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**THE INFLUENCE OF MANAGEMENT SUPPORT ON
INTERNAL AUDIT EFFECTIVENESS IN SEMI-
AUTONOMOUS GOVERNMENT AGENCIES IN THE
MINISTRY OF ENVIRONMENT AND FORESTRY IN
KENYA**

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Strategy

THE INFLUENCE OF MANAGEMENT SUPPORT ON INTERNAL AUDIT EFFECTIVENESS IN SEMI-AUTONOMOUS GOVERNMENT AGENCIES IN THE MINISTRY OF ENVIRONMENT AND FORESTRY IN KENYA

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Abstract

Purpose: This research paper aimed at investigating the influence of management support on internal audit effectiveness in Semi-Autonomous Government Agencies in the Ministry of Environment and Forestry.

Methodology: The study adopted descriptive research design whereby the researcher employed the use of questionnaires for data collection. A sample size of respondents comprising of senior managers, middle level managers, supervisors and audit assistants was considered for this research. The data collected was cleaned and inspected for completeness then coded using SPSS Version 20 software. Descriptive statistics such as the mean and standard deviation were used to describe the data. Further, inferential statistics at 95% level of significance were used.

Findings: The findings of the study indicated that the internal audit effectiveness had a positive and significant relationship with the management support. The findings were supported by the literature reviewed in this study.

Unique Contribution to Theory, Practice and Policy: The study recommended that development of comprehensive framework to facilitate the recruitment of internal audit staff. Secondly, the study recommends management to provide regular training to internal auditors. Lastly the study recommends management to come up with a policy on the allocation of resources to the internal audit function.

Keywords: *Management, Effectiveness, Internal Audit, Government*

1.0 INTRODUCTION

The efficient functioning of internal audit function that is in line with management policies and procedures has been of great concern to many governments globally for the simple reasons that government entities constitute the largest single business entity that stimulate economic activities (Unegbu & Kida, 2011). The large interest by governments in the public sector is instrumental towards improvement in the effectiveness of internal audit standards of accounting to safeguard public resources from wastage and misappropriation (Gramling, 2004). Internal audit (IA) is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (Institute of Internal Auditors (IIA, 2001). Internal audit makes a large contribution to the achievement of company goals, and the implementation of strategies for their achievement (Rose & Rose, 2015). Nagy and Canker (2002) observed that, IA is a crucial link in business and financial reporting processes of business corporations, government institutions and none profit making organizations. The major role of IA is to enhance organizational efficiency and effectiveness through constructive criticism.

The existence of IA in an organization strengthens the internal control systems to ensure that the organization's objectives are achieved within the projected period and in the most cost-effective manner. There is increasing importance attached to the internal auditing function due to awareness on corporate governance issues and questions as to its effectiveness in discharging its responsibilities with greater frequency (Sani, 2009). Public servants should be held accountable for their use and stewardship of resources bestowed to them and the extent to which the corporations' objectives have been accomplished. The public may not have confidence with the financial and management information provided by the corporations hence need assurance from an independent function such as the internal audit function (Rittenberg, 2003).

Flesher and Zanzig (2000) define IA as value addition to the organizations and a mere administrative function or legal compliance that keeps organizations going. In the ever-changing business environment, internal auditing plays a key role by adding value to the organization. Nagy and Cenker (2002) note that internal auditing is linked to governance process, risk management and organizations control which is important as it embraces the expanding role of IA from an arrow focus on control to include risk management and corporate governance.

There are several factors that affect internal audit effectiveness in an organization and this study has looked at management support as a critical internal factor that affect internal audit effectiveness. The success of IAF will depend on the strength of management's support for the auditing process. ISPPA states that internal auditors should be supported by top management and Board of Directors to execute their duties and fulfil their responsibilities. Senior Management support is seen in their involvement in the audit plan, Internal Auditors providing senior management with sufficient, reliable and relevant reports about the work they perform and recommendations made, as well as their reasonable response to Internal Audit reports.

Management support is also linked to hiring trained and experienced staff, ensuring that internal audit department is large enough to successfully carry out its duties and responsibilities, providing sufficient resources, enhancing the relationship with external auditors and having an independent internal audit unit.

Dittenhofer (2001) defines internal audit effectiveness (IAE) as the achievement of goals and objectives of an activity through the factor measures provided, while Mihret and Yismaw (2007) defines IAE as the extent to which internal audit office is able to meet its pre-set objectives. Ideally, IA is effective when it provides the required service expected from the activity. Effectiveness in audit is concerned with the auditor's ability to carry out an audit free of errors, the readiness to function when needed and be able to identify suitable set of objectives for an organization success (Karapetrovic & Willborn, 2000).

