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**Influence of Risk-Based Audit Practices on Financial Performance
of Registered Fruit Processing Firms in Thika Municipality, Kenya.**



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Influence of Risk-Based Audit Practices on Financial Performance of Registered Fruit Processing Firms in Thika Municipality, Kenya.

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Abstract

Purpose: The internal audit objective is to elevate the efficiency and effectiveness of an organization's risks through productive criticisms. Due to the increasingly changing business environments, risk-based audit practice is essential as it focuses on domains exposed to high risks. The motivation of the study was to determine the influence of risk-based audit practices on financial performance of registered fruit processing firms in Thika Municipality, Kenya. The study was led by specific objectives which were: to determine the influence of audit risk management on financial performance of registered fruit processing firms in Thika Municipality, Kenya ;to evaluate the influence of audit quality on financial performance of registered fruit processing firms in Thika Municipality, Kenya; to assess the influence of internal control on financial performance of registered fruit processing firms in Thika Municipality, Kenya, and to explore the influence of the risk governance on financial performance of registered fruit processing firms in Thika Municipality, Kenya. The theories embraced comprised of Contingency, Agency, Risk, and Stewardship.

Methodology: The study applied a descriptive research design. The target population was 130 management staff of registered fruit processing firms in Thika municipality Kenya. Census survey techniques were used for the study. Both primary and secondary data were used. A questionnaire was used as the instrument for data collection. The reliability and validity of the questionnaires were determined. Data collected from the field was sorted, processed, and categorized according to the questionnaire list of items. The collected data was analyzed using computer-aided SPSS Standard Version 28. Descriptive statistics were used to determine the percentages, cross-tabulation, mean scores, and standard deviations. Frequency distribution was used to describe the

demographic characteristics of the respondents, whereas inferential statistics were used to determine the significance and relationship between independent and dependent variables.

Results: The regression coefficient of the study showed that a unit change in audit risk management leads to a 2.73 change in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The study also revealed that a unit change in audit quality leads to a 2.277 change in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. Further, the study established that a unit change in internal control leads to a 3.295 change in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. Finally, the study found that a unit change in risk governance leads to 3.512 changes in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya.

Unique Contribution to Theory, Policy, and Practices: The study recommended that recognizing the importance of risk culture, board risk oversight, and independent disclosure of risk programs, the fruit-processing firms need to build a reasonable short-term and long-term corporate governance strategy. This will build corporate risk culture, create a reputation in the market and enhance a transparent business environment.

Keywords: *Risk-Based audit Practices, Audit Risk Management, Audit Quality, Internal Control, and Risk Governance.*

INTRODUCTION

1.1 Background of the Study

A standardized approach to contemporary financial performance views the internal audit function in the context of Risk-Based Audit (RBA) as a critical tool that can streamline organizational risks (Betti et al.,2021). The rapid change in technology and science together with stakeholders' pressure has elevated notable challenges for the Internal Audit (IA) profession that demands changes in the internal audit approach in order to abolish any deficiencies (Lois et al,2020. This led to the evolution of the audit approach from a substantive audit approach; to a balance sheet audit approach and to a system-based audit approach (Byrnes et al., (2018). This traditional audit approach could not address and assess risks that impact the overall objectives of the companies as they relied on internal control tests, the balance of accounts tests, and overall posting tests on the system of accounts (Teck-Heang & Ali, 2008; Thi et al.,2022).

Moreover, the credibility of internal audits practices is still under scrutiny after the series of corporate crises and financial scandals involving Enron (US), WorldCom (US), Tyco (US), Parmalat (EU), Swissair (EU) (Tumber & Waisbord,2019). In Kenya corporate scandals that questioned the credibility of the internal audit practices include, the euro bond scandals, Eveready, Charterhouse Bank scandal, Uchumi, National Bank, Kenya airway, and Nakumatt Supermarket Mumias sugar company (Were,2016; Machuki & Rasowo,2018). The changing stakeholders' demands and a new perspective on risk management ignited an important shift in the role of IA in many organizations. Regulators' and leaders' demand for internal audits to focus beyond traditional audit approaches in the Fourth Industrial Revolution (4IR)

The RBA approach is unique when compared to traditional audit approaches mentioned above in that, RBA not only adds value but also focuses on domains exposed to high risks than concentrating on control activities (Lois et al.,2021). The IA objective is to elevate the efficiency and effectiveness of organization risk monitoring and management through productive criticisms (Terer & Ngahu,2017). In Kenya, the Public Financial Management Reforms strategy (PFMR,2021-2025) adopted in the year 2006/07, the third iteration of the Medium-Term Plan 2018-2022 (MTP III), National Audit Office (NAO) and Audit Implementation Committee (AIC) plays a critical role in emphasizing the adoption of risk-based audit approach in business operations. RBIA adopted through PMFR has achieved a 12.8% increase in national revenue collection in the year 2019 and it is anticipated to increase by 15.7% in the year 2024 (KAM,2022) Despite this achievement through PMFR, the Kenya fruit processing firms' growth from the year 2016 to the year 2021 according to World Development Indicators (KNBS,2022) has continued to decline. The risk assessment process should be proactive to enable the IA to identify and analyze relevant risks to the attainment of the organization's financial objective

Young (2020) studied the determinants for risk-based audits of operational risk management in South Africa. Components for the operational risk management framework that included risk

culture, risk governance, risk management process, and risk strategy had significant positive results. Laith (2021) on the impact of the Business Risk-based Audit approach on reducing unsystematic risks in Jordanians Banks in Asia found a statistically significant effect of the audit approach based on business risk of combined dimensions on reducing unsystematic risks. Several studies have been done in Kenya on RBIA, for example, Muraguli et al., (2017) researched the effects of RBA on the financial performance of state-owned corporations in Kenya; Terer & Ngahu (2017) studied factors influencing RBA adoption in Kenya Agricultural and Livestock Research Organization in Nairobi; Rop & Rotich (2018) researched on effects of Risk Management Practices on the financial performance of state corporation in Kenya. The above studies have shown that RBA provides a holistic risk approach to protection, detection, business continuity, crisis management, and continuous improvement. RBA is seen as an agent of change to ensure risk assurance. However, it is still not clear what factors influence the effectiveness of RBA practices on the financial performance of registered fruit processing firms in Thika Municipality, Kenya, therefore this study seeks to determine and fill the gap.

