guided by the following objectives.

i) To assess the influence of audit quality for internal audit in promoting organizational performance of commercial state corporations in Kenya

ii) To determine the effect of audit standards for internal audit in promoting organizational performance of commercial state corporations in Kenya

iii) To evaluate the effect of audit independence for internal audit in promoting organizational performance of commercial state corporations in Kenya

1.4 Research Hypothesis

This study tested the following hypothesis.

$\boldsymbol{H_1}$**:** *Audit quality of internal audit has no significant effect in promoting organizational performance of commercial state corporations in Kenya.*

$\boldsymbol{H_2}$: *Audit standards of internal audit have no significant effect in promoting organizational performance of commercial state corporations in Kenya.*

$\boldsymbol{H_3}$: *Audit independence of internal audit have no significant effect in promoting organizational performance of commercial state corporations in Kenya*.

1.5 Justification of the study

This study is relevant because it will make a great contribution to the existing knowledge on internal audit that could explain organizational performance of commercial state corporations. It will reveal the effect of audit quality, audit standards and audit independence in promoting organizational performance of commercial state corporations in Kenya. The study aims to fill this gap in knowledge. The findings will also be used by other researchers as a reference material thus providing more insights.

1.6 Significance of the Study

1.5.1 To the Academia

The research's findings are anticipated to advance knowledge in the field of finance and its relationship to the operational effectiveness of commercial state enterprises. The findings of this study will not only serve as a source of information for other researchers, but they will also serve as a roadmap for subsequent research by filling in the gaps that it will have left.

1.5.2 To the Policy Makers and management

It is intended that this study will be a significant resource for policymakers in the Kenyan government, including state departments, corporations, and ministries, since it will serve as a manual for improving internal audit procedures. To enhance the performance of each of the commercial state-owned enterprises, it is hoped that the government's policy makers will implement the study's recommendations to enhance the management of internal audit processes.

1.7 Scope of the study

This study looked at how Kenya's commercial state enterprises perform in respect to internal audits. The study paid close attention to audit standards, audit independence, audit quality and how these promote organizational performance. The study focused on all of Kenya's commercial state businesses.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter's primary objective is a thorough evaluation of the literature. The numerous theories that serve as the study's pillars will first be examined and summarized. The empirical review that follows discusses a paired review of the research variables along the proposed objective link. This reveals gaps in the body of literature, which are listed. The operationalization of the study variables will be presented in addition to a conceptual framework. This study will make use of agency theory (Jensen & Meckling, 1976), contingency theory (Fielder, 1967), and auditor's theory of inspired confidence (Limperg, 1932).

2.2 Theoretical Review

Nduati, Iravo, and Ombui (2019) defined a theory as a group of interrelated concepts, definitions, and assertions that provide a systematic interpretation of events by specifying the relationships between variables to comprehend or predict the occurrences. Given that theories are developed to explain, predict, and understand phenomena as well as, in many cases, to challenge and extend existing knowledge within the bounds of critical governing assumptions.

2.2.1 Agency Theory

The agency theory holds that a business is made up of several interconnected contracts between the principals—the owners of economic resources—and the managers—the people tasked with using and managing those resources—that is, managers who are agents (Sarens and Abdolmohammadi, 2007). According to Jensen and Meckling (1976), agency theory assumes that agents have access to information that principals do not, and that this information asymmetry makes it more difficult for principals to ensure that their interests are being appropriately represented by the agents. Barry Mitnic and Stephen Ross first formulated the agency theory concept in 1973 as the operational principle of agency and the economics philosophy of agency, respectively. Later, in 1976, Jensen and Meckling independently proposed a theory of the organization/firm and published it. Finding the problem and a solution for the agency's difficulties is the theory's primary goal (Jensen & Mackling, 1976; Ross, 1973). It discusses the problems that arise in businesses because of the separation of owners from administrators and places emphasis on its resolution. Jensen and Meckling's (1976) agency theory seek to resolve disputes that develop in principle-agent relationships. In its most basic version, the theory portrays the principle as someone who relies on the agent to carry out certain financial decisions and who may be influenced, leading to terrible performance. However, the theory states that the principle anticipates that the agent would act logically and consider all available facts while making financial decisions (Watts, 1988).

Jensen and Meckling, (1976) observed that, the division of state corporations' ownership and control signals a problem with the relationship between the principals—the nation's citizens who own the state corporations—and the agents, in this case the management. There may be a variety of disagreements and conflicts because the principle places an excessive amount of trust in the agent to make the right choices. Thus, agency theory aims to resolve two problems: the conflict between the principal's and the agents' objectives, and the need to assess the agent's risk appetite, particularly when the principal and the agent have different perspectives on risk (Jensen & Meckling, 1976).

According to the theory's proponents, internal controls aim to reduce the issues brought on by principal-agent relationships (Muiruri & Wepukhulu, 2018). Internal controls and financial reporting strengthen the monitoring mechanism and gives the principal additional knowledge about the acts of the agent (Nogueira & Jorge, 2017). The shareholders, in this case the taxpayers, are responsible for agency costs, which can include costs for supervising and correcting the management. The managers' self-seeking chances at the expense of the corporations' result in additional costs like losses and expenses. Internal controls and financial reporting are now considered to be the most essential agency expenses, as suggested by the theory's proponents. However, critics of the theory contend that the control mechanisms it suggests are not only economically unviable but also inefficient in terms of cost (Alkaraan, 2018).

Audit quality variables is anchored in the context of public sector organizations by the agency theory, which is pertinent to this study. The idea informs some of the aspects of audit quality. In this current study, the agency framework aids in communicating to the principals, who in this case are the residents and taxpayers of a nation while the agents are directors in the management positions, this theory is relevant as it is going to help with the first objective which is to assess the influence of audit quality for internal audit on organizational performance of commercial state corporations in Kenya.

In conclusion, agency theory would guide the research through the following variable: the efficacy of audit quality would guarantee that audit activities are governed by professional audit standards and that the audit staff is qualified to perform their jobs. This will ensure the presence of an efficient framework for controlling agents and preventing them from acting in their own self-interest. Conflict between principal agents could be reduced in this fashion.

2.2.2 Contingency Theory

In 1967, Fielder put forth the contingency theory. This theory claims that there is no best way to organize a corporation, to make decisions or to lead the company. One of the widely used methods in the field of organizational structure (Gupta, 1994). The idea focuses on how organizational performance and task environment—such as leadership (Fiedler, 1967), strategy (Fredickson, 1984), or structure (Donaldson, 2001)—fit together. Theorists (Lawrence and Lorsch, 1967) are strong proponents of contingency theory, a category of behavioral theory that serves as a key theoretical framework for understanding organizations. It asserts that there is no one optimal way to run a business, organize a corporation, make choices, or put a plan into action (Harash, Alsaadi, & Al-Timimi, 2014). Due to the lack of a set of universally prescribed management principles and practices, this theory is also sometimes referred to as the "situational," "circumstantial," or "best fit" hypothesis. Therefore, according to this perspective, the right managerial course of action depends on the specific situational factors, as some factors may work well in some circumstances but not in others. Everything depends on a variety of factors, including the setting, culture, organizational structure, leadership, method of decision-making, and business strategy of the organization.

According to Luthans (2011), the theory presupposes that the application of managerial behaviors and particular circumstances interact to determine how effective management is. In other words, your management style should adapt to the situation. It attempts to refute the management adage that "one size does not fit all." It further claims that managers must assess contextual factors before selecting the ideal organizational structure, strategy, and design to meet organizational objectives (Ouma, Ombui, & Kagiri, 2013). Managers must consider all relevant factors when making decisions and focus on those that are most important to the current scenario.

Contingency theory will be used in this study in line with the objective of evaluating effect of audit independence for internal audit on organizational performance of Kenyan commercial state enterprises. With a well set up organization structure and for of leadership, organizations will be compared on a uniform basis. This theory is relevant to the study as it is going to explain how organizational structure and leadership come together as audit independence, it will greatly help to improve the functioning of an organizational performance.

2.2.3 Auditors' Theory of Inspired Confidence

According to the theory of inspired confidence, which was developed by the Limperg Institute in the Netherlands in 1985, which states that the auditor's broad social role as a confidential agent is derived from the demand for expert and independent examination as well as the demand for an expert and independent judgment supported by the examinations. As a result, accountants and auditors must be aware that the public still anticipates a low rate of audit failures. According to the theory, an auditor acting in the capacity of a confidential agent draws her or his broad objective from the necessity of both an expert and independent examination and an expert and independent judgement supported by the examinations. Therefore, it is necessary for auditors and organizational-based accountants to operate under the assumption that the public continues to expect a low rate of audit failures. These additional requirements place additional pressure on the auditors to plan and carry out their audit functions in a way that would lower the risk of overlooked major misstatements. The auditor is also expected to conduct himself in a way that upholds the faith people have in him (Limperg, 1932).

The criticality of the auditor's theory of inspired confidence is based on the fact that the obligations of auditors are derived from the trust placed in them by their clients in the success of the audit process and the assurance provided by the accountant's opinion (Matoke & Omwenga, 2016). They further claim that since confidence determines how long a process will continue, losing confidence logically indicates that the process or function would come to an end. Furthermore, the entire value of that audit process is lost if society's faith in the effectiveness of the audit process and the report generated by it is misplaced. Given this context, auditors are evaluated for reasonable quality assurance while keeping in mind that an audit failure effectively spells the end of a career. In addition to financial reporting, corporate governance and legislation also enhance investor and stakeholder confidence in the capital markets. Audit provides assurance to shareholders, company managers, investors, and stakeholders.

In conclusion, the study would be informed by the numerous variables listed below using auditor's theory of inspired confidence. The theory would inform professionalism in internal audit firstly because the activities of internal audit are governed by a formal framework and serve to apply financial management regulation in government. Second, personnel working on internal audits should be capable of doing their duties in a professional manner. These would guarantee that internal auditing will be effective. Because it will ground the research objective of determining the effect of audit standards for internal audit on organizational performance of commercial state corporations in Kenya, this theory is therefore associated with the current study.

2.3 Empirical Review

This section examines the work that other scholars have done around internal audit practices and organizational performance with respect to the hypothesized variables. A review of the existing literature will be presented in the subsections that follow, in accordance with the specific goals of the study. Various knowledge gaps are revealed by looking at the empirical literature. Contextual, conceptual, and methodological gaps in the literature all need to be filled. All these aspects are covered in detail in the following sections.

2.3.1 Audit Quality of Internal Audit and Organizational Performance

The International Auditing and Accounting Standards Board (IAASB, 2014) published the Framework of Audit Quality, which states that "the term "audit quality" encompasses the key elements that create an environment that maximizes the likelihood that quality audits are performed on a consistent basis." The IAASB Framework identifies key elements that could affect the overall audit quality, such as the staff members' competence, knowledge, and experience, as well as their demonstration of the proper values, ethics, and attitudes. The question of audit quality is widely discussed in the literature. Since audit quality does not appear to have a single definition, numerous research examines audit quality from various angles (De Fond & Zhang, 2014). Service quality within the auditing profession implies audit or auditor quality (Chen et al., 2013). However, no one's opinion of audit quality presents itself as a benchmark against which real organizational performance may be evaluated (Financial Compliance Audit Manual, 2012).

To boost up the assertion that audit size is a suitable metric to quantify audit quality, (Chen et al. 2013) adopted an indirect approach. They claimed that to fulfill analyst estimates, organizational executives are compelled to improperly change reported revenues, which impairs the organization's performance. Therefore, it may be expected that the projected errors in the clients of major auditing companies will be more than those of small auditing firms' clients if they offer higher-quality audits than small auditing firms. According to (Chen et al 2013) definition of audit quality, there is no variation in the auditors' competence because the likelihood of spotting a misleading statement is positive and constant. In their study, (Omwenga and Matoke, 2016) investigated the financial performance and audit quality of companies listed on the Nairobi Securities Exchange. The study found that audit quality has a favorable and significant impact on financial performance and that the degree of audit independence affects net revenues. This study, which only included firms with NSE listings, failed to establish a correlation between audit quality and performance.

In a study on the impact of financial audits on the performance of non-governmental organizations in Kenya, it was discovered that audit quality had the greatest influence on NGOS's performance (Salat, 2018. It was also determined that there was a significant correlation between audit quality, auditor independence, audit size, audit practices and organizational performance. The findings of the research study on the pursuit of audit quality in the public sector have drawn attention to strong legal measures that support independence and have also pointed out some shortcomings in accountability, (Caruana & Kowalczyk, 2021). The purpose of the current study is to ascertain the impact of audit quality on the performance of Kenyan commercial state corporations.

2.3.2 Audit Standards of Internal Audit and Organizational Performance

Internal auditing is conducted inside organizations that vary in purpose, size, complexity, and structure, as well as by individuals inside or outside the organization, under various legal and social circumstances. While there may be differences that affect how internal auditing is done in every situation, adhering to The IIA's International Standards for the Professional Practice of Internal Auditing Standards is crucial to understanding the responsibilities of internal auditors and the internal review process (IIA, 2010). Mihret (2010) examined internal audit viability's forerunners and authoritative execution repercussions. To formulate recommendations and provide a strategy for an assessment of the precursors and organizational performance of internal auditing viability, it was necessary to synthesize important hypothetical and precise writing. To examine institutional theory and Karl Marx's idea of the circuit of modern capital, the paper used a qualitative research methodology. The analysis found a substantial correlation between internal audit degree of conformity with inside inspector competency standards and hierarchical execution, which could serve as a further means of addressing internal audit sufficiency.

From the standpoint of corporate governance, (Mihret, 2011) investigated the reliance of external auditors on internal audit work. Examining Ethiopia's reliance on internal auditing was the study's main goal. The study used a survey with questionnaires. The outcome shows that internal auditors' work performance was their top concern regarding internal audit procedures. The following elements were taken into account in corporate work execution: The ten items in the work performance dimension were focused on the scope of internal audit work, frequency of internal audits, presence of internal audit manuals, preparation and effective use of audit programs, satisfactory documentation of audit working papers, review of internal audit work and quality of internal audit reports, and perceived internal audit compliance with Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing. Like (Deyganto, 2014), who investigated how internal audit affected performance in Ethiopia, performance was shown to be positively impacted by internal audit's independence, employee expertise, management support, and official mandate.

Ondieki, (2013) studied the effects of the internal financial review in the banking sector. The purpose of the study was to evaluate the effect internal audit had on Kenyan commercial banks' financial performance. Regression analysis and predictive analysis were employed in the thesis. The investigation found a strong correlation between commercial banks' financial success and internal accounting standards. According to the report, adherence to ethical standards makes the biggest contribution to IA added benefits. Kabue (2020) investigated the effects of internal audit practice on the performance of Kenya's parliamentary service commission using a descriptive approach and the agency and institutional theories. The study's target audience consisted of 57 respondents who were members of the twelfth parliament's internal audit committee. The study found that the performance of public commissions in Kenya is positively and significantly impacted by internal audit expertise, internal audit controls, and top management support of internal audit. The analysis of the research thus offers convincing proof that using professional internal audit standards can improve an organization's performance. It has been determined that internal audit work, frequency, presence of internal audit reports, preparation and effective use of audit programs, satisfactory documentation of audit working papers, review of internal audit work and quality of internal audit reports, perception of internal audit's compliance with Institute of Internal Auditors' (IIA) standards, among other factors, are the very specifics that result in the company achieving good performance.

