

International Journal of **Finance**

(IJF)

**THE INFLUENCE OF INTENAL AUDIT ON FINANCIAL
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KENYA**

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THE INFLUENCE OF INTENAL AUDIT ON FINANCIAL MANAGEMENT IN MARSABIT COUNTY GOVERNMENT-KENYA

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ABSTRACT

Purpose: The purpose of this study was to determine the effect of internal audit on the financial management in the County Government of Marsabit.

Methodology: The study adopted descriptive survey was adopted for this study. The targeted study population was 63 staff members who are Job group K and above from the department of Finance in the directorate of Accounts, Revenue, Procurement and Internal Audit. The study employed simple structured questionnaires to gather primary data which was analyzed using SPSS.

Results: The study revealed that internal audit function had a significant influence on financial management at the county government of Marsabit ($r=0.691$, $p=0.00$)

Unique contribution to theory, policy and practice: Good financial management is very essential in protecting the public funds. This study encourages good practices of accountability, transparency and wealth creation with public funds. The study is beneficial to not only Marsabit County but other counties in Kenya. The study concludes that the Marsabit County has a functional internal audit committee and internal auditors perform their duties with great autonomy and independence. The study further concludes that internal audit has strong positive effect on the financial management in Marsabit County. The study recommends internal audit to be well staffed and resourced so that it is able to carry out regular audits of the county government. This will improve financial management of the County Government since it has been established that internal audit has strong positive effect on the financial management. Additional research can be conducted in the National government on factors influencing financial management and drawing comparisons.

Key words: *Financial management, Internal audit, County Government of Marsabit, Public Finance*

1.0 INTRODUCTION

The issue of management of public resource has elicited a lot of concerns among many stakeholders globally. As a result, significant efforts have been made towards developing and executing strategies aimed at improving public resource management (Nerantzidis et al., 2020). These importance of PFM constitute basic tenets of public sector financial management. In Africa,

weaknesses in Public financial management have long been viewed as poor governance, poor accountability and non-efficiency in government actions (Welham et al., 2017). To solve this, many countries in Africa have been reforming their public financial management policies and practice since the 1990s, supported by many regional and international partners (Kingi & Ibrahim, 2019). However, there has been slow implementation of the reforms which has often been delayed by inadequacy of the capacity in financial management and other institutional factors mostly at sub-national level (ICPAK, 2017).

In Kenya, Public Financial Management reforms emanated from challenges earlier experienced that caused misappropriation of public resources, inequalities within redistribution of resources and a lack of checks and balances within the governance system (SID, 2012). The purpose of reforms in Public Financial Management in Kenya was to enhance effectiveness and its efficiency. Among the reforms within Kenya's public finance is the IFMIS system that is being used in the National the County governments (ICPAK, 2017). Robust legal framework was also developed as a result to support PFM reforms through the enactment of legislations including the, the Public Finance Management Act 2012, and its regulations in 2015 for national and county governments and Public Procurement and Disposal Act 2015 (ICPAK, 2017). The office of the Controller of Budget and office of Auditor General Office have also been created in the constitution giving them the power to provide effective oversight (Rahmatika, 2014). Consequently, all the entities of the government were required to have an audit committee to oversight the use of public finances in that entity. This requirement has made the devolved Governments establish the audit committees so as to comply with the law.

Simson et al (2011) defined Public financial management as various government activities such as mobilization of revenue, allocation, spending and accounting. Public financial management purposes to create wealth and enable the government to generate adequate returns on its investment. To do that effective systems of internal control need to be adopted alongside the law of public resource stewardship (Boone, & Kurtz, 2013). According to Ahmad (2013) there are four sub-sectors of public financial management namely budgeting, collection of revenue, financial reporting, regulatory environment, and auditing. Financial management plays a crucial role in resource management in every entity of the public institutions and private agencies. It roles focus around comprehensive planning, maintenance of prudent financial balance, providing mechanism of raising capital of sustaining the entity and keeping in check any risk of cash flow challenges (Gomes, Alfinito, & Albuquerque, 2015). Therefore, efficient public financial management is crucial in hastening economic growth and improving wellbeing of the citizens based on the principles of New Public Management (Maina, 2016).