According to Mihret (2011), there are various factors which constitute effectiveness of internal audit including the assurance that management processes are sufficient to identify and monitor remarkable risks and confirmation of the efficient functioning of established internal control systems. It also includes credible processes for feedback on risks to management and assurance as well as the objective confirmation that the Board of Management receives appropriate quality assurance and reliable information from management (Dittenhofer, 2001). Ljubisavljević and Jovanovi (2011) conceptualize an internal audit to be effective if it adds value to governance internal control systems, and risk management processes of an organization. According to Belay (2007), good governance characteristics include; public accountability, transparency, responsiveness and effectiveness of values which have been lacking in the public sector in Kenya hence the need to determine internal audit effectiveness.

According to Arena and Azzone (2009), internal audit function is expected to add value to companies by efficiently managing internal audit activities; reviewing programs and operations to establish the extent to which results are consistent with company's goals; establishing audit plans, reports and programs to achieve audit objectives and determining relevant and sufficient timeframes to achieve objectives. Value addition to an Organization can be given by an effective internal audit.

Effective internal audit function ensures integrity and reliability of financial and other operating information as well as the means used to identify measure, classify and report such information. It also helps an organization in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance processes, risk management and control as well as assisting the management by giving valuable recommendations on weak areas in order to increase overall efficiency and effectiveness of organization's operations. Van Gansberghe (2005) posited that effectiveness of internal audit should be assessed to the extent of effective and efficient delivery of internal audit services. He further stated an effective internal audit provides an independent analysis of procedures and systems as well as financial operating data for valuable recommendations in the organization.

According to the state corporation Act (2016), government/state agencies in Kenya are established by Acts of Parliament in line with the State Corporations Act, chapter 446 of the laws of Kenya and some are established by Executive Orders. They are government institutions having specific mandates in different sectors of the economy which the mainstream government departments cannot provide. Their main functions comprise of; regulation and coordination, conservation and management, research, health, education, agriculture, technology and innovations, economic empowerment and socio-cultural matters. They are partly or wholly financed by tax payers through the National Government for the public good.

This study focussed on the influence of management support on internal audit effectiveness in Semi-Autonomous Government Agencies (SAGAs) in the Ministry of Environment and Forestry in Kenya. The Ministry of Environment is one of the ministries in Kenya with specific mandates on environmental issues, management and conservation of natural resources. According to the Government of Kenya (2013), Semi-Autonomous Government Agencies in the Ministry include Kenya Water Towers Agency (KwTA), Kenya Forestry Research Institute (KEFRI), Kenya Forest Service (KFS), National Environment Management Authority (NEMA) and National Environmental Trust Fund (Net Fund).

Statement of the problem

Despite the enactment of numerous laws governing Internal Audit processes in Kenya to provide assurance on effective and efficient use of public resources, for example ;The Public Finance Management Act of 2012,The Public Audit Act of 2015 and Mwongozo Code of Governance, corruption scandals have marred the Kenyan public sector in the recent past. Huge public funds seem to have been lost in Public Institutions such as in Independent Electoral and Boundaries Commission (February, 2015), the National Youth Service (May, 2018) and so on, as indicated by the recent dailies. This raises a concern between policy and practise of internal audit function in discharging its responsibilities. Effective Internal Audit Function will focus on risk management, control and governance process that requires management support. This in turn would prevent misappropriation and wastage of public funds by civil servants. This paper therefore was aimed at investigating the influence of management support on internal audit effectiveness in the Semi-Autonomous Government Agencies in the Ministry of Environment and Forestry in Kenya.

2.0 LITERATURE REVIEW

2.1 Guiding theory

2.1.1 Stewardship theory

Donaldson and Davis (1991) found strong significance of stewardship theory in explaining internal audit research framework. The significance of the theory is that it is mainly concerned with the identification of situations where the interests of the principal and the steward are aligned. Stewardship theory has borrowed a lot from psychology and sociology, and it is defined by Davis, Schoorman and Donaldson

(1997) as “a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximized”. Unlike the Agency theory, Stewardship theory emphasizes not only on the perspective of individualism (Donaldson and Davis, 1991), but also on the role of the top management working as stewards, incorporating their goals as being part of the organization. Therefore, if the organization performs well, its staff will be motivated thereby investing their energy in their respective areas for organization success (Davis, Allen & Hayes, 2010). The same is applicable to the public sector context, if the audit committees do well therefore, their internal auditors will also do well towards the objective achievement of the Internal Audit Function.