The impact of internal audit on the organizational performance of Kenyan state corporations was examined (Mutulu ,2021). The purpose of the study was to precisely ascertain how internal audit standards, internal audit independence, internal audit professional competency, and internal controls affected the organizational performance of Kenyan state corporations. The study employed a cross-sectional methodology to assess the performance of the state enterprises and a descriptive research methodology. The sample size was made up of 131 state corporations. The agency theory, institutional theory, stakeholder theory, and resource allocation theory all provided insight for the study. According to the results, internal audit standards, internal audit independence, internal audit professional ability, and internal audit controls all significantly and favorably affect the organizational performance of state enterprises in Kenya. Therefore, the study draws the conclusion that internal audit controls, internal audit standards, internal audit independence, and internal audit professional skill all significantly and favorably affect the organizational performance of state enterprises in Kenya. Because of this, the current study aims to determine how internal audit standards affect the organizational performance of Kenya's commercial state business.

2.3.3 Audit Independence of Internal Audit and Organizational Performance

Cohen and Sayag (2010) conducted an empirical investigation into the factors that influence internal auditing effectiveness in Israeli firms. Regression and correlation analysis were used in the study to evaluate the effectiveness of auditing in Israeli firms by looking at top management support, organization independence, audit work quality, and professional proficiency. The study discovered a direct/positive correlation between auditing quality and auditees' assessments and management support, a more prominent role for the examining task, and more institutional autonomy. The highly significant influence of the variable top administration support, which also lessened the influence of the other independent factors/predictors, is most likely the cause of this result.

Ntsiful and Mwenechanya (2011) examined the impartiality and professionalism of internal auditors in the course of their work, using data from the Malawi Reserve Bank (RBM). The purpose was to impartially ascertain if an RBM case study in action could achieve both objectivity and freedom. Content analysis was used in the study. The study's board and management set the standard and developed the right conditions to guarantee objectivity's freedom from outside intervention. A board audit committee's existence shows the board supports internal audit, which enhances auditor independence. Careful organizational policies that prevent the promotion of cognitive biases have also been shown in research to allay independence concerns. These factors are crucial in promoting an open and high-level reporting line.

By analyzing a case study from Saudi Arabia, Alzeban and Gwilliam (2012) examined how management and internal auditors regarded the factors influencing the quality of public sector internal audit. The investigation sought to determine how internal audit performance related to the following five primary factors: auditing experience, internal audit unit size and relationships to external and internal audits, internal audit leadership direction, and the autonomy of the internally audited department. The thesis made extensive use of path analysis and regression techniques. According to the findings, the statistical significance of internal audit activity's efficacy can be attributed to the increased independence of the Internal Audit Function and the tighter collaboration between internal and external auditors.

Sawan (2013) conducted research on the function of internal auditing in Saudi Arabia's public sector. Concerning the independence and objectivity of internal audit, the study found that because internal examiners in the Saudi public service are representatives of the associations they oversee, they strive for autonomy, and as a result, internal audit work lacks true authoritative standing. Issues with reporting levels, freedom of inquiry, non-audit activity provision, and connections with auditees were all mentioned in the examination. All the interviewees confirmed, using a qualitative method, that internal auditors operate under the regulatory initiative of supervisors at a lower level even if they have their own distinct divisions inside the authoritative construction. Additionally, the interviewees identified other tasks related to the association's office space. The study concluded that independence and objectivity are impacted by a weak social network at work and insufficient support (Sawan & Alzeban, 2013).

Abbott (2015) investigated how internal audits affected the financial statements' consistency. The study looked at how internal audit effectiveness might be related to the lAF's autonomy and integrity. The analysis makes use of descriptive design architecture. The analysis revealed that the internal audit influences the financial reporting consistency, which is dependent on the internal auditor's judgment. According to the study's findings, the IAF's independence is strengthened by comparatively higher levels of audit committee supervision, which is reflected in the IAF's reporting line and termination authority as opposed to management oversight.

Mebratu (2015) analyzed the internal audit process and its challenges in the context of public service administration. The analysis's goal was to empirically analyze the role that the internal audit process plays in public sector governance and the variables that influence it in the Amhara regional state's public sector. It made use of the multiple regression of OLS statistical technique. According to the study, delivering audit results on the vulnerability of the institution's monitoring system is hampered by low corporate freedom levels. This suggests that the organization won't see the anticipated benefits of deployment.

Asaolu (2016) looked at how internal auditing could support effective governance. The study evaluated the impact of internal auditing on good governance in Nigeria's public sector. Correlation analysis was used, and it was discovered that the limited internal audit mechanism freedom in public entities and the limited access to technical expertise resulting from a lack of funding limited the effectiveness of the lAF in Nigerian public sector institutions. The research revealed a fundamentally certain relationship between the freedom of internal auditors and the amount of work done on internal reviews, which was ultimately linked to the evaluation process and the internal audit unit's expert competency. Various straight relapse analyses investigated the effect of IAF on public asset management.

The impact of interior review capacities on the financial execution of Rift Valley bottler's restriction in Eldoret is studied by Wanyama, Odoyo, and Bokonko (2018). The review adopted an open-ended, closed-ended survey methodology for its connectivity study plan. Through the use of an alternative direct Regression Analysis model, the study demonstrated the viability of internal review capacities on the company's financial execution. Review finding: Internal evaluation is an independent, goal-confirming, and counseling action meant to boost an organization's reputation, carry out its responsibilities, and assist it in reaching its goal.

It is important to note that actual research from the studies, among others, clearly shows that audit independence has a favorable impact on an organization's performance. The efficiency of audit committees and the involvement of internal auditors in management are two factors that greatly impact the independence of internal auditors in Kenya. Internal auditors improve an organization's performance in this way. It has been discovered that autonomy includes a measure of accountability and responsibility for the internal audit division, ensuring system openness. Consequently, the goal of the current study is to determine how audit independence affect the organizational performance of commercial state corporations in Kenya.

2.4 Knowledge Gap

While other researchers have also evaluated the specifics on the genesis of problems and their solutions in relation to audit quality, the studies related to internal audit have primarily focused on evaluating the current state of an audit expectation gap within several locations. The effects of one or two of the independent factors in the current study have been evaluated independently or cumulatively in a few other analyses. Additionally, the dependent variable for most of these studies was only organizational financial performance. Most of the studies, including those from the USA, New Zealand, and Nigeria among others, were carried out outside of Kenya. They also focused on different study areas, such as commercial banks and the NSE, excluding the public sector. The only research that has been done in the context of effect of financial audit on organizational performance is by Salat, (2018) a significant relationship was established between financial audit and performance of non-Governmental organizations.

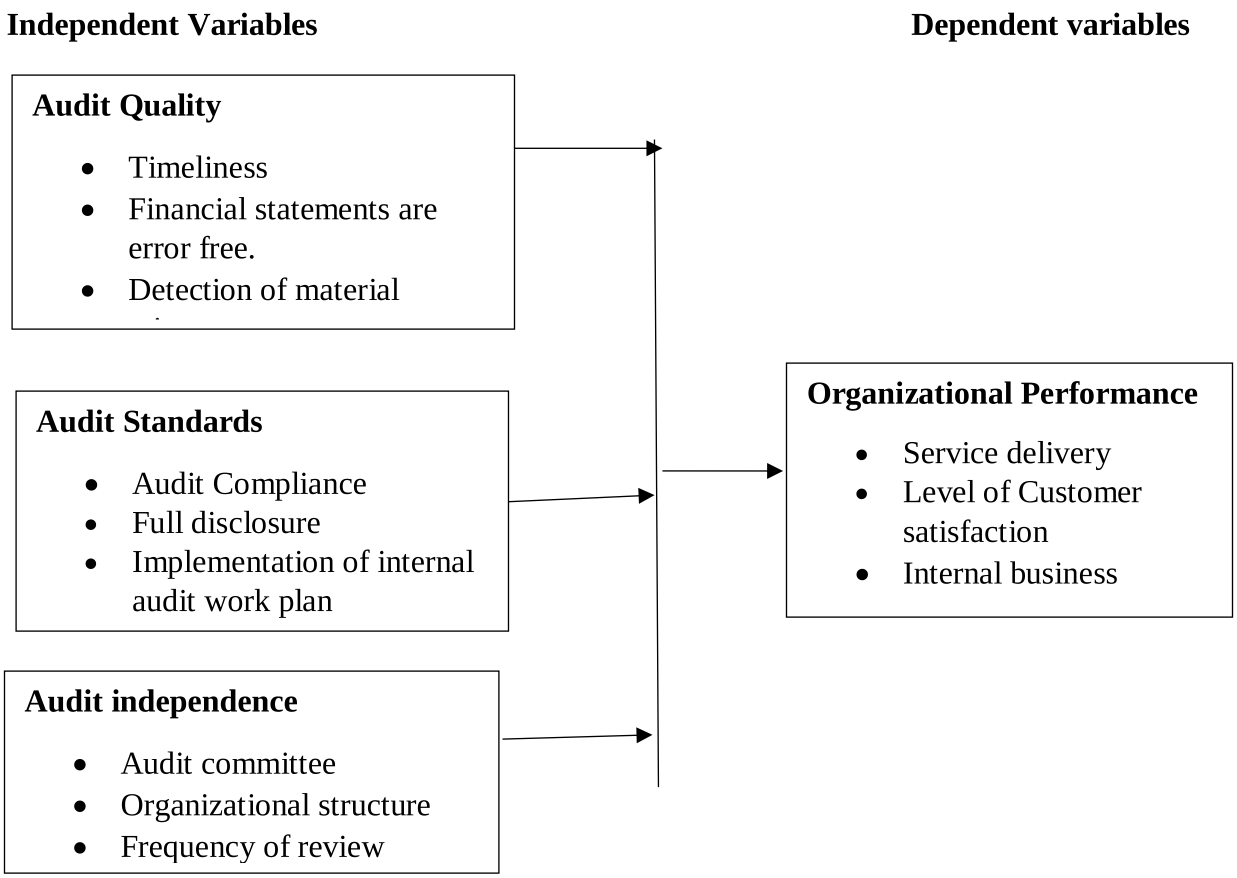
The connection between internal audit and organizational performance has been researched conceptually. Due to the complexity of the audit function, there are still unresolved concerns; there are some contradictory findings regarding the many roles that auditing, particularly internal auditing, plays in improving organizational performance. For instance, Matoke and Omwenga, 2016) studied the financial performance and audit quality of companies listed on the NSE. The study adopted agency theory, auditors' theory of inspired confidence as well as stakeholders' theory, the study's findings confirmed that audit quality has a beneficial impact on financial performance and that a corporation is more likely to achieve better results the more independent the auditors are. Methodologically, in a study on how financial audits affect non-governmental organizational performance in Kenya, (Salat, 2018) used descriptive research design and collected data using structured questionnaire from a sample of 324 and found a substantial correlation between audit methods and audit quality, independence, and size with organizational performance. These studies, however, have not specifically examined the performance of Kenya's Commercial State Corporations, and as a result, their conclusions are not very generalizable. As a result, this serves as the context for the current study, which aims to ascertain whether and, if so, how internal audit promotes organizational performance. Considering the trends, this study seeks to examine the role of internal audit in promoting organizational performance of commercial state enterprises in Kenya to close knowledge gaps. Generally, and to the best knowledge of the researcher, no studies have been conducted on the role of internal audit in promoting organizational performance of commercial state corporations in Kenya and thus offers little generalizability in their findings.

2.5 Conceptual Framework

A proposed model that explains the model under study and the link between the dependent variable and independent variables is known as a conceptual framework. A study's conceptual framework is a tool that can assist the researcher in better understanding the variables under investigation (Ivey, 2015). The following is the conceptual framework of the current study.

FIGURE 1

Conceptual Framework



Source: Researcher (2023)

2.6 Operationalization of Variables

The variables under investigation must be operationalized for their quantitative measurement and, thus, the testing of the proposed hypotheses, to be possible. The variables are given significance through the specification of the method by which they are operationalized, and the actions required to operationalize them are provided (Kothari, 2011). Table 2 presents the operationalization of the variables in summary form.

TABLE 1

Operationalization and Measurement of Study Variables

Variables Type	Variable	Type of Analysis	Specific Measure	Type of Scale	Level of analysis
Independent Variable	Audit Quality	Quantitative	Error free financial statements Timeliness Detection of material misstatements	Ordinal. Using 5-point Likert scale	Descriptive, Correlation and Regression Analysis
	Audit standards	Quantitative	Audit compliance Full Disclosure Implementation of internal audit work plan	Ordinal. Using 5-point Likert scale	
	Audit independence	Quantitative	Audit committee Organizational structure Frequency of review	Ordinal. Using 5-point Likert scale	
Dependent variable	Organizational performance	Quantitative	Service delivery Customer satisfaction Internal business process	Ordinal. Using 5-point Likert scale	Descriptive, Correlation and Regression Analysis

Source: Researcher (2023)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research design for this study will be outlined in this chapter, along with the target population, sampling frame, sample size, sample procedure, procedures used, research instruments, reliability and validity tests, data collection techniques to be used, data analysis, and presentation techniques, as well as ethical issues in research.

3.2 Research Design

A research design is a master plan that postulates the methods and strategies for gathering, handling, and interpreting the data required to test hypothesized relationships. (Kothari, 2011). Further, it has been claimed that a more precise definition of research design is that it is a structured strategy that offers ways of responding to research questions (Saunders, Lewis, & Thornhill, 2015). The research designs used in this cross-sectional study will be descriptive and correlational. A descriptive study entails answering the where, when, why, and what of the study's questions while collecting data without altering the environment (Cooper & Schindler, 2014). The design will be used because it will allow for the description of both dependent and independent variables. On one hand, audit standards, audit quality and audit independence will be considered independent variables, while the organizational performance of commercial state entities will be the dependent variable. On the other hand, the correlation design evaluates the link between two variables without the researcher having any influence over either of them. It entails gathering information to ascertain whether and how strongly there is a link between two or more variables (Saunderset al., 2015). Therefore, as the study's goal is to determine the role of internal audit in promoting organizational performance of Kenya's commercial state enterprises.

3.3 Target Population

The target population from whom research will be done on and conclusions drawn for the intervention is known as the targeted population. (Saunders et al., 2015) The study's unit of analysis was one internal audit staff from the thirty-three commercial state corporations (State Corporations Advisory Committee, 2023) as attached in (Appendix I) The respondents from the internal audit department received the surveys using the drop and pick method and online. Internal audit officials are thought to be familiar with internal audits of the parastatal. One will do for each organization to get a good number that can be analyzed well. Additionally, this will guarantee that each firm responds consistently. The target population is so small that sampling is not necessary. The entire population was examined in the study, which was using a census survey. Census is the complete count of all the constituent parts of the target population and is practical when both the population and the constituent parts are dissimilar (Cooper and Schindler, 2014).

3.5 Research Instruments

The study proposed utilizing primary data collection methods. Standardized questionnaires were used to collect information for the first time when collecting primary data. Closed-ended structured questionnaires were used to gather information from the respondents. A 5-point Likert scale with a range of one to five was used to create the survey. The respondents selected whether they agree or disagree with numerous statements reflecting a favorable or unfavorable view toward the topic of interest by using the Likert scale. The researcher's own context-based questions and existing empirical material was used to develop statements for the questionnaire. A questionnaire is a pre-written collection of questions that respondents fill out and record their responses to, typically within a small number of clearly defined options. Additionally, questionnaires produce quick and similar findings while being affordable, practical, and scalable (Cooper & Schindler, 2014).