1.2 Statement of the problem

The office of Controller of the budget, Auditor general and Salaries and remuneration commission were entrenched in the Kenyan constitution as measures of improving Public financial management. Despite these reforms analysis of the audit report by the auditor general since establishment of the counties in 2013 paints a grim picture of financial management in the Counties.

In 2019/2020 financial year only two of the forty seven counties got unqualified audit opinion while the rest including Marsabit County got modified audit opinions (Gaitho, 2018). A modified opinion means that the auditor is not satisfied that financial statement of the entity gives a true and fair view of financial management of the entity. Auditor general's reports since establishment of the counties have highlighted lots of problem the counties are facing in managing finances such as

weak internal controls, poor financial reporting practices, weak financial administration, poor procurement practices and rush spending of budget at lapse of the financial year (Charles, 2017). All this point to poor public financial management.

1.3 Purpose of the study

To determine the effect of internal audit on the financial management in the County Government of Marsabit.

1.4 Hypothesis of the study

H₀: There is no significant relationship between internal audit and financial management in the county government of Marsabit.

2.0 LITERATURE REVIEW

2.1 Theoretical review

Lending Credibility Theory

Limberg (1932) is credited with the development of the lending credibility theory. According to this theory, audit is important within organizations because it enhances the trustworthiness of financial statements and the procedure of financial management thereby enhancing the efficiency of a firm. When the organization is audited, the confidence of its monetary transactions, declarations and figures to the stakeholders are raised. Audited financial statements assure users of the financial statements that all assertions therein are true and dependable for decision-making purposes (Nerantzidis et al., 2020). Consequently, users' decisions in respect to organizations are determined by the audited financial reports. Auditing of financial reports also compel the management of organization to manage financial resources in a manner that promotes the interests rather than pursuing individual selfish interests (Nwaobia et al., 2016). Management uses audited financial statements to enhance stakeholders' faith in the stewardship of the management. For stakeholders to make decisions based on the information presented in the financial reports, they must be assured that the data supplied meets threshold of faithful representation. It is only such assurance that would encourage stakeholders to relay on the financial reports for decision-making. Process of audit lessens information asymmetry whereby management knows more than the stakeholders (Mwangi, 2018).

However, Okpala, (2015) criticizes Lending Credibility theory because it asserts that information the auditor gives on the financial statements forms primary basis for stakeholder decisions on the organization. Contrary, the efficient markets theory opines that the investment decisions of investors are not determined by only audited financial reports but other factors as well. Nevertheless, this theory is applied in this research to examine the influence of internal audit on the financial management of the county government.

2.2 Empirical review

Internal Audit brings a disciplined and systematic technique to evaluation and improvement of the effectiveness of internal control, risk management, and governance processes (Alemu et al, 2018). Nwaobia et al (2016) conducted a study to examine internal audit and how it is related with the management of public financial resources in Rwanda and Nigeria. The study design adopted was desktop research. Based on the findings of the study, internal audit is useful in promoting transparency in public sector management. The timely submission of the auditor's report is also useful in promoting accountability and transparency in financial resource management. In addition

Alhassan (2018) undertook a research to find out how internal audit relates with management of public financial resources within the Cape Coast Metropolitan Assembly at Central Region of Ghana. Correlation analysis formed the basis of data analysis in the study. The study findings indicated that professional competence, internal audit standards, internal control and internal audit independence have a positive influence on the effectiveness of managing public finances.

A study by Zinyel et al (2018) on internal audit practices and how they affect financial management. The results indicated that investment in internal audit promotes effective management of public financial resources and that challenges within the internal audit department undermines effectiveness in the management of public financial resources. Additionally Alemu et al (2018) did a study to assess the role of internal audit in promoting the effective use of public resources within public entities in Ethiopia. The findings of the research showed that internal audit is useful in promoting the effective use of public resources. Nevertheless, the study identified challenges within the internal audit environment that undermined its effectiveness namely inadequate expertise, inadequate professional development opportunities, poor managerial support, and inadequate ICT infrastructure. Likewise, other challenges within the internal audit environment include poor perception of the audit function and restricted access to the audit evidence. Further, Wambui (2019) did a study of role internal audit plays in the financial performance of on 104 people working at 11 listed commercial banks in Kenya. The Study concluded that the competency of the internal audit coupled with technical skills enhance an organization's performance. Similarly it concluded that Internal audit will be valuable in performance its roles if its staffs are qualified so as to ensure control weaknesses are reported in time, and remedial measure are taken to avert wastage and losses in the entity.

