

**RISK-BASED INTERNAL AUDIT AND QUALITY OF AUDIT REPORT IN  
STATE CORPORATIONS IN THE MINISTRY OF WATER, SANITATION  
AND IRRIGATION IN KENYA**

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## DECLARATION

I declare that this research project is my original work, and has not been previously published or submitted elsewhere for the award of a degree. This work does not encompass written or published by other persons except where required reference is made and the scholar is suitably acknowledged.

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## **DEDICATION**

This project is dedicated to my family Jacinta Mutua, Henry Sankara and Deborah Marie whose love, generosity, friendship and wise counsel have continued to inspire me each day. I love you all and to God be the glory.

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## DEFINITION OF TERMS

<b>AUDIT</b>	A thorough study of a company's financial statements that can be conducted either internally (by company employees) or externally (by an outside organization).
<b>Internal Control</b>	Internal control is a procedure implemented by a company's board of directors, leadership, and other staff members and is intended to give reasonable assurance that goals related to activities, accounting, and adherence will be met.
<b>Information System</b>	Its aspects of information generation or gathering make use of pertinent and high-quality data from both primary and secondary data sources to assist the operation of other internal control components.
<b>Inherent Risk:</b>	It describes a risk before any mitigation measures are performed by the accountable parties.
<b>Risk-based Internal Audit</b>	It is a methodology that primarily concentrates on the associated danger related to events or systems and provides assurance that threats are controlled by organizational structure within the appropriate level in accordance with the permissible investor sentiment.
<b>Internal Control System</b>	It is an internal control system that offers a reasonable level of assurance regarding the accomplishment of an entity's goals. An efficient management structure may be related to a particular area of the organizational

structure because internal control is pertinent to both the organization and its subdivisions. The risk of failing to meet an aim is decreased, to an appropriate standard, by an efficient internal control system.

**Ministry**

The part of the government responsible for putting programs and strategies into effect

## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>AFDB:</b>	Africa Development Bank
<b>CIA:</b>	Chief Audit Executive
<b>COSO:</b>	Committee of Sponsoring Organization
<b>IA:</b>	Internal Audit
<b>IAD:</b>	Internal Audit Department
<b>IIA:</b>	Institute of Internal Auditors
<b>IRM:</b>	Institute of Risk Management
<b>NACOSTI:</b>	National Council for Science Technology and Innovation
<b>OAG:</b>	Office of Auditor General
<b>RBA:</b>	Reserve Bank of India
<b>RBIA:</b>	Risk-Based Internal Audit
<b>RM:</b>	Risk Management
<b>SPSS:</b>	Statistical Package for Social Science
<b>UTCNRP:</b>	Purchase Requisition Notes (PRN's)/ Authorised Memo