1.2 Statement of the Problem

The traditional audit approaches (substantive audit approach, balance sheet audit approach, and system audit approach) in recent times have been characterized by a lack of timeliness, adequacy, and reliability. Subsequently, accounting information users have many times questioned the credibility of audit approaches adopted by internal auditors and external auditors amid corporate failures and scandals globally (Tumber & Waisbord, 2019). The internal audit department plays a critical role in aiding organizations to identify, analyze and manage business risks by dispensing unrestrained risk assessment to address the varying risks of the digital era that emanated from the rapid evolution of the Fourth Industrial Revolution (4IR) (Xu et al.,2018). The risk-based audit approach is perceived by many stakeholders as the best audit approach in that it not only adds value but also focuses on domains exposed to high risks than concentrating on control activities. The RBA approach facilitates the provision of risk appetite assurance to the organization board that risk management practices and processes are effective (Erlina et al.,2020)

RBA adopted in Kenya has achieved a 12.8% increase in national revenue collection in the year 2019 and it is anticipated to increase by 15.7% in the year 2024 (PFMR 2021-2025). Despite the adoption of RBA, the overall financial performance in the manufacturing sector and its subsectors like fruit processing from the year 2012-to 2021 has declined steadily from 0.6% to -0.1%(KAM,2022). For instance, the average ROE for the dominant fruit processing company in Thika municipality was 12.42% in 2017, 6.04% in 2018, 3.76% in 2019,2.83% in 2020, and 4.38% in 2021 (NYSE,2022). Further, the overall manufacturing Sector and its subsector like fruit processing GDP in Kenya have declined from 9.23% in the year 2016 to 7.61% in the year 2021(KAM,2022; KNBS,2021). These illustrate un optimal achievement of RBA practices and projections of improved risk efficiency and effectiveness. Without effective long-term RBA

mediation programs, organizations won't realize excellent financial performance, and costs associated with business risks continue to escalate.

Erlina et al., (2020) researched the role of RBA on audit quality. The empirical literature aimed at identifying the application of risk matrix and risk assessment in the North Sumatra Government to produce inhibiting and driving factors of RBA. The results of the study showed that RBA has a positive and significant effect on audit quality. Zainal (2017) researched factors influencing the implementation of RBA on listed companies in Malaysia. The results indicated that risk management systems, audit board concerns, and reviews significantly influenced the implementation of RBA. Muraguli et al., (2017) studied empirically the effects of RBA standards on the financial performance of state-owned corporations in Kenya. The study recommended effective implementation of RBA, such as information system control and control environment. Terer & Ngahu (2017) studied factors influencing risk based internal audit adoption in Kenya Agricultural and Livestock Research in Nairobi Kenya. The study results and findings showed that information communication technology had a significant and positive influence on the adoption of RBA. Rop & Rotich (2018) studied the effect of risk management practices on the financial performance of state corporations in Kenya. The study found significant relationships between strategic risk, operational risks, and financial performance.

In view of the above, there exist both empirical and conceptual gaps that this study sought to address by focusing on the influence of risk-based audit practices on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.

1.3 Objective of the study

1.3.1 General Objective.

The general objective of the study was to determine the influence of risk-based audit practices on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.

1.3.2 Specific Objective.

The study sought to determine the following objectives:

1. To determine the influence of audit risk management on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.
2. To establish the influence of audit quality on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.
3. To evaluate the influence of the internal control on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.
4. To explore the influence of the risk governance on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.

1.3.3 Research Hypothesis

1. H₀₁: Audit risk management has no influence significant on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.
2. H₀₂: Audit Quality has no significant influence on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.
3. H₀₃: Internal control has no significant influence on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.
4. H₀₄: Risk governance has no significant influence on financial performance of registered fruit-processing firms in Thika Municipality, Kenya.

LITERATURE REVIEW

2.1 Theoretical Review

2.2.1 Contingency Theory

Contingency Theory was developed in 1958 and advanced by Magaji et al. (2018). It is a class of behavioral theory that asserts that there is no prime way to lead a corporation, make decisions, or organize them. Instead, the optimal course of action is contingent (dependent) upon the external and internal situations. Therefore, the model is an approach to the study of organizational behavior exploring the influence of both internal and external contingent variables such as culture, technology, and environment on the function and design of the firm's structure, (Magaji et al.,2018). The contingency Theory hypothesis focuses on specific situational factors that affect direct relationship between independent and dependent variables, (Creswell & Creswell ,2018).

An important application of Contingent Theory is through a control system where the accounting information system (AIS) is bound up with a key control mechanism to influence behaviors and relationships (Dagilene & Sutiene, 2019). Though Contingency theory demonstrates a predictive power in leadership that is effective in certain contexts, its criticism cannot be ignored. To start with Contingency theory failed to explain why leaders with particular leadership styles are effective and ineffective in some situations. The least Preferred Coworker scale validity that measured task-oriented leadership and relationship-oriented leadership did not correlate with other leadership measures. Lastly, the Contingency theory failed to adequately explain what should be done about the mismatch of leaders in the workplace (Suleiman et al.,2018).

Internal auditors (AI) as economic agents of the business risk model need to decide on alternatives that involve risks and uncertainty in an organization. RBIA can be achieved through contingency theory. According to Kothari and Garg (2014), the theory enables a researcher to systematically introduce and significantly hypothesis dependent and independent variables and subject results to empirical tests. This theory can be applied in the context of RBA which depends upon contingent variables such as internal control to influence financial performance.