According to Ebimobowei and Binaebi (2013), auditing exists as a result of stewardship concept and stewardship accounting. Public sector entities gain a lot when they adopt stewardship approaches since the theory serves as accountability mechanism that ensures there is good monitoring, good audit and reporting in order to assist in meeting the strategic objectives of the organization (Cribb,2006).The theory consider the manager as an individual who provides protection to the resources bestowed to him by the owners (principals) which he does through his performance (Cornforth,2003). The achievement of an organization is actualized through profitable results which serve as a motivating factor to the manager who the theory views as part of the business. Governance strategy that is based on stewardship principles is more effective when employees like internal auditors develop strong relations with their organization. Top management within the state entities can equally ensure the achievement of internal audit effectiveness through their stewardship approach by ensuring that internal control systems are working and there is enough support for the internal audit unit.

The provisions and utilization of resources within the public sector setting are the stewardship responsibility of the governing bodies of such government organizations which fits the management role in an entity (International Federation of Accountants, 2001). According to Hernandez (2012), stewardship governance is associated with factors like leadership systems, managerial practices, routine and procedures. Since stewardship theory is anchored on the value of trust, the theory embraces systems, procedures and tools that produce effective results on owners’ resources.

Internal auditing functions can also play a role of stewardship through the influence of relevant variables that contribute to the organizational success. The theory is linked to the study in that management would want to give full support to IAF in terms of sufficient funding, implementation of audit findings and so on so as to maximise their utility function through good organizational performance. At the same time management would work to ensure internal auditors’ autonomy so as to maximise their performance.

2.2 Empirical review

According to Mihret and Yismaw (2007) in their study on Internal audit effectiveness: an Ethiopian public sector case study, with the purpose of identifying factors impacting the effectiveness of internal audit services, they found out that internal

audit is strongly influenced by audit quality and management support. They explained that management must be prepared to implement recommendations of internal audit function since they have far reaching implications on the auditor's attitude towards improving audit quality, enhancing their commitment to develop a career as internal auditors. This study also indicated that management support is one of the key determinants of IA effectiveness and internal auditors should get a support from top management, Board of Directors (BOD) and unconditional cooperation from auditees who are the main stakeholders of the organization. The IIA 's Standards for Professional Practice of Internal Auditing (1110–Organizational Independence) notes that internal auditors should have the support of the board and of the senior management so as to gain the cooperation of auditees and perform their work with free down from interference (Institute of Internal Auditors 2011).

For effective performance, Abu-Azza (2012) notes that management support is a motivation provided by top management to internal auditor including proper recruitment, providing education and training programs to IA teams; adequate budget to IA; bonuses and good compensation to IA teams; and acceptance and implementation of IA recommendations. This is according to his study on Perceived effectiveness of the internal audit function in Libya: a qualitative study using institutional and Marxist theories aimed at examining the perceived IA function effectiveness in the Libyan public enterprises (state-owned) by employing institutional theory and Marx 's (1978) theory of the circuit of industrial capital.

Internal audit must be provided with adequate resources including funding, office space, human resource, and friendly environment to facilitate the audit activities. The efficiency and effectiveness of internal audit unit depends on the availability of resources. Paape (2007), in his study on Corporate Governance: The Impact on the Role, Position, and Scope of Services of the Internal Audit Function with the aim of researching on the impact of Corporate Governance reports on the role, position, and scope of services of the Internal Audit Function, found out that inadequate resources limits the scope of audit work which weakens their output. In addition, ISPPIA has emphasized on the importance of management's support in removing any limitations in access and budgets which impede the internal audit department's better performance.

3.0 RESEARCH METHODOLOGY

This study adopted a descriptive research design. According to Cooper & Schindler (2003) a descriptive design is concerned with finding out the what, where, and how of a phenomenon. This design was preferred because it would enable the study to generalize the findings to a larger population. In addition, it would allow the collection of quantitative data, which would be analysed using descriptive and inferential statistics (Saunders, Thornhill & Lewis, 2007). In descriptive design, the characteristics of the variables do not change much within the data collection period (Kothari, 2004). The study targeted KFS, KEFRI, NEMA, KWTA and NETFUND. The target respondents (Table 1) were drawn from Finance, Internal Audit, Supply

Chain Management, Human Resource and Administration and Technical departments. The agencies have different staff cadres in different departments ranging from Senior Managers, Middle level managers, Supervisors. A sample in a survey research is a collection of elements drawn from a larger population (Lavrakas, 2008) while Kothari (2004), describes a sample as a collection of units chosen from the universe to represent it. The population was stratified into four companies and a proportionate sampling technique was applied in each stratum to select the individuals that ensured equal opportunity of being selected.