3.0 MATERIALS AND METHODS

The study adopted a descriptive survey. The targeted study population was 63 staff members who are Job group K and above from the department of Finance in the directorate of Accounts, Revenue, Procurement and Internal Audit (table 1 below). Given the small number of staff in the finance department of County government of Marsabit census was used (Kothari, 2013). The study employed simple structured questionnaires to gather primary data which was analyzed using SPSS.

Table 1: Sampling and sample size

Directorate	Number Of Staff
Procurement	20
Accounts	20
Revenue	15
Internal Audit	8
Total	63

Source: Author, 2021.

3.1 Data analysis

The collected data was entered, coded, cleaned, and analyzed through statistical software (IBM SPSS Statistics 23). The output was presented by the use of inferential and descriptive statistics (Sullivan, 2015).

3.2 Ethical consideration

The research permit was sought from director postgraduate studies of the Kenya Methodist University. The research was approved by National Commission for Science Technology and Innovation (NACOSTI). Informed consent and voluntary participation was observed while participants were assured of privacy, and Security.

4.0 RESULTS AND DISCUSSION

4.1 Response rate

The research targeted 63 senior staff members from the department of finance in the Marsabit County government as participants for the study. However, after the data collection process, the research gathered 55 dully filled in questionnaires. This shows that the response rate for this research was 83.7%. According to Kothari (2013) a response rate exceeding 70% is suitable for data analysis. Table 2 below is a summary of the response rate:

Table 2: Overall response rate

Managers	Questionnaire distributed	Questionnaires returned	Percentage
Procurement officers	12	10	83.3
Budget officers	6	5	83.3
Accountants	34	30	88.2
Revenue officers	10	9	90
Chief officer finance	1	1	100
Total	63	55	83.7

Source: (Author: 2021)

4.2 Background information of respondents

The background of respondents was assessed to ascertain that they could provide accurate data concerning financial management in Marsabit county government. The required information was their experience in the county government.

Table 3: How long respondent have been employed in the County

Years	Frequency	Percent
1 to 5 years	18	32.7
6 to 11 years	25	45.5
12 years and over	12	21.8
Total	55	100.0

Source: (Author, 2021)

According results from table 3, 32.7% of participants had worked in the organization for a period ranging from 1 to 5years, 45.5% of participants had worked in the organization for a period ranging from 6 to 12 years while 21.8% of participants had worked in the organization for a period exceeding 12 years. This means that participants in the research have had sufficient experience with the county government of Marsabit and as such, they were able to provide reliable information concerning financial management in the County Government.

4.3 Internal audit function in Marsabit County Government

The research was also conducted to assess the use internal audit in Marsabit county government with results summarized in table 4.

Table 4: Internal audit function in Marsabit county government

Statements	Minimum	Maximum	Mean	Std. Deviation
The county government of Marsabit has a functional audit committee	1	5	3.82	1.348
Internal Auditors perform their duties with a greater degree of autonomy and independence from Management	1	5	3.13	1.218
The internal Audit department of Marsabit county government conducts regular audit activities	1	5	2.82	1.454
Internal audit department is adequately staffed and well-resourced to carry out their functions	1	5	2.73	1.471
Composite Mean & Standard deviation	Minimum		3.125	1.373

Source: (Author, 2021)

Respondents indicated that Marsabit county government has a functional audit committee with a mean score of 3.82. Likewise, findings showed that internal auditors perform their duties with a greater degree of autonomy evidenced by a mean score of 3.13. However, the view that the internal audit conducts regular audits has a low mean of 2.82 meaning that internal does not undertake regular audits. Likewise, the view that the internal audit department is well staffed and resourced has a mean score of 2.73, which is below 3.0 also showing that the department is not well resourced and staffed.

4.4 Effect of internal audit on financial management in Marsabit county government

The hypothesis (H01) predicted that there is no significant relationship between internal audit and financial management in the county government of Marsabit. Based on the Regression table 4.16, the significant level, $P=0.000$ which illustrates a very strong evidence against the null hypothesis. This shows that the internal audit function has a significant positive relationship ($r=0.691$, table 4.13) with financial management in Marsabit county government. This research therefore rejects the null hypothesis concluding that the internal audit function positively influences financial management in the county government of Marsabit. The R^2 between the internal audit function and financial management is 0.591 (table 5) meaning that the internal audit function explains 59.1% of variations in financial management in Marsabit county government.