2.2.2 Agency Theory

Agency theory is an economic, social science, and management theory that focuses to explain relationships or associations and self-interest in organizations (Raimo,2021). Ross (1973) surmises the existence of agency issues which was a motivating factor for other economists since then. The researcher contended that the agents might use the resources of the organization for their own benefit, which will result in a conflict of interest between the agents and the principals (Adams,1996). Ross and Mitnick later in the year 1973 redeveloped agency theory to describe the relationships between agents and principals and delegation of control. Ross in agency theory introduced the problems of compensation in contracting where the agency was exposed as an incentives problem (Ross,1973). Also, Mitnick conceptualized that, institutions establish throughout the agency, and they evolve to deal with the agency as a response to the indispensable imperfection of the relationships. Though behavior will never arise as preferred by the principal for the reason that it does not reward to make it perfect, society will create institutions that will attend to the imperfections. Consequently, Mitnick argues that both the incentives and the institutional structures are needed to understand agency theory (Mitnick, 1975).

Normally, agency theory addresses the problem that arises when agreeing parties have different goals. It focuses on the relationships in which the principal engages the agent to perform some tasks on their behalf (Zogning, 2017). The fundamental assumption of agency theory is that both agent and the principal are assumed to be rational economic element-blending individuals (Reims et al,2018). Consequently, control and the separation of ownership will result in decisions by the residual claimant (the agent) which are not in the principals' pre-eminent interest hence here agency costs will arise (Panda & Leepsa,2017). Agency theory contracts between the agent and the principal specify and analyze the rights and performance standards on which the agents are to be evaluated, and the incentive function. Agency theory tries to solve two problems, one is the problem that arises when the objective of the agent and principal conflict with each other and is costly for the principal to verify agent work (Vargas & Teodoro,2018) Two, the principal and agent have a conflicting point of view toward risk, resulting in preference action variation.

Criticism of Agency Theory, according to Panda and Leepsa (2017), pointed to the agent side as the problem in the 'agent and principal problem'. From the principal side, the problem may also occur where the principal might exploit the agent. The theory also presumes a contractual agreement linking the principal and agent for an uncertain finite or infinite future period. The theory presumes that contracting can terminate the agency problem, however, there are a number of hindrances like rationality, information asymmetry, transaction cost, and fraud (Zogning,2017). Also, shareholders' interest in the organization is to maximize their return only, but subject to a limited role. Lastly, the roles of organization directors are limited to monitoring the managers, where the managers are depicted to be opportunistic which ignores their competence (Maestrini,2018).

Agency theory was applied in the context of risk governance as one of the study variables such that in order to mitigate the risks and ensure financial performance by the manager, the principal owner would have to incur expenditure on ensuring ethical culture, board risk oversight, and independent disclosure of risks programs. Hence, it is in the agent's interest to demand sufficient allocation of money to reduce the risk of principle-making losses.

2.3.3 Risk Theory.

Risk theory focused on three basic concepts which include diversification, regression, and utility. Markowitz in the year 1952 expounded on strategy diversification of the portfolio that showed the intelligent allocation of investments to reduce the deviation of the expected rate of return. In the year 1738, Daniel Bernoulli proposed the utility method where stakeholders had to pay more attention to the risk measurement of the different outcomes. The regression analysis in the 19 century where it was proved that the function was useful in the calculation of the probability of risks and prediction of adverse business cycles and fluctuations (Roeser et al.,2012).

Alawattagama (2018) postulates that risk management theory recommends that significant risks faced by organizations should be measured and controlled. This will aim at combining the risk management categories in an organization into a framework that is holistic and comprehensive. The framework for risk management puts more emphasis on the involvement of both senior company executives and employees in the analysis process of risk management. Risk theory encourages all organizational members to be involved in risk management because risks are inevitable in business. Over the years, fruit processing firms have experienced risks, ranging from unpredictable economy, change in customers, stiff competition, regulations, and laws governing the manufacturing sector.

These risks demand mitigating strategies for the sustainability of the organization and RBA, which can ensure the organization addresses all the risks it faces. The theory of risk management in this study was relevant since it holds that the success of any organization is grounded on risk management by all stakeholders delivering on their responsibilities. When each stakeholder in the organization performs their responsibilities appropriately, it increases the chances of effective RBA implementation which translated to improved financial performance

2.2.4 Stewardship Theory

Stewardship Theory is a management theory by Donaldson and Davis (1991;1993). Donaldson and Davis (1991) hold that the aim of governance is exactly to find structures and mechanisms that will ease the most efficiency between two parties no conflict of interest exists between the owner (Principal). Stewardship Theory also holds that there is no intrinsic problem of director's control and that organizational managers have a propensity in their efforts. Fundamental assumptions are the underlying directions of managerial behaviors aligned with principals' interests. The productive benefit for the executives in a principal versus steward association results from fewer transaction costs that are associated with the fewer need for economic monitoring and incentives.

Shareholders' wealth is maximized when the stewards' utility function is maximized and vice versa (Wei et al.,2020)

Stewardship Theory perceives that the steward utility is gained from the alignment of interest and collaborative characters with the principle that is higher than the utility is gained through self-serving behaviors and individualism (Chrisman,2019). The intrinsic rewards such as mission alignment and reciprocity make the stewards motivated. The steward places greater value on collectivity rather than self-centered goals and understands the success of the organization as his achievement. In Steward Theory there are psychological and situational factors that incline people to become stewards or agents. Situational factors-collective culture, involvement-oriented management systems, less power distance culture- that impact the executives to become stewards. Psychological factors -value commitment, influential personal power, high motivation, and objective identification-inclines the executive to become stewards (Murtaza,2021).

The advantages of stewardship theory are that it helps in minimizing controlling and monitoring costs while also increasing the fast track of decision-making and the autonomy of executives and managers (Torfin & Bentzen,2020). Criticisms of Stewardship Theory is that there is a discrepancy between the management ideology of the company and the intellectual characteristics of the manager that remains unexplored under Stewardship Theory. There is no evidence that provides mechanisms that make a person opt for-agent or executive- position and situational factors influence the person to cut across his own self-interest and resolve internal motivational conflicts (Wei et al., 2020). This study contributed to the explanation of how to expound on the dilemma of conflicting factors within the stewardship's theory where independent IA in the context of audit quality will act as executives to ensure quality audit strategy, processes, and quality audit structure mechanism are utilized to maximize shareholder wealth and ensure risk appetite.