Table 1: Sample Size

| Category | Population Size | Sample Size (30%) |
|-----------------------|-----------------|-------------------|
| Senior Managers | 36 | 10 |
| Middle Level Managers | 41 | 12 |
| Supervisors | 84 | 25 |
| Audit Assistants | 15 | 4 |
| Total | 176 | 51 |

The study used questionnaire as the main research instrument because it ensures confidentiality and allows the researcher to reach many respondents within limited time (Mugenda & Mugenda, 2003). According to Saunders et al, (2012) structured questionnaires are techniques of data collection in which each person is asked to respond to the same set of questions. The questionnaire adopted a 5-point Likert scale, where 1 represent strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree as well as open ended questions.

4.0 RESULTS AND DISCUSSION

The influence of management support on the internal audit effectiveness in Semi-Autonomous Government Agencies in the ministry of Environment and Forestry was assessed through various questions. The findings on whether training in audit related issues had been carried out in the last one year and the responses are tabulated in table 2 below.

Table 2: Training carried out in audit related issues

| | Frequency | Percent | Mean | SD |
|--------------|-----------|--------------|------|------|
| Yes | 30 | 63.8 | 1.36 | .486 |
| No | 17 | 36.2 | | |
| Total | 47 | 100.0 | | |

From the table 2 above, 63.8% of the respondents indicated that they had been trained in audit related issues in the last one year while 36.2% of the respondents indicated that they had not been trained. This indicates that training (Table 3) which is necessary for staff development is not carried out in all government agencies on regular basis.

Table 3: The frequency of the training carried out

| | Frequency | Percent | Mean | SD |
|--------------|-----------|--------------|------|------|
| Monthly | 5 | 10.6% | 2.43 | .683 |
| Quarterly | 17 | 36.2% | | |
| Annually | 25 | 53.2% | | |
| Total | 47 | 100.0 | | |

Regarding how often the training was carried out; 53.2% of the respondents indicated that training was carried out annually with only 10.6% indicating that training is carried out monthly as shown in the table 3 above. Annual training might not equip the staff with the necessary development and advancement of knowledge in the auditing field.

Further, the researcher used statements to evaluate the extent of management support towards the internal audit effectiveness. The respondents were required to indicate the degree of agreement to the given statements using the Likert scale of 1-5 (Table 4). The responses were aggregated, and the descriptive statistics computed to determine the level of management support on internal audit effectiveness.

Table 4: Descriptive Statistics

| | Mean | SD | CV |
|--|------|------|------|
| Management has put-up well-established policies and regulations in recruitment of Internal Audit staff. | 2.72 | 1.41 | 0.52 |
| Management allows internal audit employees to participate in training and development program in order to improve their skills and keep up the rapid changes in the field. | 3.23 | 1.36 | 0.42 |
| The management allocates enough resources to internal audit function to hire the right number of high-quality audit staff. | 2.91 | 1.32 | 0.45 |
| Management accepts and implements internal audit findings to the latter and on time. | 2.74 | 1.33 | 0.49 |
| Management supports internal audit function by allocating sufficient funds annually to enhance achievement of its operation and work plans. | 2.96 | 1.40 | 0.47 |

The highest mean of 3.23 depicted by the table above implies the respondents are in agreement that management allows internal audit employees to participate in training and development programs in order to improve their skills and keep up with the rapid changes in the field since it is above the threshold of 3. However responses do not vary much since it has the lowest coefficient of variation of 0.4211. On the other hand the respondents disagree that management has put up policies and procedures on recruitment of internal audit staff with a mean of 2.72 with responses varying considerably the highest coefficient of variation of 0.5184.

Table 5: Test of Normality

| | Kolmogorov-Smirnov ^a | | | Shapiro-Wilk | | |
|--------------------|---------------------------------|----|------|--------------|----|------|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| Management Support | .100 | 47 | .031 | .962 | 47 | .070 |

Since the dataset is less 2000 observations, the researcher used the Shapiro-Wilk scale to assess the normality of the variable. Management support was normally distributed since its significant value of 0.070 was more than Alpha Value of 0.05. This implied that the researcher would carry out inferential statistics such as correlation analysis and regression since the variables met the test of normality assumption.