## ABSTRACT

Quality, according to internal auditors, is crucial to every organization's success. The top management is advised by a good audit report on the best way to proceed to be done in the audited area. The organization's risk matrix and how it was implemented in accordance with risk-based internal auditing are what define the quality of the auditors' report. The quality of their audited accounts has been an issue for the water, sanitation, and irrigation sector. This is due to a shortage of experienced internal auditors, a lack of training on new auditing issues, and a lack of knowledge in risk assessment, particularly in the technical and human resources departments. Although corporate entities use RBIA as an internal control system instrument that impacts organizations, the evidence available indicates that there are still issues with RBIA and the calibre of audit reports. In this research, the Kenyan ministry of water, sanitation, and irrigation investigates the connection between RBIA and the calibre of audit reports in-state businesses. The study sought to examine the impact of auditor independence on the calibre of the auditor's report, the impact of auditor capacity on the calibre of the audit report, and the impact of risk assessment on the calibre of the audit report in state corporations in the ministry of water, sanitation, and irrigation in Kenya. The study was based on three theories: fraud theory, risk-based internal audit theory, and audit quality theory. The study used a description-based causal research approach. The 48 internal auditors made up the study's target population. 43 respondents were used for the research objective after a pilot study with 5 respondents at a scale of 0.7 was completed. In the study, descriptive and inferential statistics were both used. All respondents were given questionnaires to complete. Regression analysis and Cronbach's alpha statistic were used to test the hypothesis. The study found that risk-based internal audits affected the quality of internal audit reports. The study also found that internal auditors' independence, skills and competence and risk assessment quality of audit reports were positively and significantly correlated. The study concluded that internal auditors' independence, skills and competence and risk assessment all had a very favourable impact on the quality of the audit report in state corporations in the ministry of water, sanitation, and irrigation. The study recommends that internal auditors should have independence since it allows them to make the objective decisions necessary for the appropriate conduct of engagements, internal auditors should have the necessary skills and be competent due to the fact that they assist the business's financial, operational, compliance, control, and governance activities, state corporations should carry out risk assessment since it is essential to audit planning and analyze the risks of significant misstatement at the financial statement and related assertion levels, whether due to mistake or fraud. The study is important for auditors and academics interested in general knowledge since it could serve as a foundation for future research. The study suggests that additional research is required to determine the other factors that affect the quality of audit reports.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Internal auditing (IA) first became popular in the middle of the 1940s and has continued to develop along with management science since the end of World War II. The Institute of Internal Auditors (IIA) was founded and developed in the USA in 1941 as a result of later advancement (Terry, 2019). Internal auditing with a focus on hazards was introduced in the middle of the 1960s to help organizations achieve their goals. The Treadway Commission's Committee of Sponsoring (COSO) was established in 1992, and it developed an internal control framework to guide organizations in all industries, regardless of size, in determining the efficacy of internal controls. Following that, IIA Chapters became established across the United States and worldwide (Puad, 2020). After the amendment of the Sarbanes-Oxley Act of 2002 in the U. S. and the controversies of major business management setbacks like Enron and WorldCom, the calling's introduction and esteem were subsequently raised (Siopi, 2017).

The IIA's establishment has significantly advanced the field of internal auditing. Through continuous learning and information dissemination, the IIA, which serves as the organization that establishes standards for the profession, contains important information, recognizable proof, expertise, direction, and recognition. Internal audit was developed as a key procedure for the proper management of any company's financial assets in a turbulent economy (Tamimi, 2021). Due to recent challenges and demands brought forth by the harsh financial environment and rapid improvements in innovation, industries, and internationalization, the profession has gotten a lot of

attention from businesses (Wang, 2017). At this point, the audit report is seen as a fundamental component and one of the most important tools for fostering good leadership in institutions, particularly when it comes to taking preventative measures and uncovering fraud and other abnormalities in the operational and financial parts of the industry (Weekes, 2020).

Internal audit work has shifted from being system-based to being process-based, and then to being risk-based (IIA & Ireland, 2016). Due to organizational change, diversity, and complexity recently, people's perspectives have shifted toward roles that create value, and internal auditors are now seen as strategic partners by management (Tamimi, 2021). The development of an audit function is thought to be of utmost importance and necessary for achieving official objectives and aims. It is crucial to establish a strong risk management process that is integrated into the operating system of the organisation because business associations are increasingly confronting complex and nuanced risks in a constantly changing business environment. Internal audit is required to play a consulting role in risk assessment by identifying and evaluating significant risk exposures and control design to mitigate those risks (Shiu, 2018).