2.3 Conceptual Framework

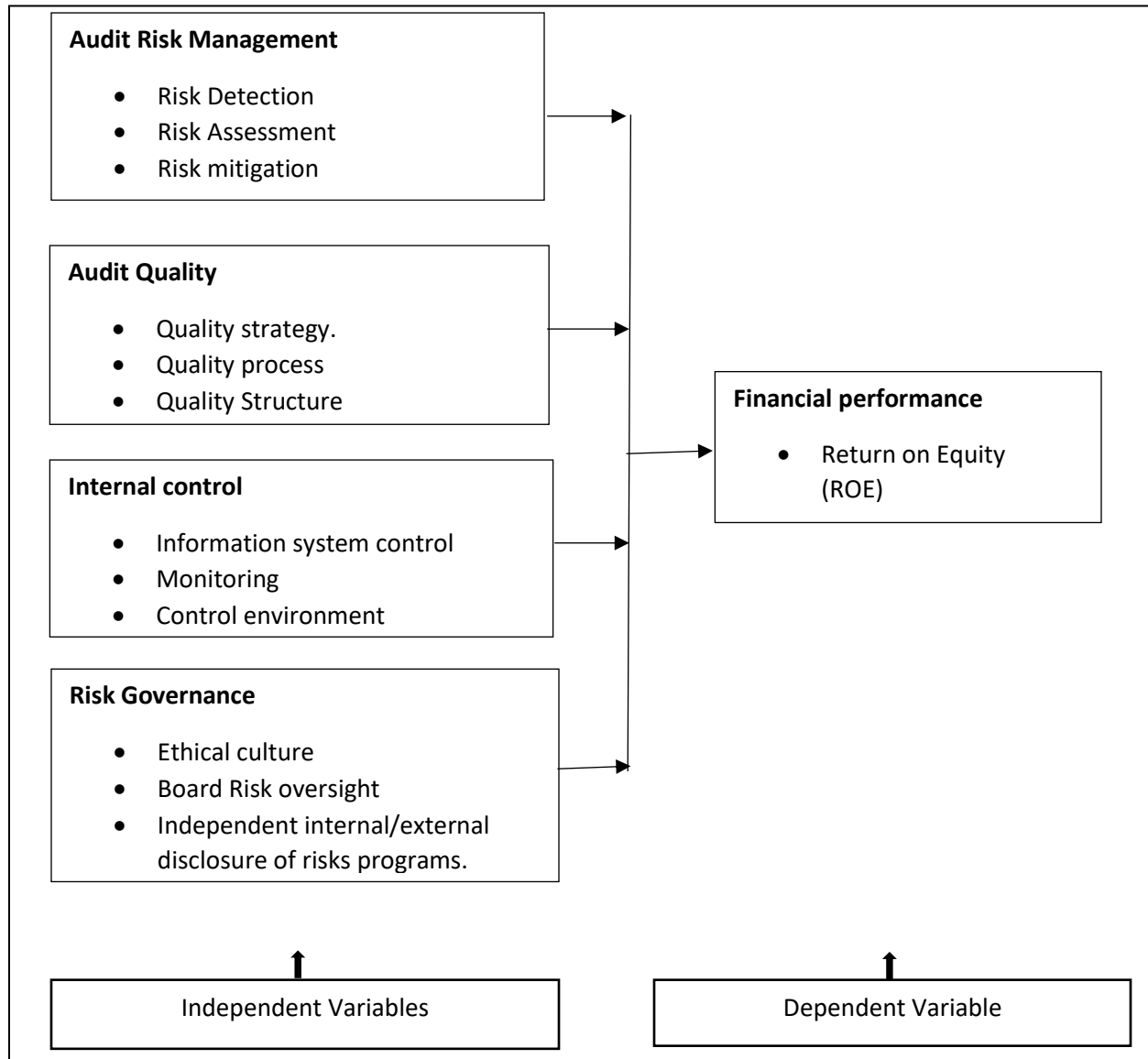


Fig 1. Conceptual Framework

2.3.1 Audit Risk Management

Audit Risk Management literature (Tamimi,2021) defines risk management as structures, processes, and cultures that are geared toward the effective management of adverse effects and potential opportunities. It focuses on optimizing the organization's processes in which inherent risks, detection risks, and control risks are taken. Risk management goals facilitate identifying, analyzing, quantifying, and comparing all organizations' exposure that stems from strategic, financial, and operations activities (Elhaddad et al.,2020). Audit risk management practices are structural disciplined approaches that position knowledge, processes, technology, people, and

strategies to manage and evaluate all uncertainties the organization faces through value creation. Also, risk management rigorously assesses and seeks to systematically manage interrelations to increase positive synergies and reduce inherent risks (Muraguli et al.,2017).

2.3.2 Audit Quality.

Audit quality and factors that encompass quality have been the pinnacle in the scholarly journals, regulatory discourse, and exponents following the happening of corporate collapses (Salehi et al.,2019). Because of these, there have been several cases of expansion in financial reporting, governance, and auditing regimes by regulations such as IAASB, FRC, the ICAEW, and academicians. Although initiative by professional practitioners and regulators influence contemporary understanding concerning audit quality neither party has been able to expound the term precisely. Researchers in quality audit literature like Nyaboke & Omwega (2016); Sarath (2016) are willing to define audit quality as essential elements that build an environment that optimizes the likelihood that quality audits are executed on a consistent basis. Audit quality sub-variables in this study will be Audit Quality Strategy, Audit Quality processes, and Audit Quality Structure.