3.6 Pilot testing

A pilot study, which is a scaled-down version or trial run of the larger study, is meant to evaluate the suitability of the instruments to be used for data collection and the research concept. This is research of the primary study since it is an analysis that is done before the actual investigation is done. The primary goal of doing a feasibility study is to determine whether the desired large-scale solution is feasible (Mugenda, 2014). Piloting evaluates the language's sophistication and points up potential typos. The sample for the pilot study must be representative of the range of people that the main study plans to include to perform a successful study. Twenty senior executives, one from each institution, were randomly chosen for the pilot test from twenty non-commercial state corporations. The questionnaires were revised and improved based on the feedback trend from the pilot study.

3.6.1 Validity Test

Validity is the extent to which a questionnaire captures the information that it is intended to capture. Validity implies that the research tool accurately measures what it is intended to measure, (Saunderset al. 2015), The extent to which questionnaire items cover all the areas of interest is the focus of the validity test. Given that there are no quantitative methods for determining content validity, this study relied on the supervisor's expert judgment and a careful examination of the items in relation to their operationalization.

3.6.2 Reliability Test

Consistency among a group of measuring items called reliability (Cooper & Schindler, 2014). Replicating results in a different study or industry while maintaining the same outcomes is what is meant by reliability. The questionnaires were coded and processed for input into the SPSS database after the data has been collected, at which point the reliability coefficient was determined. The study used the SPSS-generated Cronbach's Alpha coefficient (α). The range of the Cronbach's alpha is 0 to 1, with values closer to one reflecting stronger internal consistency and values closer to zero indicating negligible reliability.

3.7 Data Collection Procedure

Data collection is the methodical process of acquiring and quantifying data from the sampled population to enable testing and analyzing the results of the specified hypothesis (Mackey & Gass, 2015). The study used closed ended structured questionnaire which was administered to one internal audit officials in all the 33 commercial state corporations in Kenya. Questionnaires were divided into three sections; the first section covered background information; the second section covered internal audit and the third section covered organizational performance. These questionnaires were administered to one respondent per corporation and were administered through the drop and pick method and online as well.

3.8 Data Processing and Analysis

Data processing is the process of turning unprocessed data into useful information. Upon editing, the responses from the respondents of the study were categorized, coded, and tabulated before being subjected to additional analysis using SPSS version 20. Statistics were used for both descriptive and inferential analysis of the data obtained. Data was presented and organized in tables using descriptive statistics, which was also used to convey quantitative properties like frequency, mean, and standard deviation. The parameters were estimated using inferential statistics, and the statistical significance of the hypotheses tested.

3.7.1 Correlational Analysis

The measurement of a relationship's strength or degree is known as correlation. Correlation analysis was carried out to try and ascertain how strongly the study variables are related. To determine how closely the variables are related, the Pearson correlation coefficient was employed in this study.

3.7.2 Regression Analysis

Regression analysis helped in explaining changes in the independent variables, audit quality, audit standards and audit independence because of changes in the dependent variable, in this instance organizational performance. To clearly state the nature of the relationship, the statistical equation is presented as model 1.

$$Y = \alpha 0 + \alpha 1X1 + \alpha 2X\,2 + \alpha 3X3 + e\ldots\ldots\ldots\ldots\ldots.\ (1)$$

Where: - Y: Organizational performance

$\alpha 0$ is regression constant.

$\alpha 1$, $\alpha 2$, $\alpha 3$, represents the regression coefficients

X1: - Audit Quality

X2: - Internal Audit Standards

X3: - Audit independence

e: is the error term.

3.9 Diagnostic Tests

Prior to estimating the statistical equation, it is crucial to test the assumptions behind linear regression. Certain requirements must be followed for the linear regression analysis to be valid, and failure to do so would lead to spurious regression. The subsections that follow list the presumptions and the necessary tests.

3.8.1 Normality Test

The error term must adhere to a normal distribution to satisfy the assumption of normality. When the assumption is upheld and the error terms are regularly distributed, hypotheses testing gives precise confidence intervals (Gujarati & Sangeetha, 2013). This study will use the Shapiro-Wilk test to check for the assumption of normality. Results of the Shapiro-Wilk test show that the error terms are regularly distributed if the value of the range is greater than 0.05. Values under 0.05, however, point to a breach of the normalcy assumption.

3.8.2 Heteroscedasticity

The OLS model argument asserts that the expression error variance is homoscedastic, that is, it has a constant and standard variance. If the error term is discovered to change, the null hypothesis is disproved. Running a regression model without taking heteroscedasticity into account would result in inaccurate parameter estimations. The study checked for heteroscedasticity using the graphical approach of evaluating error variance.

3.8.3 Multicollinearity Test

In a regression analysis, independent variables are presumed to be wholly independent, to remain such, and to not relate to one another. The power of the model to find the statistically significant independent variables will be diminished if the independent variables are correlated with one another, making it difficult to fit the model and understand the results (Gujarati &

Sangeetha, 2013). The Variance Inflation Factor test will be used in the study to determine whether multicollinearity is present. A VIF score between 0 and 10 indicates the absence of multicollinearity, while any other number denotes the presence of correlation between the independent variables. In the current study multicollinearity is evaluated using a tolerance value of between 0 and 1 and a variance inflation factor (VIF) with a tolerance level of less than 10 (Miles, 2014).

3.8.4 Linearity Test

Scatter plots, which are used to demonstrate if there is a linear relationship between two continuous variables, will be used to test for linearity. It is anticipated that the connection between the variables should be largely linear before applying regression model (Casson & Farmer, 2014).

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.0 Introduction

The primary goal of the study was to evaluate the role of internal audit in promoting organizational performance of Kenyan commercial state corporations. The outcomes of the data processing and analysis are presented in this chapter. The study problem was studied from the study objectives, and the data were processed and interpreted in accordance with those objectives. Descriptive and inferential statistics were applied to the data analysis. This chapter is organized around the response rate, background data, demographics, reliability and validity analysis, descriptive analysis, diagnostic tests, and discussion of the study's findings.

4.1 Response rate

The thirty-three commercial state corporations were all the focus of this study, which used a cross-sectional research approach. 33 questionnaires were distributed to one respondent in the internal audit department using a census approach. 93% percent of the questionnaires were completed and returned, totaling 31. In comparison to comparable local and worldwide research, the response rate was satisfactory. Since Hennink et al. (2020) claimed that a response rate of 50% was sufficient for analysis, the response rate was regarded as sufficient

TABLE 2

Response Rate

Response	**Frequency**	**Percentage**
Returned	31	93%
Unreturned	2	7%

Total	**33**	**100%**

4.2 Reliability test

A reliability test was conducted to determine how well the questionnaire produced consistent findings across multiple runs. The internal consistency of the study instrument was assessed using the Cronbach Alpha coefficient. Cooper and Schindler (2014) recommend a value of not less than 0.7 as a measure of the questionnaire's internal consistency. According to the guidelines, this study's alpha value was set at 0.7 or above. The questionnaire's alpha coefficient is shown in Table 4.2.

TABLE 3

Reliability of the Instrument

Variable	**Items in the Questionnaire**	**Statistic**	**Verdict**
Audit quality	6	0.771	Reliable
Audit standards	6	0.710	Reliable
Audit independence	6	0.729	Reliable
Organizational performance	6	0.728	Reliable

Table 3's output demonstrates that all the questionnaire's items were trustworthy. The alpha coefficient for the audit quality, which had the maximum value of 0.771, was higher than that of the audit standards items which had a Cronbach alpha value of 0.710 and the dependent variable, which is organizational performance had a value of 0.728, which was lower than that of audit independence which had a value of 0.729. Every item fell inside the 0.7 cutoff that the study had established. The ideas put out by Cooper and Schindler (2014) were supported by this. The study concluded that all the study variables were trustworthy.

4.3 Demographic characteristics for the participants

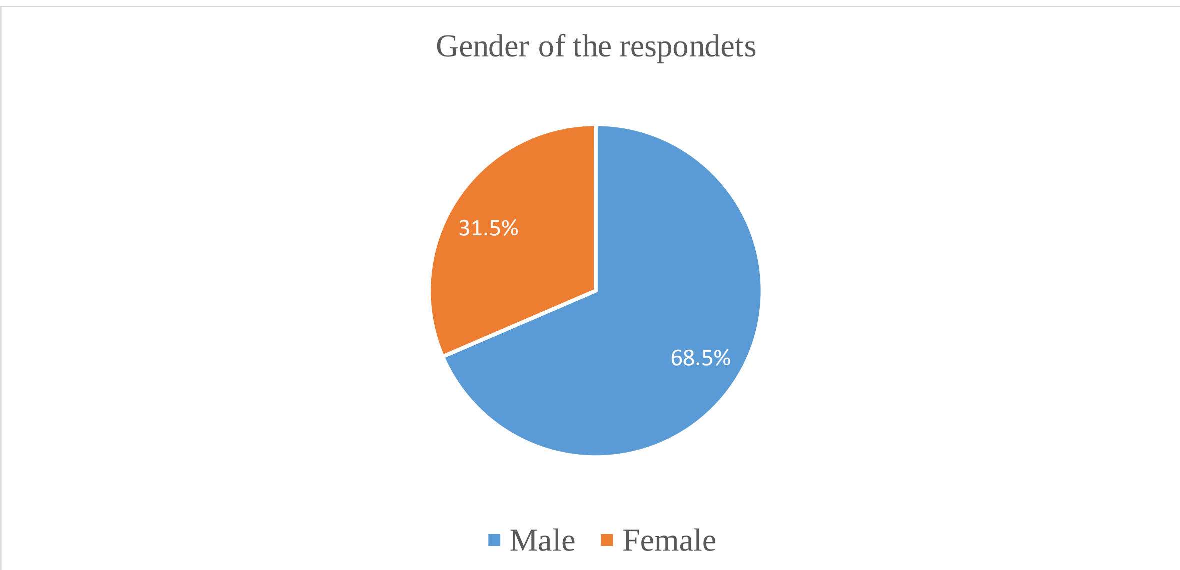
This section shows conclusions based on respondents' demographic information, which includes their gender, highest level of education, professional training, age, and the duration of their employment with the organization.

4.3.1 Gender of the respondents

A total 31 participants responded to the questions as shown in the table below:

FIGURE 2

Gender of Respondents



According to the findings regarding gender, 68.5% of respondents are men, while their female counterparts make up 31.5% of the total. According to the findings, men made up most of the respondents. This result suggests that both male and female respondents were included in the survey, indicating that there was no gender bias.

4.3.2 Level of Education

TABLE 4

Level of Education

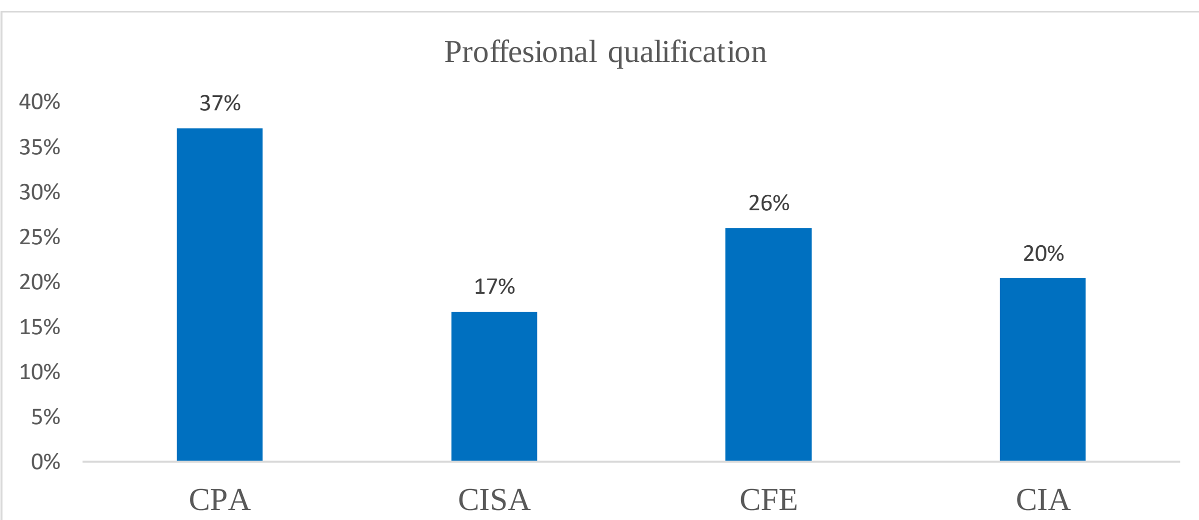
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	6	20.4	20.4	20.4
	Undergraduate	8	25.9	25.9	46.3
	Masters	15	46.3	46.3	92.6
	PhD	2	7.4	7.4	100.0
	Total	**31**	**100.0**	**100.0**	

The evidence in table 4 indicate that out of the 31 participants in the study, 46.3% of internal audit staff in the commercial state corporations in Kenya have master's degree level of education, which represents majority of the respondents. 25.9% of them have bachelor's degree level of education, 20.4% of them have Diploma level of education while 7.4% of them have PhD level of education. The results imply that the respondents have the knowledge necessary to comprehend and answer the research's inquiry.

4.3.3 Professional Qualification

FIGURE 3

Professional Qualification



The proof in figure 3 indicate that out of the 31 participants in the study, 37% of internal audit staff of Commercial state corporation have CPA qualifications, 26% of them have CFE qualifications, 20% of them have CIA qualifications while 17% of them have CISA qualifications. These results show that respondents were not only well-informed but also possessed professional abilities that allowed them to reply to the study's questions without prejudice.

4.3.4 Age of the respondents

TABLE 5

Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 - 29 years	2	7.4	7.4	7.4
	30 – 39 years	15	46.3	46.3	53.7
	40 – 49 years	11	35.2	35.2	88.9
	Above 50 years	3	11.1	11.1	100.0
	Total	**31**	**100.0**	**100.0**	

The output in Table 5 indicates that out of the 31 participants in the study, 46.3% of internal audit staff in Commercial state corporations in Kenya are between the age of 30 to 39 years, 35.2% of them are between the age of 40 to 49 years, 11.1% of them are above 50 years 59 years while 7.4% of them are between the age of 20 and 29 years. The results suggest that, in accordance with the age categories represented in the survey, every responder was mature enough to freely provide information.

4.3.5 Years worked in the organization.

TABLE 6

Tenure in the Institution

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 - 4 years	4	11.1	11.1	11.1
	5 - 10 years	10	31.5	31.5	42.6
	11 - 15 years	7	20.4	20.4	63.0
	16 -20 years	5	18.5	18.5	81.5
	Above 20 years	5	18.5	18.5	100.0
	Total	**31**	**100.0**	**100.0**	

The results in Table 6 indicate that out of the 31 participants in the study, 31.5% of internal audit staff in commercial state corporation have worked for five to ten years, 20.4% have worked for eleven to fifteen years while 18. 5% have worked for sixteen to twenty years and over twenty years respectively. 11.1% of them have served the institution for less than five years in the commercial state corporation. The results in this instance imply that the respondents had been with the company long enough to become familiar with it and have relevant experience that would have helped them reply to the study's questions.