internal auditors in Kenya are subject to regulation by the IIA Kenya Chapter, which has received this authorization from the organization's Florida, USA, headquarters. To promote the eradication of corruption, which has affected many industries in Kenya, the quality of audit reports provided by IA in that country faces challenges. Providing accurate and responsible audit recommendations to the board of directors is one of the issues (Gachanja, 2017). With the IIA Kenya's approval of the regulated internal auditors' jurisdiction, the institute pushes its members to deliver high-quality results. The correctness and sufficiency of the data used to support the conclusions in the

report can be used to measure the characteristics of an audit of a problematic area. Additionally, the effectiveness of an audit is determined by its capacity to convince the investigating arm that further inquiry, particularly in cases involving corruption, is necessary. (IIA, 2021) The specialized auditor is yet another element that affects the high quality of an audit report. When an IA specializes in programs like the CIA or CFE, he will indeed be able to generate reports that are supported by convincing evidence on his findings, persuading the audit committee of his conclusions (Ogega, 2018). Additionally, the technology of the audit used in the project aids in the functioning of the auditors, particularly the usage of Morden audit software to address complicated assignments, particularly in large accounting data kept online and management of infrastructure projects, which needs specialized tools.

### **1.1.1 Risk-Based Audit Concept**

The process of risk-based auditing involves identifying and communicating the risk of important financial statements deception or risk that might prevent the business from achieving its goal in both financial and non-financial ways. This makes sure that auditing is beneficial to both the audit and the auditee (Muraguli,2018). The process involves the auditor first evaluating the inherent or residual risks after observing the financial and non-financial internal control systems (via written narratives, questions, walk-through tests, and flow charts) (Wang &Chang 2021). The auditor assesses the validity of existing established internal controls in order to determine its assessment of intrinsic or residual risk. When the auditor tests the controls, the efficacy is effective. Inadequate substantive testing of controls The existing internal controls are inadequate for dependence and overly broad in the absence of internal management (Abdi & Osman 2018).

Auditing that is based on danger should pay attention to both financial and non-financial aspects. In order to create value, they should also work to strengthen the validity of financial statements and existing controls. The focus of risk-based auditing is on both documented and unregistered threats that are seen as threats to an organization's capacity to attain its objectives in the context of its workplace (Eulerich 2020). This was accomplished through an internal audit, which was carried out by their independent auditor and reported their findings to the board of directors' audit committee as well as senior management. As per the department's risk matrix, the head of the internal audit prioritizes the areas that need to be audited. High-risk areas receive the greatest focus because they are the most likely to happen and have devastating effects on a business (Koutopis, 2020).

### Risk-Based Audit Matrix

The diagram below shows the risk matrix on how the IA should prioritize its engagements.

**Table 1.1 Risk-based internal audit matrix**

	Consequence				
Likelihood	Insignificant	Minor	Moderate	Major	Critical
Rare	LOW Accept the risk Routine management	LOW Accept the risk Routine management	LOW Accept the risk Routine management	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review
Unlikely	LOW Accept the risk Routine management	LOW Accept the risk Routine management	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review
Possible	LOW Accept the risk Routine management	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review	HIGH Quarterly senior management review
Likely	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review	HIGH Quarterly senior management review	EXTREME Monthly senior management review
Almost certain	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review	EXTREME Monthly senior management review	EXTREME Monthly senior management review

Source Research 2021

## **Ministry of Water, Sanitation and Irrigation**

One of the twenty-one departments in the republic of Kenya, the ministry of water, sewerage, and agriculture is led by a cabinet secretary and supported by a principal secretary. It is separated into the following three categories: state companies, water agencies, and projects (Julius & Kalunda, 2021). The National Irrigation Authority, Water Sector Trust Fund, National Water, Harvesting and Storage Authority, Water Resources Authority, Kenya Water Institute, and Water and Services Regulatory Board are the twelve state organizations that make up the ministry. Additionally, the department is working on initiatives like the Thwake Multipurpose Water Development Program, Kenya Water Security and Climate Resilience Program, Upper Tana Catchment Natural Resources Management Project (UTCNRMP), and Non-Revenue Water Reduction Program (Amaechina, 2020).