2.3.3 Internal control.

Internal control practices (Olayode,2020) are the procedures and policies that help internal audits ensure management mandates are carried out effectively. The internal control system addresses risks and threats to the achievement of the organization's objectives. The internal control systems occur throughout the entity at all levels of functions. These include a variety of activities such as reconciliations, reviews, verifications, approvals, authorization of operating performance, segregation of duties, and security of data. According to Ogwiji and Lasisi (2020) and Olayode (2020), internal controls are the mechanisms and rules implemented to ensure fraud prevention, the integrity of accounting information, and the promotion of accountability. The internal auditors should establish internal control environments to effectively and efficiently achieve the desired organization's objectives and vision. The internal control systems activities (Muhunyo & Jagongo,2018) are the guidelines and mechanisms that ensure necessary corrective actions are taken to establish the risks and achieve the organization's purpose.

2.3.4 Risk Governance.

Risk Governance practices are crucial in ensuring the integrity of the RBA because efficient risk governance is able to control and reduce organization agency problems. Risk governance provides the ability to inspire, evaluate and motivate management processes that can effectively prevent organizational risk. Florin (2019) asserts that risk governance is concerned with principles and processes to improve risk management. Jeroen (2019) found that the quality of risk governance and risk-based regulation is a more relevant factor in evaluating the audit risk after the global financial crisis compared to inherent risk and detection risk. Renn (2020) demonstrated how strategic goal-oriented research, classic curiosity-driven research, and catalyst process-related

research and how risk governance can assist in understanding and improving complex risk situations. He found that board oversight and external and internal risk disclosure with an independent board of directors have lower audit risk.

2.3.5 Financial Performance.

Aniitha (2018) defines the financial performance measure as the measure of how an organization can use its assets from its fundamental mode of business and generate revenues. Sound financial performance is critical for developing and maintaining a business in the current financial atmosphere. In any organization, financial performance can be measured through financial ratios. Organizational profitability dictates the extent to which the organization generates profit as a ratio to the value or degree of its profits (Muraguli et al., 2017). Ratio analysis as a measure of financial performance helps to identify firms' weaknesses and strengths by detecting anomalies in the financial statement and focusing attention on mutually important issues. The profitability of fruit processing firms is affected by either endogenous factors or exogenous structural factors that include the rate of technological advancement, policy decisions, expanding population workforce, and risks (Kariithi, 2017).

2.4 Empirical Review.

Terer and Ngahu (2017) studied factors influencing Risk-Based Internal Audit (RBIA) adoption in Kenya Agricultural and Livestock Research Organization in Nairobi. The study sought to establish the influence of ICT on RBIA adoption. A descriptive research design was employed. The target population was 64 senior managers. Research findings indicated that ICT infrastructure positively and significantly influenced the adoption of RBIA. The study did not measure financial performance and the independent variable was only one. Analysis of the relationships between risk management and financial performance has used contrasting proxies for risk management with varied outcomes. Alawattagama (2018) studied the effect of enterprise risk management on firm performance from diversified industries in Sri Lanka. Variables under the study were risk alignment objective, supportive internal environment, event identification, and risk response. The survey research design was adopted. When measuring ROE by dividing the net profit attributable to the equity holder, Alawattagama (2018) found that the average mean value for three years was approximately 0.075. Implying that risk management activities were crucial for ensuring diversified organization operations owing to the inherent nature of risks due to the elevated complexity of the organization structure.

Andreea and Camellia (2019); Salehi et al (2019) studied determinant factors on audit quality. A sample of twenty-three (23) journal articles on audit quality was selected and meta-analysis research was employed on fifty-two (52) international studies and twelve (12) national studies on audit quality. The outcome of the study revealed that audit specialization and audit firm size were positively associated with quality audits. Also, from all the selected criteria, only the work-life balance was associated with audit quality but did not certify a strong relationship. The limitation

of the study was that the variable did not measure financial performance. Audit quality varies on a continuous scale and an optimal solution is to approach a variety of audit quality criteria. This will enable obtaining a multidimensional image of audit quality.

Moenga and Mereipei's (2021) empirical study on the effect of systems of internal controls on the financial performance of selected tea factories in Kisii County, Kenya. Independent variables were physical control, segregation of duties, access to regulation, and standardized documents. The target population was 6 tea factories in Kisii county. The study adopted a descriptive research design. Study results showed a positive correlation between the separation of duties and financial performance. The measure of financial performance was returned on assets only. RBA in the 21st century is a major concern for many businesses. Effective internal control systems should be linked with the RBIA mechanism. Also, Odek and Okoth (2019) on the effect of internal control systems on the financial performance of distribution firms in Kenya concluded that an extensive study on internal control systems should be done to generate adequate conceptual and empirical literature.

Laimaru (2018) researched on the influence of governance principles on the performance of commercial state corporations in Kenya. Variables under the study were fairness, accountability transparency, and integrity. The study used descriptive statistics and the target population was 55 state corporations. The questionnaire was used as the instrument of data collection. The study found that the influence of integrity accountability, fairness, and transparency had a high influence on the performance of state corporations in Kenya. Michuki and Rasowo (2018) researched corporate governance, the empirical investigation of the sugar-producing companies in Kenya. The study variables were the quality perspective, internal business process, innovation band learning growth, and customer perspective. The target population was 11 companies. The study regression analysis showed that there was a statistically positive influence of corporate governance practices on the performance of sugar-producing companies in Kenya.

From the above empirical reviews, it is not clear what factors influence risk-based audit practices on financial performance. This necessitated a study on the influence of risk-based audit practices on the financial performance of registered fruit processing firms in Thika Municipality in Kenya, in order to fill the conceptual and empirical gap.

RESEARCH METHODOLOGY

3.1 Research Methodology

The descriptive research design was preferred because it sought to demonstrate factors related to certain occurrences, outcomes, types of behaviors, or conditions (Mugenda & Mugenda 2003). According to Kenya's Urban support program, The Kenya Thika municipality had 5 registered fruit processing firms. The target population of this study was 130 management staff of fruit processing firms working under the Internal Auditing, Accounting and Finance, Risk Assurance, Quality Control, and Information Technology departments. The study used the census survey method. The study used both primary data and secondary data. Primary data was data collected or

observed directly from the firsthand research experience. Secondary data was obtained from the registered fruit processing firm's audited financial statements and reports. The pilot study was used to ascertain the reliability and validity of the research instruments. Diagnostics tests were carried out to analyze any violation of the regression hypothesis. The study utilized both descriptive and inferential statistics. The data was analyzed using SPSS.