4.4 Descriptive statistics

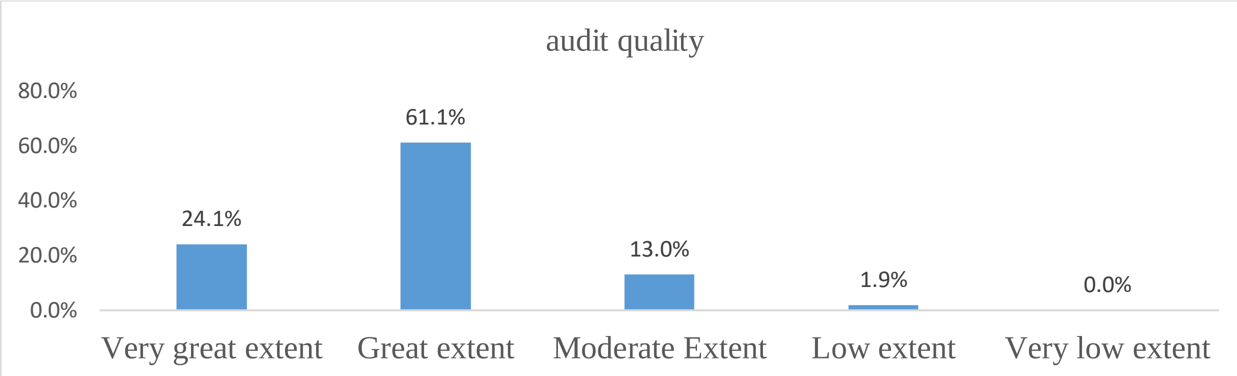
The results were summarized using descriptive statistics, which included percentages, frequencies, means, and standard deviation.

4.4.1 Audit quality

The respondents were questioned on the impact audit quality has on Kenyan Commercial State Corporations' organizational performance. Their responses are depicted in the figure below.

FIGURE 4

Extent of Effects of Audit Quality



The results in Figure 4 indicate that out of the surveyed 31 respondents, 61.1% of them stated that audit quality affect the organizational performance to a great extent, 24.1% indicated that audit quality affect the organizational performance to a very great extent while 13.0% of them indicated that audit quality affect the organizational performance to a moderate extent and 1,9% of the respondents stated that audit quality affected organizational performance to a low extent.

The respondents were then asked to score how much they agreed with certain claims about the Kenyan Commercial State Corporations' auditing quality. They were given statements about the procedures listed, and they were asked to respond based on how much they agreed with the assertion about audit quality. They were to use a scale of 1 to 5 where 1 was "strongly agree," 2 to "agree," 3 to "neutral," 4 to "disagree," and 5 to "strongly disagree." Table 7 shows the results:

TABLE 7

Audit Quality on Organizational Performance

Statements	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**
The overall organization performance is impacted by audit quality	31.5%	66.7%	1.9%	0.0%	0.0%	1.7037	0.5002
Registering a small number of audit revisions enhances the report's dependability and	22.2%	66.7%	11.1%	0.0%	0.0%	1.8889	0.5719

consequently the organizational performance							
The chances of spotting misleading statements are high	37.0%	55.6%	7.4%	0.0%	0.0%	1.7037	0.6028
Ethical standards affect audit quality	25.9%	68.5%	5.6%	0.0%	0.0%	1.7963	0.5277
Continuous professional training of the auditor enhances audit quality	14.8%	74.1%	11.1%	0.0%	0.0%	1.9630	0.5126
The standards for evaluating an organization's performance is its audit quality	33.3%	59.3%	7.4%	0.0%	0.0%	1.7407	0.5887
Average						**1.7994**	**0.5507**

It was clear that from the analyzed data collected from the 31 respondents, 66.7% agreed and 31.5% strongly agreed that the overall organizational performance of commercial state entities in Kenya is impacted by audit quality. A respondent representation of 1.9% seemed not to agree or disagree that audit quality affects the overall performance of these entities. Table 7 illustrates the results of the finding. The mean of this response was 1.70 with the lowest standard deviation of 0.50.

In this section, 66.7 % of the respondents agreed that when a small number of audit revisions is registered then the dependability on auditor’s the report will be enhanced which will consequently impact internal audit. 22.2 % of the respondents strongly agreed with the statement as well while 11.1 % neither agreed nor disagreed with that assertion. The mean for the collected responses was 1.89/5.00 with a standard deviation of 0.57.

The results indicate that 55.6% of respondents agreed that the chances of spotting misleading statements are high, 37.0% strongly agreed while only 7.4% were neutral as they neither agreed nor disagreed with the statement thus giving a mean of 1.70 and standard deviation of 0.60. Most of the respondents seemed to agree and strongly agree that ethical standards affect audit quality with a cumulative of 94.4% while 5.4 % of the respondents were neutral.

From the analysis, 74.1% of the respondents agreed that indeed continuous professional training of the auditor enhances audit quality, 14.8% strongly agreed and 11.1% neither agreed nor disagreed. The mean was 1.96 and the standard deviation obtained was 0.51. When it comes to the standards of evaluating organizational performance using audit quality 59.3% of respondents agreed and 33.3% strongly agreed that the standard for evaluating an organizational performance is its audit quality. 7.4% of the respondents neither agreed nor disagreed with a mean of 1.74 and a standard deviation of 0.59.

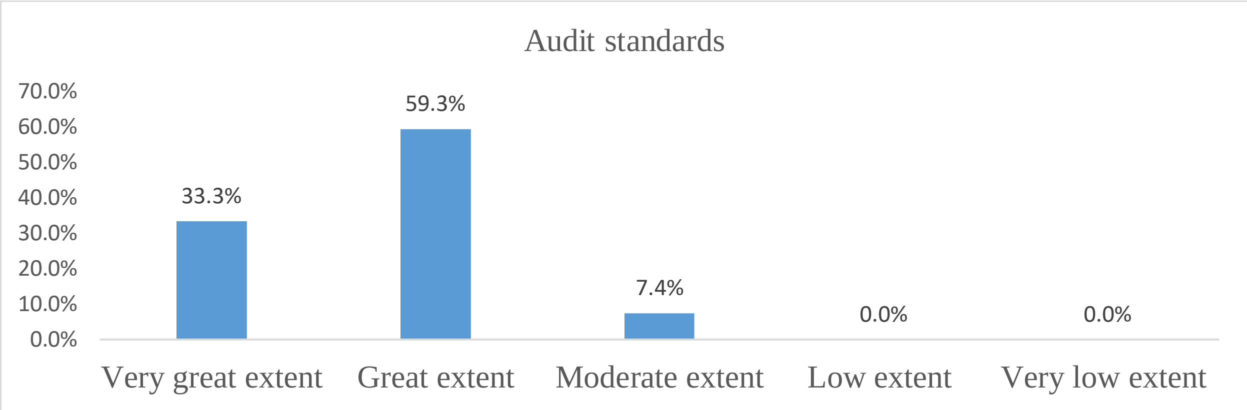
This study revealed that continuous professional training of the auditor enhances audit quality. This study agrees with Chen et al. (2013) established that when auditors are given more training eventually audit quality will be enhanced. The study disagrees with Salat (2018) on a study which established that respondents were not sure if the organization considers auditors professional qualifications and their impact on audit quality.

4.4.2 I Audit standards

The respondents were questioned on the impact internal audit standards has on Kenyan Commercial State Corporations' organizational performance. Their responses are depicted in the figure below.

FIGURE 5

Extent of Effects of Audit Standards



The output in Figure 5 indicates that out of the surveyed 31 respondents, 59.3% of them stated that internal audit standards largely affect the organizational performance, 33.3% indicated that internal audit standards affect the organizational performance to a very great extent while 7.4% of them indicated that internal audit standards affect the organizational performance to a moderate extent.

The respondents were also asked to score how much they agreed with certain claims about the Kenyan Commercial State Corporations' internal audit standards. They were given statements about the procedures listed, and they were asked to respond based on how much they agreed with the assertion about internal audit standards. They were to use a scale of 1 to 5 where 1 was "strongly agree," 2 to "agree," 3 to "neutral," 4 to "disagree," and 5 to "strongly disagree." Table 8 shows the results:

TABLE 8

Audit Standards on Organizational Performance

Statements	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**

To conduct an audit, internal audit standards are crucial	20.4%	74.1%	5.6%	0.0%	0.0%	1.8519	0.4917
An organization can achieve customer satisfaction by conducting its audit in accordance with audit standards	24.1%	68.5%	7.4%	0.0%	0.0%	1.8333	0.5408
Compliance is indicated by the presence of an approved audit charter	37.0%	59.3%	3.7%	0.0%	0.0%	1.6667	0.5494
Internal audit standards have a favorable effect on internal audits which consequently impacts performance of Commercial state enterprises	25.9%	61.1%	13.0%	0.0%	0.0%	1.8704	0.6157
The enhancement of risk management in state businesses is facilitated by audits carried out in accordance with audit standards	25.9%	61.1%	11.1%	1.9%	0.0%	1.8889	0.6635
An organization can achieve customer satisfaction by conducting its audit in accordance with audit standards	24.1%	68.5%	7.4%	0.0%	0.0%	1.9444	0.7115
Average						**1.8426**	**0.5955**

The first area of interest was to determine whether audit standards are crucial when conducting audits. The mean for the responses given was 1.8519 out of 5 with a standard deviation of 0.4917. Those who agreed formed 74.1% and strongly agreed 20.4% of the total number of respondents.

Secondly, an organization can achieve customer satisfaction by conducting audits in accordance with audit standards. The analyzed data indicated that 68.5% of the total respondents agreed and

24.1% strongly agreed that customer satisfaction can be achieved when auditing standards are incorporated in its audits. This gave an average mean of 1.8333 out of 5 with a standard deviation of 0.5408.

It was also revealed that compliance is indicated by the presence of an approved audit charter. A mean of 1.6667 and a standard deviation of 0.5494 of the responses was realized. Most of the respondents agreed that the presence of an approved audit charter is an indication of compliance. 59.3% agreed while 37% strongly agreed.

The other area of concentration was that audit standards had a favorable effect on internal audit which consequently impacts performance of commercial state corporations. Based on the collected data, it was clear that it had a favorable effect with 61.1% of respondents agreeing and 25.9% of them strongly agreeing with the statement. The mean for these responses was 1.8704 out of 5 with a standard deviation of 0.6157.

The enhancement of risk management in state corporations is facilitated by audits carried out in accordance with audit standards. Out of the 54 respondents surveyed, 61.1% of them agreed with that assertion, 25.9% strongly agreed while only 1.9% disagreed. The realized mean was 1.8889 and a standard deviation of 0.6635.

Lastly, an organization's ability to fully implement its audit work plan may encourage innovation. 68.5% of respondents agreed, 24.1% strongly agreed and 7.4% neither agreed nor disagree that innovation may be encouraged after an organization has fully implemented its audit work plan. The mean for this response was 1.9444 and a standard deviation of 0.7115.

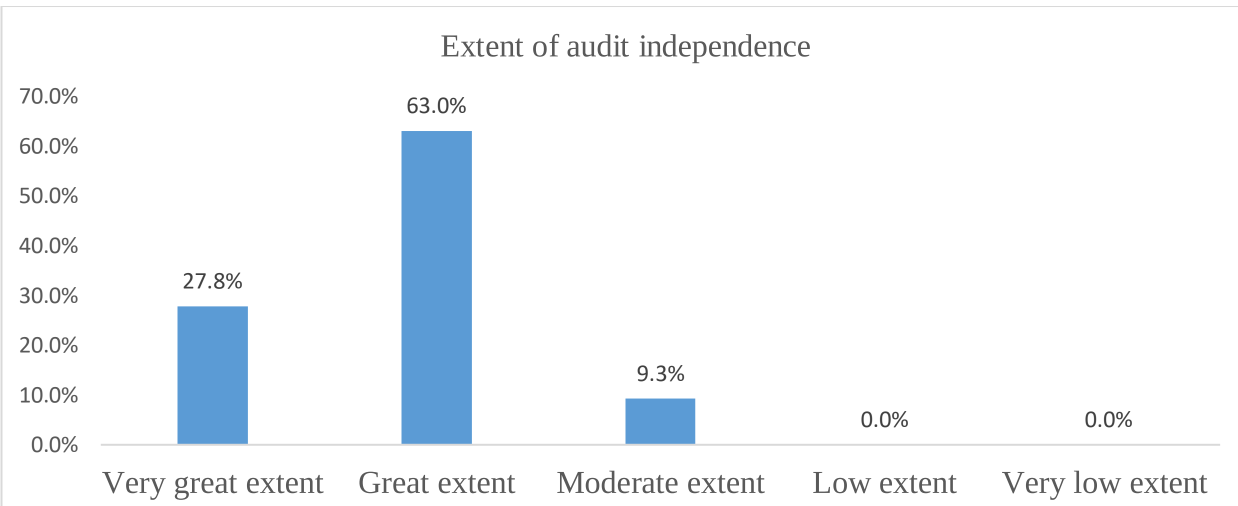
This study revealed that when conducting internal audit, audit standards are crucial. This study agrees with Mutulu (2020) whose study revealed that professional internal audit standards are considered important when conducting audit and that of Ondieki (2013) a study which revealed that when performing internal audit work in accordance with internal auditing standards it will significantly influence the effectiveness of auditing.

4.4.3 Audit independence

The respondents were questioned on the impact audit independence has on Kenyan Commercial State Corporations' organizational performance. Their responses are depicted in the figure below.

FIGURE 6

Extent of Effects of Audit Independence



The results in figure 6 indicate that out of 31 respondents 63% of them stated that audit independence impacts organizational performance of Commercial State Corporations in Kenya 28% primarily agreed it was to a very great extent while 9.3% stated that it was to a moderate extent.

The respondents were further asked to score how much they agreed with certain claims about the Kenyan Commercial State Corporations' audit independence. They were given statements about the procedures listed, and they were asked to respond based on how much they agreed with the assertion about audit independence. They were to use a scale of 1 to 5 where 1 was "strongly agree," 2 to "agree," 3 to "neutral," 4 to "disagree," and 5 to "strongly disagree." Table 9 shows the results.

TABLE 9

Audit Independence on Organizational Performance

Statements	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**
The performance of Commercial state corporations can be improved with improved audit independence	22.2%	68.5%	7.4%	1.9%	0.0%	1.8889	0.6040
Weak audit independence is shown by inconsistencies in financial accounts	20.4%	72.2%	7.4%	0.0%	0.0%	1.8704	0.5157
The integrity of auditor's opinion depends on the level of independence of internal audit function.	24.1%	72.2%	3.7%	0.0%	0.0%	1.7963	0.4907
An independent audit team may help prevent fraud in commercial state corporations	31.5%	63.0%	5.6%	0.0%	0.0%	1.7407	0.5558
Organizational performance significantly improves when audit issues are disclosed	27.8%	66.7%	5.6%	0.0%	0.0%	1.7778	0.5379
Independence of audit department help an organization improve overall organizational performance	31.5%	61.1%	5.6%	1.9%	0.0%	1.7778	0.6344
Average						**1.8086**	**0.5564**

Table 9 shows that out of the 31 respondents that were surveyed, when asked whether the performance of commercial state corporations can be improved with improved audit independence, 68.5% of the respondents agreed, 22.2% strongly agreed, 7.4% were neutral and

1.9% disagreed. This statement realized a mean of 1.8889 and a standard deviation of 0.6040. Most of the respondents agreed that when there is weak audit independence, it will be displayed by inaccuracies in financial statements. 72.2% of the respondents agreed with this assertion while 7.4% neither agreed nor disagreed. The observed mean was 1.8704 with a standard deviation of 0.5157.