As per OAG 2019, four state companies were audited in the inspection report for the financial years 2018 and 2019. I.e., Water Services Regulatory Board, Water Resources Authority, the financial statements audited ability to present in full compliance with International Public Sector Accounting (Accrual Basis) and cooperate with the Water Act, 2016, the Public Finance Management Act, 2012, and the State Corporations Act, Cap 446 of the laws of Kenya. The financial statement for 2017–18, however, gave a negative assessment of water supply and sanitation corporations like Kibwezi–Makindu Water and Sanitation Corporation Limited. Weak internal control systems were the main cause of this. Internal auditors failed to implement their audit engagements using a risk-based internal audit strategy, which would have allowed their reports to include recommendations for administration on how to enhance the performance of the management ( Nancy N,2021).

Lake Victoria North Water Services Board's 2017–2018 financial year audit report was published. The administration statement had identified some crucial areas that were thought to be high risks, which caused the OAG to express a negative judgment. The irregular payment was a result of inadequate internal control design and implementation. By using risk-based auditing procedures, the internal audit function may have recognized, evaluated, and analyzed these risks' seriousness (Edward, 2018). In terms of risk management, administration, and internal control, the majority of the organizations under the ministry of water, cleanliness, and irrigation have significant difficulties. However, these difficulties might be readily resolved by management with the help of IAD's advice. If the auditor used a risk-based audit method by creating a risk framework and implementing it, this advice may be carried out (Edward et al 2019).

### **1.1.2 Quality of Audit Report**

Audit quality is a result that depends on the characteristics of the auditor that direct him during the auditing process, which increases the likelihood that the auditor will discover inaccuracies and report violations of the set norms (Taqi, 2021). For their audit engagements, internal and external auditors have various goals in mind. Additionally, many objectives and short-term objectives are meant to be accomplished in a short period of time. However, the audit engagements follow the same guidelines and practices. In order to prevent work from being done twice, which could lower the calibre of audit findings, coordination between internal and external inspectors is usually necessary (Ongoma, 2020). The International Professional Practice Framework (IPPF) is a set of guidelines provided by IIA to its audit professionals for use in carrying out their duties. However, according to a study conducted in 2018 by representatives of IIA Kenya (Nairobi Chapter), IPPF

implementation in Kenya is only superficial. 85 per cent of the surveyed people cite this as the cause. According to internal auditors, they are not IIA members. A study by the IIA US Chapter on the use of IPPF by commercial banks revealed a threefold rise in the standard of audit reports in governance, accountability, and internal control systems. A quality audit report can guarantee the accuracy of financial, compliance, and return on investment audit reports and encourage management to make decisions quickly (IIA, 2019).

### **1.1.3 State Corporations**

State Corporations are independent, governmental-owned entities. According to a specified Act, they carry out specific duties and perform specific functions. Similar to a commercial business, a state corporation's structure of an organization and judgement call processes reflect the concerns and engagement of its stakeholders, as well as their advantages and shortcomings. These organizations can either help or hurt the financial performance because they are a component of the government administration and are therefore subject to both internal and external audits (Kipng'etich, D., 2017). Government corporations continue to be a complicated and complex administrative paradigm, stuck between state laws and regulations. However state-owned firms might significantly improve their financial administration if they adopted private enterprise practices. Additionally, it may help to reinforce corruption and a lack of responsibility in businesses with weak controls and powerful interests from political power players.

### **1.2 Problem Statement**

For the executive board to be able to rely on and trust feedback about the progress, governance, and controls of different departments, internal auditors are essential. They must adhere carefully to the rigid internal audit quality structure, per IIA.

According to this framework, an internal auditor must possess the necessary qualifications, expertise, and understanding to carry out an audit engagement. To conform with internal audit requirements and rules set forth by the regulator, they should implement ongoing processes and audit control processes (IIA, 2021). They occasionally provide timely, frequent, and helpful audit reports to the board's audit committee in accordance with internal auditor requirements. IA play a crucial role in ensuring that taxpayer money is not lost in financial management by spotting theft, corruption, and misappropriation through audits and reporting findings to the board's audit committee to increase accountability and transparency. Additionally, the standards stipulate that the head of the audit department must possess a variety of knowledge in various fields of expertise depending on the industries in which they operate. Because each division is represented by a qualified professional, this contributes to the quality of reporting.