The above results echo the views of Alemu et al. (2018) whose study on the role of internal audit on financial management showed that internal audit promotes financial management in county governments by bringing forth disciplined and systematic technique to evaluation and improvement of the effectiveness of internal control, risk management, and governance processes. Likewise, a study by Zinyel et al. (2018) showed that internal audit improves financial management in the management of public resources by evaluating the credibility of records, identifying anomalies in records and ensuring that inventory records are aligned with physical

inventory in the organization. While echoing the above views, Nwaobia et al (2016) also asserted that internal audit promotes transparency in public sector management. The above results also agrees with Alhassan (2018) who established that internal audit has significance influence on the financial management.

4.5 Regression Model

A regression model was run to check the relationship between audit and financial management of Marsabit County. To determine the success of the model and predict causal relationship between dependent and independent variables, were subjected to linear regression analysis as shown by table 5 below.

Table 5: regression model on internal audit

Model summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.831 ^a	.691	.591	.903	2.054

Source: (Author, 2021).

According to Table 5 results of the study indicates that the coefficient of determination was $R^2=0.629$, implying that Internal Audit explains almost 69.1 % of variation in financial management of Marsabit County Government.

4.6 Analysis of Variance (ANOVA)

To determine the significance of the regression model Analysis of Variance (ANOVA) was used. The result was considered statistically significant was considered if the p-value was less or equal to 0.05.

Table 6 :ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	67.604	5	13.521	16.595	.000 ^b
Residual	39.923	49	.815		
Total	107.527	54			

a. Dependent Variable: Financial management in the county government of Marsabit

b. Predictor: (Constant), Internal Audit

According to Table 6 The P-value of the regression model is 0.00. Since the P-value is less than 0.05 it shows regression model is statistically significant in predicting financial management of Marsabit County Government. Analysis shows the high reliability of results obtained based at confidence level of 95%. The overall results from ANOVA shows that the model was significant at ($F = 16.595$, $p = 0.000$)

5.0 CONCLUSION

The study observed that financial management must be characterized by county government undertaking credible and policy-based budgeting. County government of Marsabit undertakes accurate recording and reporting of its financial records which is indicative of predictability and control in budget execution in Marsabit County. However, most respondents' view that county government does not exhibits transparency and accountability in financial management. Most of the respondents also were of the view that Marsabit county government does not collect its revenue

to its optimum capacity. The study concludes that there is need for every county governments have a functional internal audit committees and internal auditors performing their duties with great autonomy and independence. The study further concludes that internal audit had strong positive effect on the financial management in Marsabit County.

5.1 Contribution to theory and practice

The County governments of Kenya should invest more in ICT and continue adopting ICT in financial management through automation of their financial management practices such budgeting, revenue collection, cash management, procurement and reporting as it has been established that use of ICT has a positive effect on the financial management. Also implementation of harsh punitive measures against members of staffs of the county government of who disobey rules and regulations concerning financial management are recommended. This will reduce cases of misappropriation of funds thereby promoting transparency and accountability in financial management. This study contributes to the theory and policy in that it encourages internal audit to be well staffed and resourced so that it is able to carry out regular audits of the respective governments. This will improve financial management of the county governments since it has been established that internal audit has strong positive effect on the financial management. County government should do continuous staff training to improve their skills and to update themselves with current industry developments. As well as pursue timely disbursement of funds from the national government through Council of governors. Legal measures through national assembly can be lobbied such as making cabinet secretary of finance to take individual responsibility in cases where the national treasury fails to disburse the funds to County governments as per disbursement schedules passed by the senate without a valid reason.

5.2 Acknowledgment

I express my deepest appreciation to my supervisors Dr. Nancy Rintari, PhD and Mr. Fredrick M. Mutea for their unwavering guidance, patience, motivation and advice accorded to me when doing this research proposal. Special thanks for your efforts, counsels and supervisions. Appreciation also goes to Kenneth Mburugu Kamari for assistance in peer review. Special gratitude also goes to my wife Grace Omar, workmates and friends for their encouragement and support accorded to me when undertaking this research thesis. Special thanks to staffs of County government department of finance for the cooperation and assistance during undertaking this research thesis.

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