The integrity of auditors' opinions depends on the level of independence of the internal audit function. 72.2% of respondents agreed with this statement while 3.7% neither agreed nor disagreed, the obtained mean was 1.7963 and a standard deviation of 0.4907. 63% of respondents agreed that an efficient internal audit department may prevent fraud in commercial state corporations, 31.55 strongly agreed and 5.6% were neutral. This statement had a mean of 1.7407 and a standard deviation of 0.5558.

It was observed that organizational performance significantly improves when audit issues are disclosed. 66.7% of respondents agreed with this assertion, 27.8% strongly agreed while 5.6% neither agreed nor disagreed. It had a mean of 1.7778 and a standard deviation of 0.5379. Finally, audit independence helps an organization to improve its overall performance. Out of the 54 respondents surveyed, 61.1% agreed, 31.5% strongly agreed, 5.6% were neutral and 1.9% disagreed.

The researcher found out that financial misconduct can fail to be detected due to lack of separation of tasks and this suggests that internal controls are inadequate. This agrees with Njiru and Bunyasi (2016) on a study which found out that when duties were segregated among different employees in an organization, then financial performance could be improved. It however disagrees with Mutu (2021) whose study found out that the lack of segregation of accounting duties does not hinder detection of financial malpractices.

4.4.4 Organizational Performance

The respondents were questioned on organizational performance in Kenyan Commercial State Corporations. Their responses are depicted in the table below.

TABLE 10

Organizational Performance

Statements	1	2	3	4	5	Mean	SD
Internal audit is the cause of higher return on investment	20.4%	59.3%	18.5%	1.9%	0.0%	2.0185	0.6865
Internal audit has increased overall financial sustainability	24.1%	66.7%	9.3%	0.0%	0.0%	1.8519	0.5633
Internal audit has helped enhanced accountability	25.9%	66.7%	5.6%	1.9%	0.0%	1.8333	0.6066
The institution has experienced improved innovation due to recommendation offered after performing an audit	24.1%	61.1%	14.8%	0.0%	0.0%	1.9074	0.6225
Public trust in the institution has increased due to increased transparency	25.9%	64.8%	9.3%	0.0%	0.0%	1.8333	0.5746
The corporation's internal audit processes have improved considerably due to audit measures.	20.4%	74.1%	5.6%	0.0%	0.0%	1.8519	0.4917
Average						**1.8827**	**0.5909**

The results in table 10 shows that 59.3% of the respondents agreed that internal audit is the cause of higher return on investment, 20.4% strongly agreed, 18.5% neither agreed nor disagreed and 1.9% disagreed with that assertion. The obtained mean was 2.0185 and standard deviation of 0.6865. 66.7% of respondents agreed that internal audit has increased the overall financial sustainability while 24.1% strongly agreed and 9.3% neither agreed nor disagreed. This statement had a mean of 1.8519 and a standard deviation of 0.5633.

Internal audit has helped to advance the accountability of commercial state corporations. 66.7% of the respondents agreed with this assertion, 25.9% strongly agreed, 5.5% neither agreed nor disagreed and 1.9% disagreed with a mean of 1.8333 and a standard deviation of 0.6066. Out of the 54 respondents, 61.1% of the respondents agreed that the institution has experienced innovation due to recommendations offered after an audit has been performed. 24.1% of the respondents strongly agreed while 14.8% were neutral. The obtained mean was 1.9074 with a standard deviation of 0.6225.

It was observed that public trust in the institution has increased due to transparency. 64.8% of the respondents agreed with this statement, 25.9% strongly agreed while 9.3% of the respondents were neutral. The mean from this statement was 1.8333 with a standard deviation of 0.5746. Majority of the respondents agreed with the assertion that the corporation’s internal business process has improved considerably due to audit measures. 74.1% agreed while 5.6% neither agreed nor disagreed. The obtained mean was 1.8519 and a standard deviation of 0.4917.

In conclusion, the responses had an average mean of 1.8827 and a standard deviation of 0.5909. This indicates that, on a scale of 1 to 5, most respondents agreed with the claims about the improvement in organizational performance of the Kenyan Commercial State Corporations.

4.5 Diagnostic tests

Several diagnostic tests were conducted to make sure that the traditional linear regression assumptions, which statistical tests rely upon, were not violated. This made sure that the study's conclusions could be trusted when making decisions. The tests for normality, linearity, multicollinearity, and heteroskedasticity were run in this study.

4.5.1 Test for normality

Normality tests were performed to make sure the data set is adequately modeled by a normal distribution. The test shows whether the random variable that underlies the test data is likely to be regularly distributed. Inferences drawn from the data and their interpretation are both compromised when the assumption is violated. The study used the Shapiro-Wilk tests due to the small sample size. The assumption under test is that the data are regularly distributed. The null hypothesis is not rejected if the p-value is higher than 0.05. The null hypothesis is disregarded, nevertheless, if the p-value is less than 0.05.

TABLE 11

Test of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**Df**	**Sig.**
Organizational Performance	.134	31	.016	.971	31	.205
Audit independence	.095	31	.200*	.981	31	.562
Audit Quality	.089	31	.200*	.971	31	.222
Audit Standards	.122	31	.043	.978	31	.414

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Source: ***Research data (2023)***

The researcher performed normality tests of the data and the results are as shown in table 11 The variables had a p value of o.205, 0.562, 0.222, and 0.414 which were all above 0.05. The data are therefore regularly distributed, and the null hypothesis was accepted.

4.5.2 Test for Heteroskedasticity

The error variance in this study's null hypothesis is homoscedastic, so if the error term is demonstrated to be variable, the null hypothesis is rejected. The data are heteroscedastic if the error variance is not constant. Running a regression model without taking heteroscedasticity into account would result in skewed parameter estimations in the model estimate (White, 1980). The graphical scatter plot method was employed to test for heteroscedasticity.

FIGURE 7

Graphical P-P Plots

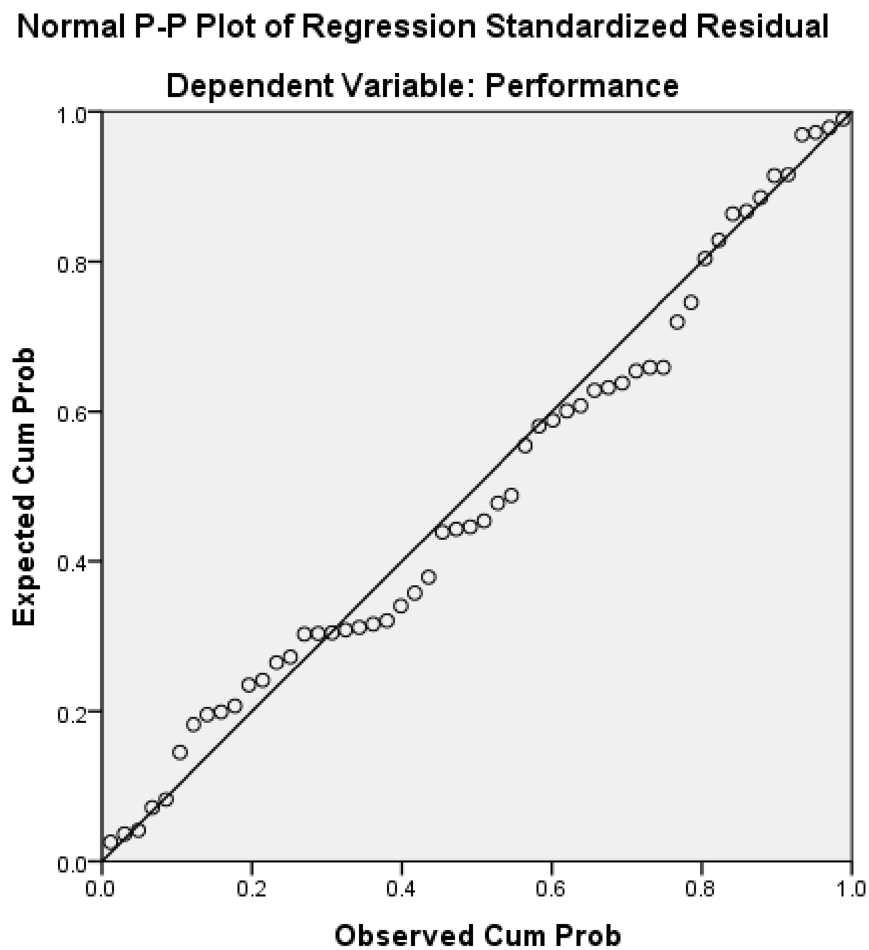
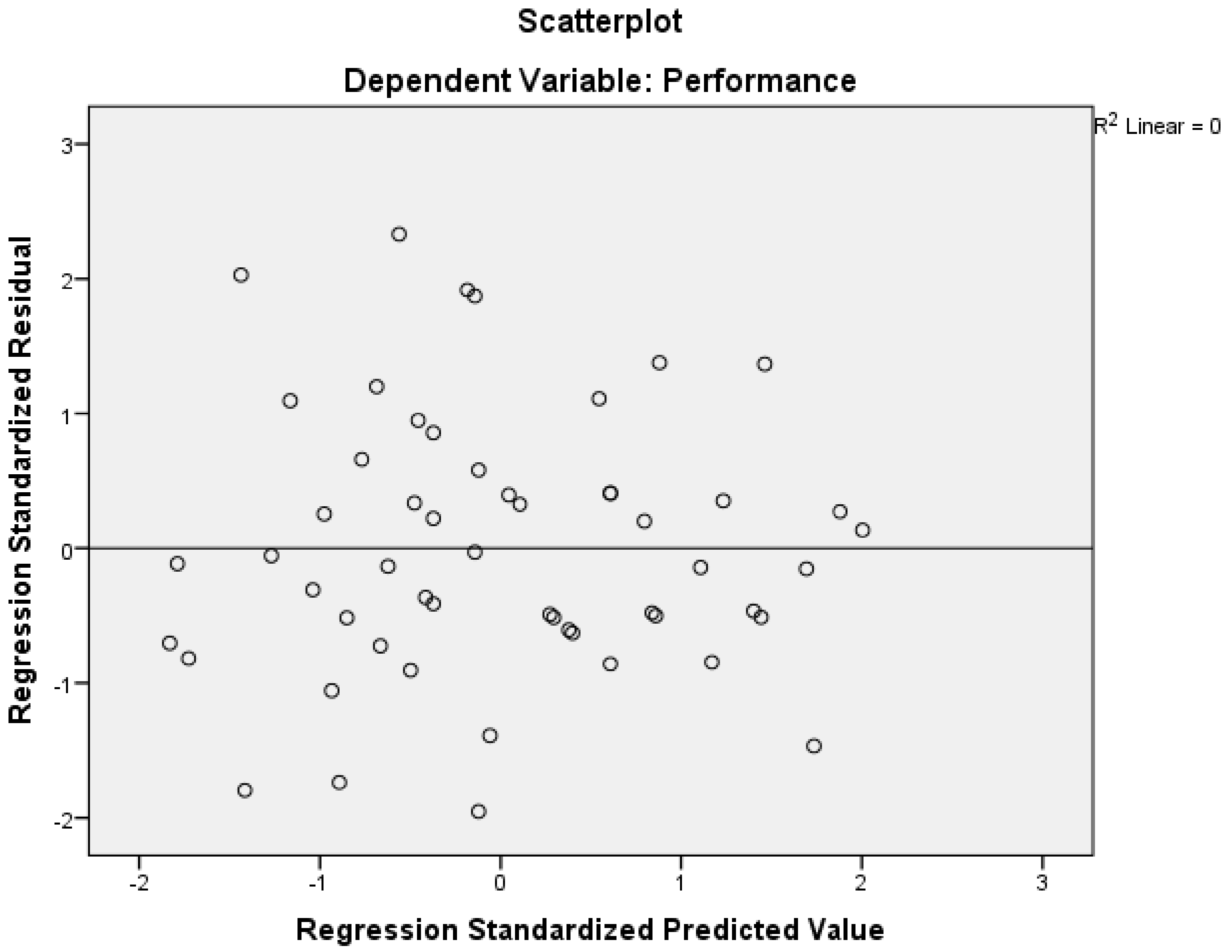


FIGURE 8

Error Variance of the Residuals



The results show that there is no evidence of heteroscedasticity when using the ordinary least squares (OLS) regression since the null hypothesis of this study shows that the error variance is homoscedastic. The graphical scatter plots that oscillate along the standardized residual regression line serve as proof of this.

4.5.3 Test for Multicollinearity

In situations where the regressor and the regress and exhibit strong association, multicollinearity develops. Because of the high standard errors of the coefficients caused by multicollinearity, variables may appear statistically significant even though they are not. The variance inflation factors (VIF) were used in this work to evaluate multicollinearity. Multicollinearity is indicated by VIF values more than 10 and tolerance values lower than 1. The tolerance value with a tolerance level between 0 and 1 and the variance inflation factor (VIF) with a tolerance level of less than ten were used to examine the multicollinearity of the variables (Miles, 2014).

TABLE 12

Test for Multicollinearity

Model		**Collinearity Statistics**	
		Tolerance	**VIF**
1	Audit quality	.849	1.178
	Audit standards	.660	1.515
	Audit independence	.694	1.442

Source: Research data (2023)

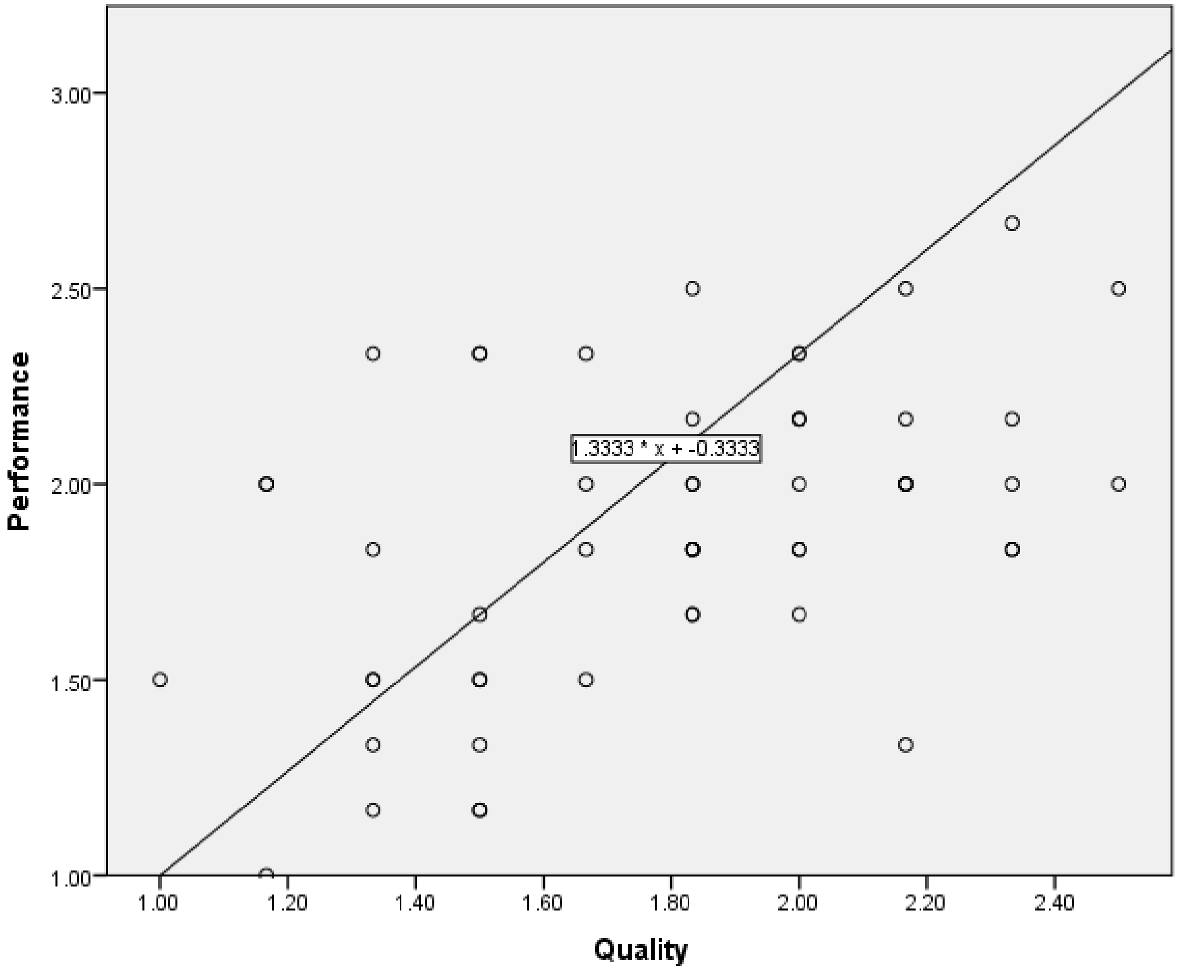
The findings are shown in Table 12, which demonstrates that all VIF values are less than 10 and that the tolerance ranges from 0 to 1. The investigation concluded that multicollinearity was unlikely and consequently not damaging. In other words, this suggested that there was no collinearity among the dependent variables.