Table 6: Regression Coefficient

| Model | Unstandardized Coefficients | | Standardized Coefficients Beta | t | Sig. |
|----------------------|-----------------------------|------------|-----------------------------------|-------|------|
| | B | Std. Error | | | |
| 1 (Constant) | .059 | .937 | | .063 | .038 |
| 1 Management Support | .437 | .142 | .416 | 3.087 | .004 |

a. Dependent Variable: Internal Audit Effectiveness

From the table 6 above, the regression coefficient was interpreted at 95% level of significance thus the Alpha value 5%.

A positive and significant relationship was established between the management support and internal audit effectiveness since significant value of 0.004 was less than the Alpha Value of 0.05. Therefore, a unit increase in management support triggers 43.7% increase in the level of internal audit effectiveness.

The study findings established that management allows internal audit employees to participate in training and development programs in order to improve their skills and keep the pace with the rapid changes in the auditing field. This is in consistent with the study carried out by Abu-Azza (2012) who noted that providing education and training programs to internal audit teams is a motivation provided by top management.

The findings established that the management lacked sound policies and regulations to ensure proper recruitment of the internal audit staff. Additionally, the study found out that the management failed to allocate adequate resources for the internal audit function. The findings were echoed by Abu-Azza (2012) who identified lack of internal audit framework and clear policies was a major drawback to the internal audit effectiveness. Moreover, he discovered that the management overlooked the functions of internal audit thus ended up under funding it. Paape (2007) too alluded that inadequate resources limits the scope of audit work which weakens their output. Moreover, the study revealed that the management failed to implement fully the recommendations of the internal audit function on timely basis. This was established

by Institute of Internal Auditors (2011) which faulted the management for the lack of will to implement the recommendations of the internal audit function. Finally, the study discovered a positive and significant relationship between the management support and internal audit effectiveness, assertions supported by (Mihret & Yismaw, 2007).

The findings are in contrast with the Stewardship theory which postulates that a steward (manager) protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. This according to (Davis, Schoorman & Donaldson,1997).The top management which is supposed to motivate internal auditors for example through acceptance and implementation of audit findings, provision of adequate budget and resources which are paramount to the effective and efficient functioning of the internal audit function. The study also indicate that management has not put up established policies and regulation on recruitment of internal audit staff which could affect audit autonomy.However the management is applauded for allowing internal audit employees to participate in training and development which contribute immensely to the internal audit effectiveness.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

This study established that organization management facilitates internal auditors to participate in training and skills development programs in order to keep the pace with the rapid changes in the auditing field. This study further revealed that management lacked clear policies and regulations to ensure proper recruitment of the internal auditors. Furthermore, the study established that the organisation management failed to allocate adequate financial resources to facilitate the internal audit functions. The top management is expected to motivate internal auditors through adoption and implementation of audit findings, provision of adequate budget and resources which are paramount to the effective and efficient functioning of the internal audit function.

5.2 Conclusion

The study concluded that the management need to come up sound policies and legislative frameworks regarding the recruitment of the internal audit staff for the Semi-Autonomous Government Agencies. The recruitment procedures and regulations would increase efficiency and effectiveness of the internal audit function. Additionally, the research concluded that the internal audit staff require regular trainings and participate in the development programs to boost their skills and expertise thus increase the effectiveness of the internal audit function. Moreover, the study concluded that the management need to implement fully the recommendations of the internal audit function on timely basis so as to serve a motivation to the internal audit staff and achieve internal audit function effectiveness. Finally, the study concluded that the management need to allocate adequate funds for the internal audit function to carry out its activities without compromise and financial hitches.

5.3 Recommendations

The findings indicated that management has not put policies and regulations as pertains to recruitment of internal auditors. The study recommends development of a framework by the government to facilitate the recruitment of the internal audit staff in its agencies. The policies and regulations governing the recruitment process would promote uniformity and professionalism in the internal audit function.

The findings indicated that trainings are done on annual basis and in some agencies not done at all. This calls for management to provide regular training to internal auditors so that they can be exposed to developments in the internal audit framework pronounced by professional bodies like the Institute of Certified Public Accountants of Kenya, the Institute of Internal Auditors and those promulgated by development agencies such as IMF, the World Bank and UNDP which support the improvement of corporate governance in the public sector.

The study findings indicate that management does not allocate adequate resources to internal audit function which impact its performance negatively. The study therefore recommends management to come up with a policy on the allocation of resources to the internal audit function to ensure that the internal audit function is sufficiently funded to enhance its operations and to safeguard its independence and integrity. Moreover, the study findings indicate that management does not implement internal audit findings and recommendations to the latter. Therefore there is need for a mechanism from the management team to ensure that the recommendations of the internal audit function are implemented on timely basis to facilitate efficiency and effectiveness in the internal audit.

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