The multiple regression model of the study was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y=Financial Performance, X₁=Audit Risk Management, X₂=Audit quality, X₃=Internal control, X₄= Risk Governance, and ϵ =Error Term.

FINDINGS OF THE STUDY

4.1 Results.

130 questionnaires were administered out of which only 97 fully completed questionnaires were returned. This managed to give a return rate of 74.6%. This response rate was adequate for analysis to be conducted as per Boddy's (2016) arguments that a response rate of 50% and above is significant for statistical analysis.

4.2 Pilot Testing

A pilot study to test the validity and reliability of the data collected via the questionnaire was carried out. The below section presented findings on reliability and validity tests.

4.2.1 Reliability

Table 1: Reliability analysis

	Cronbach's Alpha	N of Items
Audit Risk Management	0.713	5
Audit quality	0.796	5
Internal control	0.827	5
Risk Governance	0.842	5

This demonstrates that all four variables were reliable because their values of reliability exceeded the prescribed limit of 0.7 (Mohajan,2017).

4.2.2 Discriminant Validity tests were carried out using cross-loading. The latent variables loaded significantly and highly on each parent construct as compared to other constructs., implying that the questionnaire was deemed discriminant valid.

4.3 Demographic Information

Table 2: Demographic Information

	Frequency	Percentage
Gender		
Male	61	62.9
Female	36	37.1
	N=97	100
Age of the respondent		
18-28	3	3.1
29-38	58	59.8
Above 38	36	37.1
	N=97	100
Education Level		
Certificate	4	4.1
Diploma	9	9.3
Bachelor's Degree	51	52.6
Masters	26	26.8
PhD	7	7.2
	N=97	100
Years of Experience		

0-5	18	18.6
6-11	52	53.6
12-17	24	24.7
18 & above	3	3.1
	N=97	100
Conversant with RBA		
Not at all satisfied	4	4.1
Partially satisfied	9	9.3
Satisfied	17	17.5
More than satisfied	53	54.6
Very satisfied	14	14.4
	N=97	100

Table 3: Descriptive statistics on RBA

Statements	Mean	Std. Dev.
Audit risk Management (ARM)		
S11	3.907	0.969
S12	4.021	0.677
S13	3.866	1.057
S14	3.804	0.909
S15	2.278	0.910
Audit Quality (AQ)		

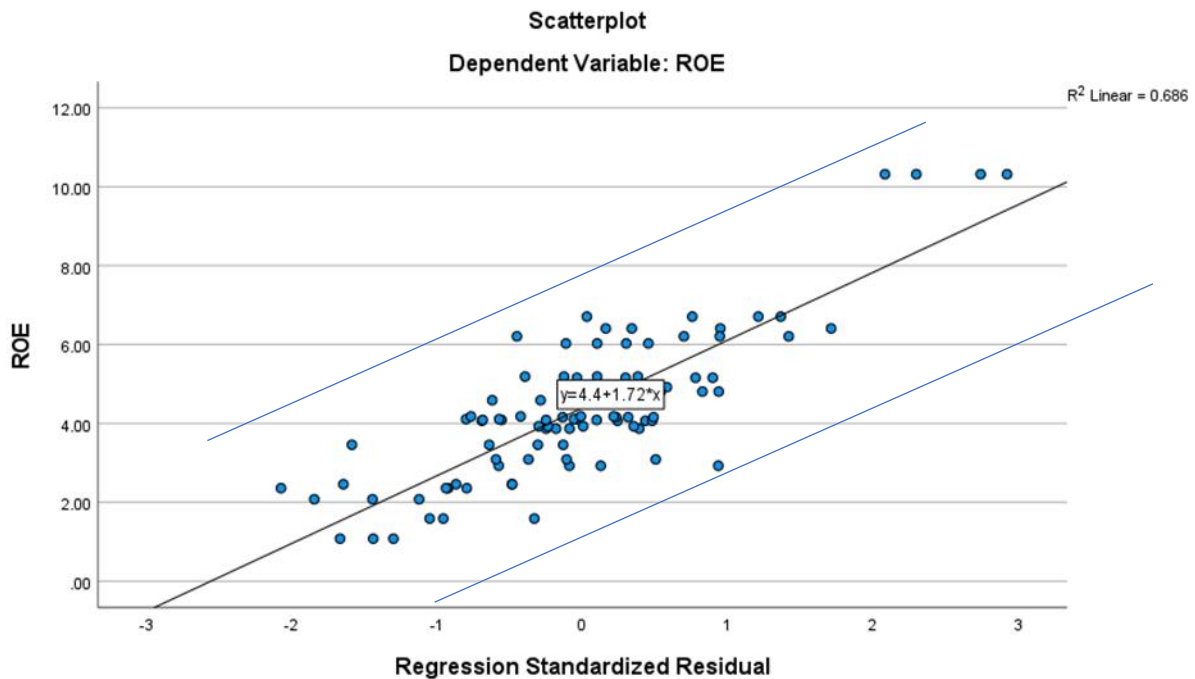
S21	4.021	0.677
S22	3.825	0.791
S23	3.959	0.889
S24	2.186	1.064
S25	4.299	0.580
Internal Control (IC)		
S31	4.031	0.669
S32	3.866	0.623
S33	4.103	0.568
S34	2.330	0.688
S35	4.052	0.528
Risk Governance (RG)		
S41	4.124	0.740
S42	4.021	0.677
S43	3.763	0.863
S44	4.371	0.618
S45	2.433	0.749
Financial Performance (ROE)		
S51	4.168	1.587
S52	5.178	1.221
S53	3.072	1.478
S54	5.086	3.482

*See the statements at the back page.