4.5.4 Test for Linearity

Scatter plots, which are used to demonstrate if there is a linear relationship between two continuous variables, were employed to test for linearity. It is anticipated that the relationships between the variables should be linear before applying regression models (Casson & Farmer, 2014).

FIQURE 9

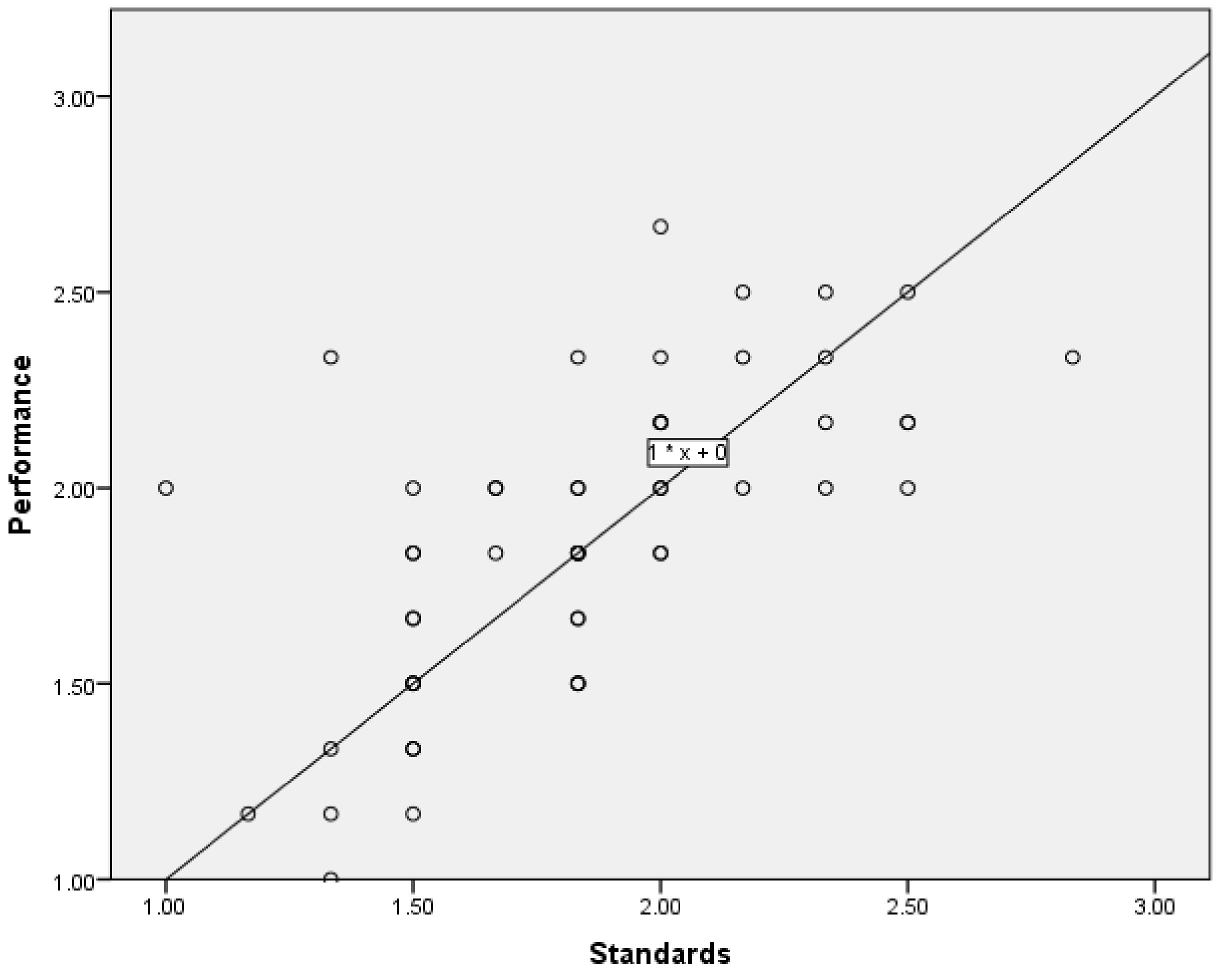
Linearity test for Audit Quality



3.00
2.50
2.00
1.50
1.00
Performance
1.3333 * x + -0.3333
1.00
1.20
1.40
1.60
1.80
2.00
2.20
2.40
Quality

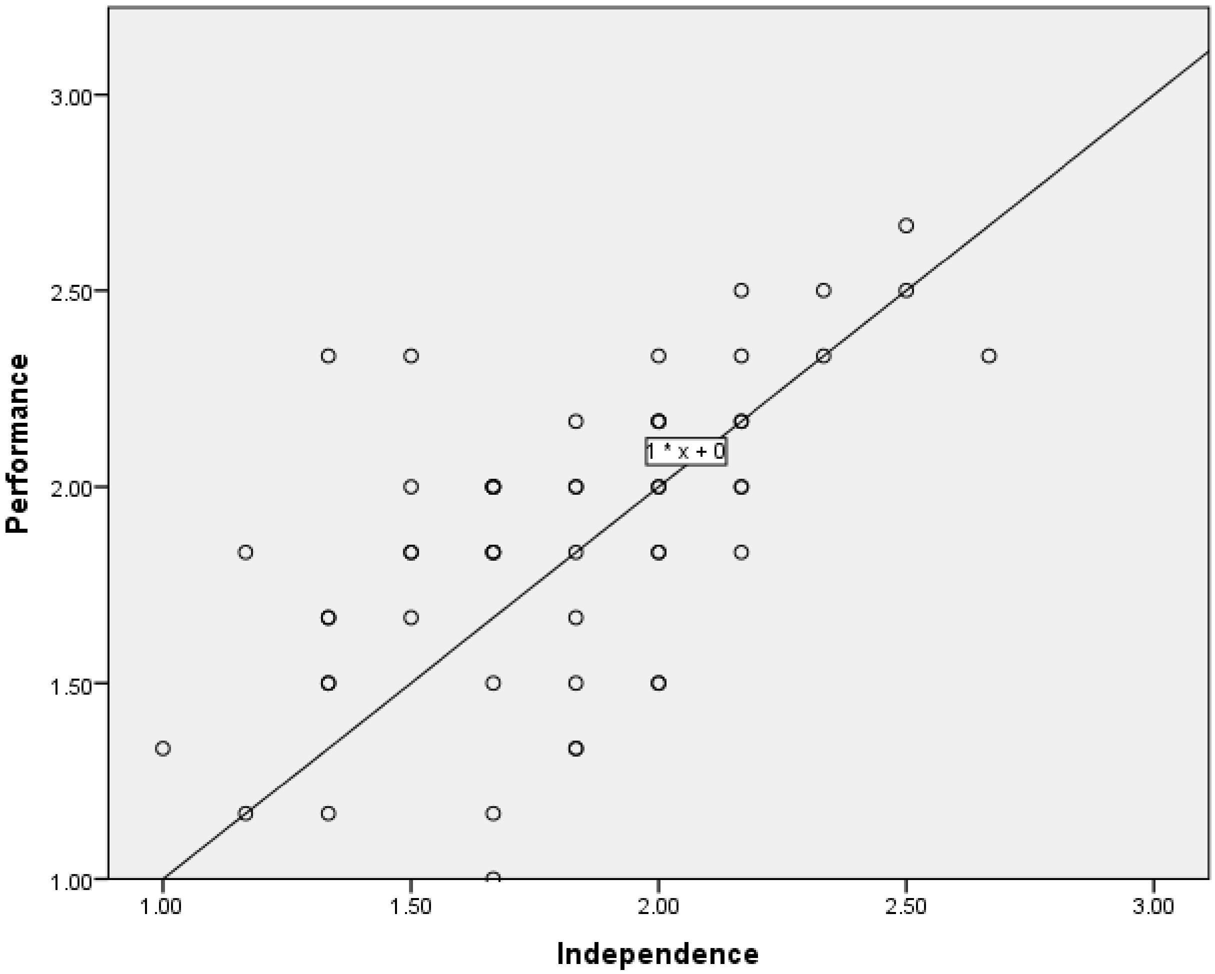
FIQURE 10

Linearity Test for Audit standards



FIQURE 11

Linearity Test for Audit Independence



Source: Research data (2023)

The findings in Figures 9 to 11 show that there was a linear relationship between the independent and dependent variables. A fit regression line was used to illustrate this in each of the plots, which were all linear in nature.

4.6 Inferential Statistics

Inferential statistics describes the methods that enable a study to draw conclusions about a population based on the information gathered from the relevant sample. In essence, they make it possible to decide how likely it is to get a particular set of findings from a single sample. In the current study, correlation and regression analyses were used to evaluate inferential statistics.

4.6.1 Correlation Analysis

The link between the variables was found using the Pearson correlation coefficient, which is represented by the symbol r. The range of correlation coefficients (r) is -1 to 1. 0 indicates that the factors are not connected, whereas a value of 1 demonstrates full connectivity between the two parameters. As the value of r approaches 0, the relationship between the two variables becomes weaker. A relationship is shown to be positive or negative by a + or - symbol. The sign of the r represents the direction of the association (Gogtay & Thatte, 2017).

TABLE 13

Correlation Analysis

		Organizational Performance	**Audit Quality**	**Audit Standards**	**Audit Independence**
Organizational Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
Audit Quality	Pearson Correlation	.487**	1		
	Sig. (2-tailed)	.000			
Audit Standards	Pearson Correlation	.654**	.368**	1	
	Sig. (2-tailed)	.000	.006		
Audit independence	Pearson Correlation	.597**	.303*	.542**	1
	Sig. (2-tailed)	.000	.026	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

c. Listwise N= 31

The findings in table 13 above demonstrate that organizational performance of commercial state firms in Kenya and audit quality have a positive and substantial relationship. The r value of 0.487 indicates a value greater than 0, which suggests a positive correlation between organizational performance of Kenya's commercial state firms and audit quality as a linear variable. The study of Salat (2018) and Chen et al. (2013) both agree with these findings.

The table above also demonstrates that audit standards and organizational performance of Kenya's commercial state firms have a favorable and significant relationship. Audit standards as a linear variable have a positive association with organizational performance of commercial state enterprises in Kenya, according to the strong r value of 0.654, which indicates a value greater than 0. These findings concur with those of Ondieki (2013) and Mihret (2010).

The findings also demonstrate that audit independence and organizational performance of commercial state enterprises in Kenya are positively and significantly correlated (r=0.597**, p=0.000). Audit independence as a linear variable has a positive association with organizational performance of commercial state enterprises in Kenya, according to the r value of 0. 597, which indicates a value more than 0. These results support those of Mutulu (2021) and Makori (2016).

4.6.2 Regression Analysis

The study also aimed to look at how the independent variables affected the dependent variable directly. The results show the fitness model, ANOVA tests, and coefficient regression.

TABLE 14

Model of Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.750[a]	.563	.537	.26313

a. Predictors: (Constant), Audit Independence, Audit Quality, Audit Standards
b. Dependent Variable: Organizational Performance

Table 14 shows that organizational performance of commercial state firms in Kenya is influenced by audit independence, audit standards, and audit quality. As evidenced by the R square value of 0.563, this is evident. This suggests that 43.7% of organizational performance of state businesses in Kenya may be explained by factors not included in this model, whereas 56.3% can be explained by audit quality, audit standards, and audit independence. As a result, the model has an average degree of fit.

TABLE 15

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.007	3	.669	11.618	.000[b]
	Residual	1.554	27	.058		
	Total	3.561	30			

a. Dependent Variable: Organizational Performance
b. Predictors: (Constant), Audit Independence, Audit Quality, Audit Standards

Table 15's findings demonstrate that the model was statistically significant, indicating that audit standards, audit quality, and audit independence are all effective predictors of organizational performance for Kenya's commercial state firms (p = 0.000).

TABLE 16

Regression of Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
		B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
1	(Constant)	.099	.229		.433	.667	-.361	.560
	Audit Quality	.254	.104	.247	2.439	.018	.045	.463
	Audit Standards	.399	.116	.396	3.444	.001	.166	.632
	Audit Independence	.326	.119	.307	2.738	.009	.087	.566

a. Dependent Variable: Organizational Performance

b. b. Predictors: (Constant), Audit Independence, Audit Quality, Audit Standards

The results in table 16 were used by the researcher to conduct a hypothesis test. The goal of the test was to determine the extent to which the changes in the dependent variable may be explained by the independence variable.

Null hypothesis one

$\boldsymbol{H_{01}}$**:** Audit quality of internal audit has no significant effect on organizational performance of commercial state corporations in Kenya.

The output s in the above table indicate that audit quality has a p-value of 0.018 which is less than 0.05. The study therefore rejected the null hypothesis and concluded that audit quality has a significant effect on organizational performance of commercial state corporations in Kenya.

The above table showed that audit quality has a positive and significant effect on organizational performance of commercial state corporations in Kenya (β = 0.254, p=0.018). This implies that improvement in 1 unit of audit quality leads to an improvement in organizational performance of commercial state corporations in Kenya by 0.254 units. The above findings agree with Salat (2018) and Chen et al. (2013).

Null hypothesis two

$\boldsymbol{H_{02}}$: Audit standards of internal audit have no significant effect of organizational performance of commercial state corporations in Kenya.

The results in the above table indicate that audit standards have a p-value of 0.001 which is less than 0.05. The study therefore rejected the null hypothesis and concluded that audit standards have a significant effect on organizational performance of commercial state corporations in Kenya.

The above table indicates that audit standards have a positive and significant effect on organizational performance of commercial state corporations in Kenya ($\beta = 0.399$, $p=0.001$). This implies that improvement in 1 unit of audit standards leads to an improvement in organizational performance of commercial state corporations in Kenya by 0.399 units. These findings agree with that of Ondieki (2013) and Mutulu (2021).

Null hypothesis three

$\boldsymbol{H_{03}}$: Audit independence of internal audit have no significant effect on organizational performance of commercial state corporations in Kenya.

The results in the above table indicate that audit independence have a p-value of 0.009 which is less than 0.05. The study therefore rejected the null hypothesis and concluded that audit independence has a significant effect on organizational performance of commercial state corporations in Kenya.

The above table demonstrated that audit independence has a positive and significant effect on organizational performance of commercial state corporations in Kenya ($\beta = 0.326$, $p=0.009$). This implies that improvement in 1 unit of audit independence leads to an improvement in organizational performance of commercial state corporations in Kenya by 0.326 units. These findings are consistent with Makori (2016) and Barasa (2015).

The following model shows the actual representation:

$Y=0.099 + 0.254X1 + 0.399X2 + 0.326X3$

Where

Y= Organizational performance

X1 = Audit quality

X2 = Audit standards

X3= Audit independence

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The aim of this study was to determine the role of internal audit in promoting organizational performance of commercial state enterprises in Kenya. The summary of the study's findings, conclusions, suggestions, and limitations are presented in this chapter.

5.2 Summary of the findings

The main goal of the study was divided into three distinct objectives with matching hypotheses. The combined effects of the variables on organizational performance were looked at in the study. Based on the three distinct aims, summary of the study is presented in this section.

5.2.1 Audit Quality and Organizational Performance

The first specific objective sought to assess the influence of audit quality for internal audit in promoting organizational performance of commercial state corporations in Kenya. According to correlation analysis, organizational performance of state corporations in Kenya and audit quality are positively and significantly related. The audit quality has a positive association with organizational performance of commercial state enterprises in Kenya, based to the high r value, which indicates a value larger than 0. The research used regression to identify that audit quality had a favorable and statistically significant impact on organizational performance. ($\beta = 0.254$, $p=0.018$) As a result, the study disproved the null hypothesis, which corresponded to objective 1, and accepted the alternative, which stated that audit quality had a significant impact on organizational performance of commercial state enterprises in Kenya.

5.2.2 Audit standards and Organizational Performance

The second specific objective was to determine the effect of audit standards for internal audit in promoting organizational performance of commercial state corporations in Kenya. The results of correlations indicate that audit standards and organizational performance of Kenya's commercial state firms are positively and significantly correlated. Audit standards as a variable have a positive association with organizational performance of commercial state enterprises in Kenya, according to the high r value, which shows a value more than 0. The study demonstrated that audit standards had a positive and statistically significant effect on organization performance using linear regression. ($\beta = 0.399$, $p=0.001$) As a result, the study accepted the alternative that audit standards had a significant impact on the organizational performance of commercial state enterprises in Kenya rather than accepting the null hypothesis that corresponded to objective two.

5.2.3 Audit Independence and Organizational Performance

The third specific objective was to evaluate the effect of audit independence for internal audit on organizational performance of commercial state corporations in Kenya. Audit independence and organizational performance of commercial state corporations in Kenya are positively and significantly correlated, based on correlation analysis. Audit independence as a linear variable has a positive association with organizational performance of commercial state enterprises in Kenya, owing to the strong r value, which indicates a value greater than 0. Audit independence had a favorable and statistically significant impact on the performance of the organization, the study discovered using regression. ($\beta = 0.326$, $p=0.009$) As a result, the study accepted the alternative that audit independence had a significant impact on organizational performance of commercial state enterprises in Kenya and rejected the null hypothesis that corresponded to objective three.

5.3 Conclusion of the study

Therefore, the study draws the conclusion that audit standards, audit independence, and audit quality all significantly and favorably affect organizational performance of Kenyan commercial state firms.

This is based on the findings that; an organizations overall performance is impacted by audit quality. When entities register small number of audit revisions it will enhance dependability of auditor's report. In addition, the study concludes that ethical standards affect audit quality and that the chances of spotting misleading statements are high. The study affirms that continuous professional training of the auditor enhances audit quality and, that the standard for evaluating an organizations performance is its audit quality.

Furthermore, the study concludes that audit standards are very crucial when conducting an audit, that also an organization can achieve customer satisfaction by performing internal audits in accordance with audit standards. Through internal audit conducted in accordance with internal audit standards, risk management in state businesses can be enhanced. The study also concludes that compliance is indicated by the presence of an approved audit charter and an approved annual work plan. Also, that an organization's ability to fully implement its annual work plan may encourage innovation.

The study concludes that the performance of commercial state corporations can be improved with an effective internal audit department and that the presence of errors and inconsistencies in financial statements depicts poor audit independence. The study also affirms that financial misconduct can fail to be detected due to lack of segregation of duties and this will suggest that controls are inadequate. When audit independence is effective, then it can help reduce fraud cases of fraud in commercial state corporations. From the study, we can conclude that organizational performance significantly improves when audit independence is enhanced thus more independent the department is, then organizations improve their performance.

Finally, the study concludes that internal audit is the cause of higher return on investment; internal audit has increased overall financial sustainability and helped to advance accountability, openness, and efficiency. The study confirms that institutions have experienced improved innovation due to recommendations offered after an audit has been performed and that corporation's internal processes have improved considerably due to internal audit measures. Public trust in commercial state corporations increases with increased levels of transparency.

5.4 Recommendations of the Study

The study made various recommendations to the academic field, to the policymakers and to the management as shown in the section below.

5.4.1 To the Academia

The recommendations made by this study are for more independent research on factors that could affect the performance of organizations. This study advises that both qualitative and quantitative characteristics be evaluated. Even though there are numerous financial and non-financial indices of organizational effectiveness, this study solely took the non-financial measures into account. Therefore, it is advised that more study be done to compare the various performance measures. Furthermore, as the study's primary focus was on Kenya's commercial state-owned firms, it is unclear whether the results can be extrapolated to all other state corporations. It is appropriate, and this study proposes that another study focus on non-commercial state-owned firms in general as well as all state corporations, given that separate regulatory frameworks exist for commercial and non-commercial entities.

5.4.2 To the policymakers and management

The study advises policymakers to pay great attention to internal audit, particularly in monitoring process and evaluation to ensure management quality standards and effectiveness of commercial state businesses in Kenya. In the same manner, policymakers might investigate the current rules and guidelines governing internal audits of state businesses in Kenya to look for and pinpoint areas that could be improved to address the issue of the commercial state firms in Kenya providing poor customer service.

For accountability and openness, the report advises routinely monitoring the audit department. This is because the study found that internal auditing standards make the biggest difference in how well commercial state corporations perform as an organization.

The results of the study suggest that risk analysis be encouraged at the level of individual enterprises as well as across the whole range of functions and extensions of the established organization. Assessing risks is necessary to determine which ones the commercial state corporation can control, and which ones cannot.

The researcher suggests that commercial state organizations might improve the quality of their audits by creating and putting into practice methods to assess the auditor's likelihood to find and disclose a financial system error.

The study also advises managers to deal with issues that affect the independence of the auditor in commercial state corporations. Performance of these organizations was hampered by the difficulties.

5.5 Areas for Further Research

The study's primary objective was to investigate the role of internal audit in promoting organizational performance of the State Corporations in Kenya. The study advises that additional research be conducted on other types of state corporations, including those in the financial, public university, regional development, regulatory, service, and private sectors, as well as those engaged in tertiary education and training, as well as training and research corporations. While considering the variables evaluated in this study, research can also be conducted on other private companies. This may provide a way for other researchers in the future to compare their work to the current findings and carry out more research.

5.6 Limitations of the Study

Although it achieved its goals, this study had some flaws. For instance, other non-commercial corporations were not considered, and only commercial state firms were the focus. Future research should take other categories of state corporations into consideration, even though this may have been done to prevent generalization of conclusions.

Kenyan state corporations were being restructured, with some of them slated for privatization or disposal. Additionally, collecting data was expensive due to the geographical spread of the entities. Given that the researcher is self-funded, this placed a strain on the available funds. Some of the state-owned corporations were hesitant to provide the study with the information it required because they feared it might be used to intimidate them or portray the company in a negative light. The researcher had to write letters to the respective heads of these commercial state corporations seeking permission to distribute the questionnaires to their internal audit staff. In addition, this was also mitigated by having a letter of introduction from the university outlining the study's objectives and assuring that the information provided would be treated in confidence and used only for academic purposes. Due to the employees' busy schedules, there was a chance that the response would be delayed; however, this was avoided by setting up meetings with the responsible officials so that they could give the researcher the necessary information needed.

REFERENCES

Abdiaziz, Salat (2018) *Effect of Financial Audit on Organizational Performance of Non-Governmental Organizations in Nairobi, Kenya.* (Unpublished master's dissertation, KCA University).

Adekola, D. R., & Adewale, O. A. (2018). IMPACT OF INTERNAL AUDIT FUNCTION AND EFFICIENCY ON ORGANISATIONAL PERFORMANCE. *International Journal of Accounting Research* Vol 3 (6), 2018 pp15, 19.

Ahonen, P., & Koljonen, J. (2020). The contents of the National Audit Office of Finland performance audits, 2001–2016. An interpretive study with computational content analysis. *Journal of Public Budgeting, Accounting & Financial Management*, 32(1), 49–66. https:// doi.org/10.1108/JPBAFM-24-02-2012-B002

Alkaraan, F. (2018). Public financial management reform: An ongoing journey towards good governance. *Journal of Financial Reporting and Accounting*, 1-28.

Al-Thuneibat, A. A., Al-Rehaily, A. S., & Basodan, Y. A. (2015). The impact of internal control requirements on profitability of Saudi shareholding companies. *International Journal of Commerce and Management, 196-217.*

Aikins, S. (2012). Determinants of auditee adoption of audit recommendation: Local government auditors' perspectives. *Journal of Public Budgeting, Accounting and Financial Management*, 24(2), 195–220. https://doi.org/10.1108/JPBAFM-24-02-2012-B002

Andon, P., Free, C., & O'Dwyer, B. (2015). Annexing new audit spaces: Challenges and adaptations. *Accounting, Auditing & Accountability Journal*, 28(8), 1400–1430.

Barasa, K. S. (2015). Statistical analysis of the role of internal audit in promoting good governance in public institutions in Kenya. *Journal of investment and management*, Vol.4 (1):38-46.

Caruana, J., & Kowalczyk, M. (2021). The quest for audit quality in the public sector. *Accounting in Europe*, 18(1), 1–25. https://doi.org/10. 1080/17449480.2020.1757731

Chen, S., Li, Z., & Chi, W. (2018). Client importance and audit quality: Evidence from China. Asia-Pacific *Journal of Accounting & Economics*, 25(5), 624–638. https://doi.org/10.1080/16081625.2016.1268061

Chen, Y., Hsu, J., Huang, M., and Yang, P., (2013). Quality, size, and performance of audit firms. *The International Journal of Business and Finance Research*, 7(5).

Chepkosgei, K. R., Mwangi, J. K., & Kinyua, G. M. (2020). Effect of strategic communication on performance of financial and commercial state corporations in Kenya. *International Academic Journal of Human Resource and Business Administration*, 27-38.

Cheruiyot, P. M., Namusonge, G. S., & Sakwa, M. (2017). Effect of public financial management practices on performance of county governments in Kenya. *International Journal of Education and Research, 5(12), 211-214.*

Cohen, S., Costanzo, A., & Manes-Rossi, F. (2017). Auditors and early signals of financial distress in local governments. *Managerial Auditing Journal*, 32(3), 234–250. https://doi.org/10.1108/MAJ-05- 2016-1371

Cooper, D. R., & Schindler, P. S. (2014). *Business Research Methods, Twelfth Edition*. New York: The McGraw Hill/Irwin.

Dănescu, T., (2007). Financial audit: convergences between theory and practice, Irecson Printing House Bucharest.

De Fond, M., & Zhang, J. (2014). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2-3), 275–326. https://doi.org/10.1016/j.jacceco.2014.09.002

Deyganto, K. O. (2014). Internal Audit Quality and Its Impact on Public Sector Organizational Performance: Evidence from Sector Bureaus of Southern Ethiopia. *International Journal of Economy, Energy and Environment*, (1), 28.

Dobroteanu, L., Dobroteanu C.L., (2002). Audit – concepts and practices. A national and international approach, Economical Printing House Bucharest.

Donaldson,L.(2001).*The Contingency Theory of Organizations*. Thousand Oaks, CA:Sage.

Ferry, L., & Ahrens, T. (2021). The future of the regulatory space in local government audit: A comparative study of the four countries of the United Kingdom. *Financial Accountability & Management*, https://doi. org/10.1111/faam.12291

Fielder,F.E.(1967).*A Theory of Leadership Effectiveness*. New York :McGraw-Hill.

Financial and Compliance Audit Manual (2012); European court of auditors.

Freeman,R.E.(1984).Strateargic Management:A Stakeholder Approach.Harpercollins College Div.

Government of Kenya. (2021). *Performance of ministries, state corporations and tertiary institutions for the year 2020/2021*. Nairobi: Government of Kenya.

Gogtay, N. J., & Thatte, U. M. (2017). Principles of correlation analysis. *Journal of the Association of Physicians of India*, 65(3), 78-81.

Government of Kenya. (2020). *Unaudited SCs and SAGAs consolidated financial statements FY 19/20*. Nairobi: Government of Kenya.

Gujarati, D., & Sangeetha, S. (2013). *Basic Econometrics, Fourth Edition*. Boston: McGrawHil

Gupta,P.P.,Dirsmith,M.W.,&Fogarty,T.J.(1994).Coordination and Control in a Government Agency: Contingency and Institutional Theory", *Administrative Science Quarterly*,39(2):pp264-284.

Harash, E., Alsaadi, J., & Al-Timimi, S. (2014). Financial performance of SMEs—Evidence on the influence of environmental uncertainty: A conceptual framework. ChinaUSA Business Review, 13 (8), 540-54

Hennink, M., Hutter, I., & Bailey, A. (2020). *Qualitative research methods*. Sage.

IAASB. (2014). *A framework for audit quality – Key elements that create an environment for audit quality*. www.ifac.org.

Institute of Directors in Southern Africa PSACF Secretariat. (2020). IPPF Standard 1300 – Quality Assurance and Improvement Program. Overseeing and Evaluating an Internal Audit Function's Effectiveness. https://cdn.ymaws.com/www.psacf.co.za/resource/collection/FDA73195-0CB8-46C8-8B58- 6EDBEA3A4055/PSACF_IAF_Effectiveness_PaperEmail.pdf.

Ivey, J. (2015). How important is a conceptual framework?. *Pediatric nursing*, *41*(3), 145-147.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency cost and ownership structure. *Journal of Financial Economics*, 305-360.

Kabue, A. W. (2020). *Effects of internal audit practice on performance of public commissions in Kenya. A case of parliamentary service commission of Kenya* (Doctoral dissertation, Africa Nazarene University).

Kamau, J. K., Rotich, G., & Anyango, W. (2017). Effect of budgeting process on budget performance of state corporations in Kenya: A case of Kenyatta National Hospital. 65 *International Academic Journal of Human Resource and Business Administration*, 2(3), 255-281.

Kitolo, B. K. (2016). *The relationship between internal audit and corporate governance of regulatory authorities in Kenya* (Doctoral dissertation, University of Nairobi).

Kothari, C. R. (2011). *Research methodology: Methods and Techniques*. New Dehli: New Age Publisher.