4.4 Diagnostic Test

4.4.1 Homoscedasticity Test

Figure 2: Homoscedasticity Test.



The scatter plot was homogeneous and the residuals were equal across the regression line hence the data set from dependent and independent variables were homoscedastic.

4.4.2 Normality Test.

Table 4: Normality Test Results

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROE	.134	97	.000	.914	97	.000
Audit Risk Management	.150	97	.000	.911	97	.000

Audit Quality	.135	97	.000	.940	97	.000
Internal Control	.137	97	.000	.963	97	.007
Risk Governance	.110	97	.006	.950	97	.001

a. Lilliefors Significance Correction

From Table 4, the findings showed that using both tests of normality, which was Shapiro-Wilk test or Kolmogorov-Smirnov tests, the p-value for both tests, was less than 0.05, thus the study concluded that data on both the dependent and the independent factors were normally distributed and as a result, it helps to predict dependent variables.

4.4.3 Multicollinearity Test.

From the findings, the multicollinearity test results showed that audit risk management had a VIF value of 6.631, audit quality had a VIF value of 7.785, internal control had a VIF value of 5.448 and risk governance had a VIF value of 5.715. This implies that the VIF values for the four variables were less than 10 implying that there were no multicollinearity symptoms.

Table 5: Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
1 Audit Risk Management	.151	6.631
Audit Quality	.128	7.785
Internal Control	.184	5.448
Risk Governance	.175	5.715

4.5 Inferential Statistics,

4.5.1 Correlation Analysis

Pearson correlation coefficient was used to determine the strength and the direction of the relationship between the dependent variable and the independent variable. The analysis using Pearson's product-moment correlation was based on the assumption that the data were normally distributed and also because the variables are continuous. The findings are illustrated in Table 6.

Table 5: Correlation Analysis Results

		Audit Risk Management	Audit Quality	Internal Control	Risk Governance	Financial Performance
Audit Risk Management	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	97				
Audit Quality	Pearson Correlation	.898	1			
	Sig. (2-tailed)	.000				
	N	97	97			
Internal Control	Pearson Correlation	.876	.878	1		
	Sig. (2-tailed)	.000	.000			
	N	97	97	97		
Risk Governance	Pearson Correlation	.867	.893	.846	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	97	97	97	97	
Financial Performance	Pearson Correlation	.749	.741	.713	.859	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	97	97	97	97	97

From the findings, the study showed that there was a positive and significant relationship between audit risk management and the financial performance of registered fruit-processing firms in Thika Municipality ($r=.749$, $p=0.00$). The study also revealed that there was a positive and significant relationship between the audit quality and financial performance of registered fruit-processing firms in Thika Municipality ($r=.741$, $p=0.00$). Further, the study established that there was a

positive and significant relationship between the internal control and financial performance of registered fruit-processing firms in Thika Municipality ($r=.713$, $p=0.00$). Finally, the findings showed that there was a positive and significant relationship between the risk governance and financial performance of registered fruit-processing firms in Thika Municipality ($r=.859$, $p=0.00$). Generally, it can be concluded that risk-based audit practices (audit risk management, audit quality, internal control, and risk governance) have a positive and significant relationship with the financial performance of registered fruit-processing firms in Thika Municipality.

4.5.2 Multiple Regression Analysis

The study conducted a multiple regression analysis to test the relationship between the variables and test for the hypothesis. The findings are illustrated in Tables 6, 7, and 8.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error
1	.863 ^a	.744	.733	.965

a. Predictors: (Constant), Audit Risk Management, Audit Quality, Internal Control, Risk Governance

From the findings, the R square was 0.744. This implied that 74.4% of the variations in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya is explained by audit risk management, audit quality, internal control, and risk governance. This was an indication that 25.6% of the variations in the financial performance of registered fruit-processing firms in Thika Municipality were attributed to other factors that are not studied in this study.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	249.626	4	62.407	66.968	.000 ^b
	Residual	85.734	92	.932		
	Total	335.360	96			

a. Dependent Variable: Financial Performance (ROE)

b. Predictors: (Constant), Audit Risk Management, Audit Quality, Internal Control, Risk Governance

From the ANOVA Table, the p-value was 0.000 and F-calculated was 66.968. Since the p-value was less than 0.05 and the F-calculated was greater than F-critical (2.471), then the regression model was significant. This implied that the financial performance of registered fruit-processing firms in Thika Municipality, Kenya was significantly predicted by audit risk management, audit quality, internal control and risk governance.

Table 8: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	8.898	1.094			8.134	.000
Audit Risk Management	2.473	.225	.749		11.004	.000
Audit Quality	2.277	.212	.741		10.756	.000
Internal Control	3.295	.332	.713		9.920	.000
Risk Governance	3.512	.214	.859		16.383	.000

a. Dependent Variable: Financial Performance (ROE)

The established model for the study became:

Financial Performance of Registered Fruit Processing Firm = 8.898 + 2.473(Audit Risk Management) + 2.277(Audit Quality) + 3.295(Internal Control) + 3.512(Risk Governance).

From table 8, the regression coefficient showed that holding other variables constant a unit change in audit risk management leads to 2.473 changes in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The p-value for the variable was 0.000 and since it was less than 0.05, the study rejected the null hypothesis that “H₀₁: audit risk management has no significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya.” Hence, the study concluded that audit risk management has a significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The findings concur with Iswajuni, et al. (2018) who established that enterprise risk management significantly and positively affects the firm value in manufacturing companies listed on the Indonesia stock exchange.

Moreover, the regression coefficient showed that holding other variables constant a unit change in audit quality leads to a 2.277 changes in the financial performance of registered fruit-processing

firms in Thika Municipality, Kenya. The p-value for the variable was 0.000 and since it was less than 0.05, the study rejected the null hypothesis two that, “audit quality has no significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya.” Thus, the study concluded that audit quality has a significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The findings are in agreement with Kebede and Chufamo (2020) who established that audit quality significantly and positively affects the organizational performance of the selected bureaus in Ethiopia.