Langella, C., Anessi-Pessina, E., & Cantù, E. (2021). What are the required qualities of auditors in the public sector? *Public Money & Management*, 41(6), 466–476. https://doi.org/10.1080/09540962.2021.1883857

Laptes, R., Popa, A. F., & Dobre, F. (2014). Research on the evolution of financial audit in romania–past, current and future trends. *Procedia Economics and Finance*, *15*, 807-814.

Le, T. N., & Nguyen, D. D. (2020). An impact of budgetary goal characteristics on performance: The case of Vietnamese SMEs. The Journal of Asian Finance, Economics, and Business, 7 (9), 363-370.

Limperg (1932). *The theory of inspired confidence*. University of Amsterdam: Netherlands.

Loke, C. H., Ismail, S., & Hamid, F. A. (2016). The perception of public sector auditors on performance audit in Malaysia: an exploratory study. *Asian Review of Accounting*.

Luthans, F. (2011). *Organizational Behavior* (20th ed.). Tata McGraw Hill.

Mackey, A., & Gass, S. M. (2015). S*econd language research: Methodology and design*. Routledge. London: Routledge.

Manes–Rossi, F., Brusca, I., & Condor, V. (2021). In the pursuit of harmonization: Comparing the audit systems of European local governments. *Public Money & Management*, 41(8), 604–614. https:// doi.org/10.1080/09540962.2020.1772549

Matoke, V.N. and Omwenga, J., (2016). Audit Quality and Financial Performance of Companies Listed in Nairobi Securities Exchange. I*nternational Journal of Scientific and Research Publications,* 6 (11).

Mbo, M., & Adjasi, C. K. (2017). Drivers of organizational performance in state owned enterprises. *International Journal of Productivity and Performance Management*, 405-423.

Mihret, D. G, & Amara A, M. (2011). Reliance of external auditors on internal audit works: A corporate governance perspective, *International business research*, Vol. 4, (2): 67- 79.

Mihret, D. G., James, K, & Joseph, M. M. (2010). Antecedents and organizational performance implications of internal audit effectiveness: Some propositions and research agenda. Pacific accounting review, Vol. 22(3): 224 – 252.

Miles, J. (2014). Tolerance and variance inflation factor. *Wiley Stats Ref: Statistics Reference Online.*

Mohammed Muneerali Thottoli, (2021) The relevance of compliance audit on companies' compliance with disclosure guidelines of financial statements", *Journal of Investment Compliance*, Vol. 22 No. 2, pp. 137-150. https://doi.org/10.1108/JOIC-12-2020-0047

Monfardini, P., & von Maravic, P. (2019). Too big to be audited? The new world of auditing in international organizations. *Financial Accountability & Management*, 35(2), 143–157. https://doi.org/10. 1111/faam.12186

Mohd-Sanusi, Z., Mat-Isa, Y., Mohamed, M., Teck-Heang, L., & Mohd-Iskandar, T. (2012, September). The importance of financial audit: Benefits, challenges and service quality towards client loyalty. In *2012 IEEE Symposium on Business, Engineering and Industrial Applications* (pp. 614-618). IEEE.

Morariu, A., ̦urlea, E., (2008). Financial – accounting audit, Second Edition, Economical Printing House Bucharest.

Muhunyo, B. M., & Jagongo, A. O. (2018). Effect of internal control systems on the financial performance of public institutions of higher learning in Nairobi City County, Kenya. *International Academic Journal of Human Resource and Business Administration*, 3 (2): 273, 87.

Muiruri, W. N., & Wepukhulu, M. J. (2018). Effect of financing decisions on financial performance of listed companies at the Nairobi Securities Exchange, Kenya. *Journal of International Business, Innovation and Strategic Management*, 101 - 114.

Mutinda, J. N. (2021). *Influence Of Public Financial Management Reforms On Organizational Performance Of Commercial State Corporations In Kenya* (Doctoral dissertation, KCA University).

Mutulu, F. J. (2021). *Effect Of Internal Audit On The Organizational Performance Of State Corporations In Kenya* (Doctoral dissertation, KCA University).

National Treasury. (2021). Update on reforms on state corporations. Nairobi,Kenya: National Treasury.

Nerantzidis, M., Pazarskis, M., Drogalas, G., & Galanis, S. (2022). Internal auditing in the public sector: A systematic literature review and future research agenda. *Journal of Public Budgeting, Accounting & Financial Management*, 4(2), 189–209. https://doi.org/10.1108/JPBAFM-02-2020-0015

Ndzovu, S. M., & Ng'ang'a, P. (2019). Effects of integrated financial management information system on financial performance of county government of Kwale. *The Strategic Journal of Business & Change Management*, 6(3), 11-27.

Nduati, N. L., Iravo, M., & Ombui, K. (2019). Technological Innovation Strategy and Performance of Data Service Providers in Kenya. *International Journal of Strategic Management,* 8 (2), 24-47.

Neamtu, H., Roman, A.G., Эurlea, E., (2012) Audit financiar. Misiuni de asigurare Ьi servicii conexe, Economica PrintingHouse Bucharest.

Njiru, D. K., & Bunyasi, G. (2016). Effect of internal controls on financial performance of water companies in Kenya. A case of water companies in Tana water services board. American Journal of Finance, 11-28.

Njiru, E. (2010). The Role of State Corporations in a Developmental State: The Kenyan Experience.

Njung'e, P. W. (2019*). Role of Internal Audit Function on Financial Performance of the Listed Commercial Banks in Kenya in the Period* 2013-2017 (Doctoral dissertation, United States International University-Africa).

Nogueira, S. P., & Jorge, S. M. (2017). The perceived usefulness of financial information for decision making in Portuguese municipalities: The importance of internal control. *Journal of Applied Accounting Research*, 116-136.

Ochieng, P. A. (2015). *External environmental factors influencing financial performance of Kenya airways*. Doctoral dissertation, University of Nairobi.

Omwenga, J., and Matoke, V.N., (2016). Audit Quality and Financial Performance of Companies Listed in Nairobi Securities Exchange. *International Journal of Scientific and Research Publications,* Volume 6 (11).

Ondieki, N.M., (2013). Effect of internal audit on financial performance of commercial banks in Kenya. *Unpublished UoN Journal*.

Ouma, D., Ombui, K., & Kagiri, W. A. (2013). Efficiency in the Kenyan Purified Bottled Water industry: A Channel Intensity Strategy. *International Journal of Business and Social Science,* 4 (3).

Parker, L., Jacobs, K., & Schmitz, J. (2019). New public management and the rise of public sector performance audit: Evidence from the Australian case. *Accounting, Auditing & Accountability Journal*, 32(1), 280–306. https://doi.org/10.1108/AAAJ-06-2017-2964

Pontones Rosa, C., & Perez Morote, R. P. (2016). The audit report as an instrument for accountability in local governments: A proposal for Spanish municipalities. *International Review of Administrative Sciences,* 82(3), 536–558. https://doi.org/10.1177/0020852314566000

Pontones Rosa, C., Perez Morote, R., & Prowle, M. J. (2014). Developing performance audit in Spanish local government: An empirical study of a way forward. *Public Money & Management*, 4(3), 189–196. https://doi.org/10.1080/09540962.2014.908009

PwC. (2017). *State-owned enterprises: Catalysts for public value creation?* London: PwC.

Riany, Kenneth. (2021). Organizational Structure and the Performance of State Corporations in Kenya. *European Business & Management*. 7. 206-215. 10.11648/j.ebm.20210706.17.

Riany, K. G, Were, S., & Kihara, A. (2018). Influence of eGovernment Strategy Implementation on the Performance of Public Service Delivery in Kenya. *International Journal of Strategic Management*, 7 (2), 32-49

Rugutt, W. K., Naibei, I., & Cheruiyot, P. K. (2019). Relationship between Financial Reporting Reforms and Performance of Selected County Governments in Kenya. *International Journal of Engineering and Management Research*, 5-14.

Sarens, G. &Abdolmohhamadi, M. J. (2007). Agency theory as a predictor of the size of the internal audit function in Belgian Companies. Paper presented at the Annual Congress of European Accounting Association in Lisbon.

Saunders, M., Lewis, P., & Thornhill, A. (2015). Research Methods for Business *Students*. Essex: Pearson Education Limited.

Tulli, M. M. (2016). Challenges facing internal audit function in improving organizational performance in local government authorities in Tanzania: a theory of wrestling for efficiency. *African Journal of Finance and Management*, 25(1), 1-19.

Udeh, S. N., & Nwadialor, E. O. (2016). Evaluation of the effectiveness of internal audit in the Nigerian public sector. *European Journal of Business, Economics and Accountancy*, 4(3).

Wali, S., & Masmoudi, S. M. (2020). Internal control and real earnings management in the French context. *Journal of Financial Reporting and Accounting*, 363-387.

Walter, J. O., & Vincent, N. M. (2018). Organizational resources and performance of Kenyan State Corporations. *European Scientific Journal*, ESJ, 14, 34-91.

Watts, R. L. (1988). Discussion of Financial Reporting Standards, Agency Costs and Shareholder Intervention: ,*Journal of Accounting Literature*, 125-132.

GD no. 2170/2004 for approving the National Strategy for implementing the Country Action Plan in order to improve the financial reporting in Romania and some measures for the organization of the Accounting Advisory Board.

G.E.O.. no 75/1999 on financial audit, as amended.

APPEDICIES

Appendix I: Commercial State Corporations

1. Pyrethrum Board of Kenya
2. Agro-Chemicals and Food Company
3. Chemelil Sugar
4. East African Portland Cement Company
5. Jomo Kenyatta Foundation
6. Kenya Airports Authority
7. Kenya Broadcasting Corporation
8. Kenya Civil Aviation Authority
9. Kenya Electricity Generating Company
10. Kenya Electricity Transmission Company
11. Kenya Literature Bureau
12. Kenya Ordinance Factories Corporation
13. Kenya Pipeline Company
14. Kenya Ports Authority
15. Kenya Power and Lighting Company
16. Kenya Railways Corporation
17. Kenya Safari Lodges and Hotels
18. Kenya Seed Company Limited
19. Kenyatta International Convention Centre
20. National Cereals and Produce Board
21. National Housing Corporation
22. National Oil Corporation of Kenya
23. National Water Conservation and Pipeline Corporation
24. New Kenya Co-operative Creameries Ltd
25. Numerical Machining Complex
26. Nzoia Sugar Company
27. Postal Corporation of Kenya
28. School Equipment Production Unit
29. South Nyanza Sugar Company
30. University of Nairobi Enterprises and Service Limited
31. Gilgil Telecommunication Industries
32. Kenya Wine Agencies
33. Telkom Kenya Limited

State Corporations Advisory Committee (2023)

Appendix II: Questionnaire

Instructions

Place a tick (√) in the bracket in front of the most appropriate responses and where explanation is required, use the space provided below the items.

PART A: BACKGROUND INFORMATION

1. Please state your gender

   Male [ ] Female[ ]

2. What is your level of education?

   Diploma [ ] Undergraduate [ ] Masters [ ] PhD [ ] Other (Specify) ………………………

3. Which professional course have you undertaken?

   Please specify: CPA [ ] CISA [ ] CFE [ ] CIA [ ]

4. How old are you?

   20- 29 years [ ] 30- 39 years [ ] 40- 49 years [ ] Above 50 years [ ]

5. How many years have you been working in the organization?

   1-4yrs [ ] 5-10yrs [ ] 11-15yrs [ ] 16 -20 [ ] Above 20yrs [ ]

PART B: AUDIT QUALITY (Tick where applicable)

6. How much does audit quality affect Kenyan commercial state firms' organizational performance?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Low extent [ ]

Very low extent [ ]

What degree of agreement do you have with the assertions below about the organizational performance of commercial state corporations and the quality of the audits?

1- Strongly agree, 2- Agree, 3- Neutral, 4- disagree, 5- strongly disagree

Statement	1	2	3	4	5
7.) The organization's overall performance is impacted by audit quality					
8.) Registering a small number of audit revisions enhances the report's dependability and, consequently, the internal audit					
9.) The chances of spotting misleading statements are high					
10.) Ethical standards affect audit quality					
11.) Continuous professional training of the auditor enhances audit quality					
12.) The standard for evaluating an organization's performance is its audit quality.					

PART C: AUDIT STANDARDS (Tick where applicable)

13.) To what extent do internal audit standards affect organizational performance of commercial state corporations in Kenya?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Low extent [ ]

Very low extent [ ]

What degree of agreement do you have with the assertions below about the organizational performance of commercial state corporations and internal audit standards?

1- Strongly agree, 2- Agree, 3- Neutral, 4- disagree, 5- strongly disagree

Statement	**1**	**2**	**3**	**4**	**5**
14.) To conduct an audit, internal audit standards are crucial.					
15.) An organization can achieve customer satisfaction by conducting internal audits in accordance with audit standards.					
16.) Compliance is indicated by the presence of an approved audit charter.					
17.) Internal auditing standards have a favorable effect on audits which consequently impacts the performance of commercial state enterprises.					
18.) The enhancement of risk management in state businesses is facilitated by audits carried out in accordance with audit standards.					
19.) An organization's ability to fully implement its audit work plan may encourage innovation.					

PART D: AUDIT INDEPENDENCE (Tick where applicable)

20.) To what degree does audit independence impact Kenya's commercial state firms' organizational performance?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Low extent [ ]

Very low extent [ ]

Which of the following claims about how audit independence impacts on organizational performance of commercial state corporation do you agree with the most?

1- Strongly agree, 2- Agree, 3- Neutral, 4- disagree, 5- strongly disagree

Statement	**1**	**2**	**3**	**4**	**5**
21.) The performance of commercial state corporations can be improved with improved audit independence.					
22.) Weak audit independence is shown by inconsistencies in financial accounts.					
23.) The integrity of audit opinion depends on level of independence of internal audit function					
24.) An efficient internal audit department may prevent fraud in commercial state corporations.					
25.) Organizational performance significantly improves when internal audit control issues are disclosed.					
26.) Audit independence help organizations improve overall organization performance.					

PART E: ORGANIZATIONAL PERFORMANCE

Which of the following statements about the organizational performance of commercial state enterprises do you agree with the most?

1- Strongly agree, 2- Agree, 3- Neutral, 4- disagree, 5- strongly disagree

Organizational Performance						
	Statements	1	2	3	4	5
27	The Internal audit is the cause of the higher return on investment.					
28	Internal audits have increased overall financial sustainability.					
29	The Internal audit has helped to advance accountability, openness, and efficiency.					
30	The institution has experienced improved innovation due to recommendations offered after performing audits					
31	Public trust in the institution has increased due to increased transparency.					
32	The corporation's internal processes have improved considerably due to audit measures.					

THANK YOU

Appendix III: Personal Letter of Introduction

AGNES KWAMBOKA OYAGI

KCA UNIVERSITY,

RUARAKA, NAIROBI,

24/07/2023.

TO

THE MANAGING DIRECTOR/AG. MD/CEO

(COMMERCIAL STATE CORPORATION NAME),

P.O BOX

KENYA

RE: CONSENT TO CARRY OUT AN ACADEMIC RESEARCH IN YOUR ORGANIZATION

My name is Agnes Oyagi, I am a student at KCA University and currently undertaking my research as part of the curriculum for me to graduate. The topic of my research is ***The Role of Internal Audit in Promoting Organizational Performance of Commercial State Corporations in Kenya.***

I am writing this letter to seek your consent to collect data from your organization. My preferred respondents would be two officials from the internal audit department.

Find attached authority to collect data from my learning institution and a sample of questionnaires.

Kind Regards,

Agnes Oyagi

(Phone number)