Further, the regression coefficient established that holding other variables constant a unit change in internal control leads to a 3.295 change in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The p-value for the variable was 0.000 and since it was less than 0.05, the study rejected the null hypothesis three that, “internal control has no significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya.” Thus, the study concluded that internal control has a significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The findings correlate with Moenga and Mereipei (2021) who established that there exists a positive correlation between the separation of duties and financial performance.

Also, the regression coefficient showed that holding other variables constant a unit change in risk governance leads to 3.512 change in the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The p-value for the variable was 0.000 and since it was less than 0.05, the study rejected the null hypothesis four that, “risk governance has no significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya.” Hence, the study concluded that risk governance has a significant influence on the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The findings agree with Laimaru (2018) that risk-based auditing through risk governance positively and significantly affected the financial performance of state corporations in Kenya.

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The study concluded that audit risk management positively and significantly influences the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. This could be attributed to the fact that identified risks are documented and included in a risk register which is a constitutive part of audit risk management practice with the objective to identify risk exposures inherent to the organization’s processes. It is also clear that every employee forms an integral part of assessing and evaluating risks to determine risk mitigation measures and of risk assessment.

Furthermore, audit quality positively and significantly influences the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. This was attributed to the fact that audit quality gives attention to the quality strategy, process, and quality structure to identify the

high level of risk exposure. Consequently, the study concluded that internal control positively and significantly influences the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. The results were attributed to the fact that the current business environment demonstrated a total commitment to information system integrity, monitoring, and control environment.

The study finally concluded that risk governance positively and significantly influences the financial performance of registered fruit-processing firms in Thika Municipality, Kenya. Risk reporting and disclosure were independent, timely, and accurate. The risk culture reflected the organization's values, ethics, and attitudes toward risk management and it was incorporated into policy. Moreover, the internal audit utilizes a risk-based audit approach to generate risk information. The board periodically evaluates the efficiency and effectiveness of the risk oversight process and ascertains whether any enhancement is made.

5.2 Recommendations

The results of the study indicated that in order to ensure effective RBA practices, the management of the fruit processing firms needs to consider the following:

First, improving audit risk management. Unsurprisingly, audit risk management has always been identified by many scholars as a factor that has an important influence on financial performance. Therefore, the recommendation is made for the internal auditors, risk assurance officer, accountants, quality assurance, information technology department, and the audit committee. Especially in the current integrated economy and Fourth Industrial Revolution (4IR) to strive to improve audit risk management. Audit risk management Key Performance Indicators (KPIs) system must be implemented at the phase of RBA management and evaluation.

Second, the study recommended that the management of fruit-processing firms should ensure audit quality by creating quality strategies, quality processes, and quality structures that give attention to RBA in order to identify the high level of risk exposure. Audit firms should strive to adopt and apply the applicable auditing standards in order to enjoy auditor independence which in the long run leads to audit quality. The regression results support the findings that quality tolerance should be formulated at the strategic level.

Third, it was recommended that in the context of internal control the firms should invest in modern information systems that will guarantee information system integrity. Ensuring effective monitoring and control environment requires proactive enterprise risk managers, which fruit processing firms in Thika Municipality need to consider and make long-term investments in it.

Finally, enhancing risk governance. Recognizing the importance of risk culture, board risk oversight, and independent disclosure of risk programs, the fruit-processing firms need to build a reasonable short-term and long-term corporate governance strategy. This will build corporate risk culture, create a reputation in the market and enhance a transparent business environment.

5.3 Suggestions for Further research

The study was limited to the influence of risk-based audit practices on the financial performance of registered fruit processing firms in Thika Municipality. The study, therefore, suggested that: Firstly, future studies to be done on the influence of risk-based audit practices on the financial performance of registered fruit-processing firms in Kenya. Secondly, that future studies should seek to establish and examine other factors and moderating effects which influence risk-based audit practices on the financial performance in different sectors in Kenya and globally. Finally, the study also suggested that further studies should be undertaken to establish challenges affecting the implementation of risk-based audits in public-private partnerships.

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***Statements**

Audit risk Management (ARM)

S11. Risk identification is a constitutive part of audit risk management practice with the objective to identify risk exposures inherent to the organization's processes.

S12. The identified risks are documented and included in a risk register.

S13. Risks are assessed and evaluated to determine risk mitigation measures.

S14. All employees form an integral part of risk assessment.

S15. The risk control measures are admissible and associated with the primary business objective.

Audit Quality (AQ)

S21. The audit quality strategy of the business gives attention to the risk-based audit process at a strategic level to identify the high level of risk exposure.

S22. The audit quality tolerance and risk appetite are formulated and approved during the strategic business process

S23. The degree of involvement of audit engagement during audit planning, processes, and performance influence the quality of the audit process.

S24. The audit quality structure and policy are effective with clearly defined roles and responsibilities among the business stakeholders.

S25. The risk committee and sub-committee are mandated by the board.

Internal Control (AQ)

S31. The current business environment demonstrates total commitment to information system integrity and required ethical values.

S32. Segregation of duties and responsibilities is clearly defined and documented.

S33. The risk monitoring process ensures that the risk treatment and control are effective.

S34. Risk monitoring guarantees the timely implementation of risk responses and opportunities.

S35. The organization through internal audit develops, selects, and evaluates whether the constituents of the control environment are functioning and present.

Risk Governance (RG)

S41. The risk culture reflects the organization's values, ethics, and attitudes toward risk management and it is incorporated into policy and approved by the board.

S42. The internal audit utilizes a risk-based audit approach to generate risk information.

S43. The board periodically evaluates the efficiency and effectiveness of the risk oversight process and ascertains whether any enhancement is made.

S44. Risk reporting and disclosure are independent, timely, and accurate.

S45. There are internal and external standardized risk disclosure programs that facilitate risk management and comparison across products, market segments, and firms.