Internal auditors may not perform as required by the criteria outlined in the IPPF, however, due to insufficient staffing of the organization and resource limitations in reported various firms within the ministry of water, sanitation, and drainage. Recent financial incidents surrounding water harvesting and storage have rocked the organization and Kenya Water Institute, plunging the organizations into years of profound crisis and financial mismanagement. Additionally, some internal auditors do not adhere to acknowledged professional ICPAK or IIA (Kenya Chapter) regulations, which is against Kenyan law and is necessary for a staff member to work as an audit practitioner in Kenya. lack of necessity Internal auditors do not receive the 40 CPE hours that are necessary to maintain both ICPAK and IIA (K) and audit technologies that help with auditing of extensive work in the accounting, supply chain management, technology, and human resource divisions. This will affect the calibre of

the report they draft for the audit committee as well as their effectiveness in preventing crime, bribery, and inefficient procedures.

This represents a less-than-ideal Value Mitigation Internal Audit (RBIA) prospective realization. Determining the RBIA procedures' level of compliance is crucial for this reason. Therefore, it is crucial for Organizations to determine the Audit Risks Level in order to apply effective audit procedures to enhance report quality by emphasizing risks and their mitigating factors to lower inherent risks. In 2020, Ongoma conducted research on the factors influencing the effectiveness of Kenyan commercial banks' external audits. Investigation of audit committee characteristics using risk-based auditing was done by Yusoff (2017) in the Malaysian public sector. Muraguri (2018) conducted research for the Kenyan ministry of the east African community, employment, and social welfare on the implications of risk-based audits on the economic condition of state-owned enterprises. Research on audit quality and its effect on an association's prosperity was done by Bahrullar in 2021, and an investigation on the threat assessment program and reporting quality of tier-one Kenyan commercial banks was done by Mokuu in 2018. The research, nonetheless, does not clearly establish how Risk Based Internal Auditing impacts the quality of audit reports in state enterprises, particularly with regard to non-financial factors, and no suggestions are made as a result. As a result, the purpose of this study is to examine how risk-based internal auditing affects the calibre of audit reports produced by state enterprises for the ministry of water, drainage, and water management.

### **1.3 Objectives of the study**

#### **1.3.1 General Objectives**

The study's general objective was to ascertain how risk-based internal auditing affects the calibre of audit reports produced by state corporations in the Kenyan ministry of water, sanitation, and irrigation.

#### **1.3.2 Specific Objectives of the Study**

- i. To determine the impact of internal auditors' independence on the audit report quality in the ministry of water, sanitation, and irrigation's state businesses.
- ii. To ascertain how internal auditors' skills and other resources affect the audit report's quality in the ministry of water, sanitation, and irrigation's state corporations.
- iii. To determine how risk assessment affects the audit report's quality in the state corporations under the Ministry of Water, Sanitation, and Irrigation.

### **1.4 Research Questions**

- i. **H<sub>01</sub>**: There is no correlation between the impartiality of internal auditors and the calibre of audit reports in the state corporations under the Ministry of Water, Sanitation, and Irrigation.
- ii. **H<sub>02</sub>**: There is no correlation between the competencies of internal auditors and other assets on the quality of audit reports in the state corporations under the Ministry of Water, Sanitation, and Irrigation.
- iii. **H<sub>03</sub>**: There is no correlation between risk assessment and audit report quality in the state corporations under the Ministry of Water, Sanitation, and Irrigation.

### **1.5 Significance of the Study**

A key component of confirming internal controls are operating effectively and as intended is a risk-based internal audit. Concerns about how risk-based internal audit affects the calibre of audit reports should be raised by state enterprises. The importance of this sort of audit is dependent on the risks that must be found and evaluated, and afterwards, Internal Audit provides the management with the best advice on how to handle the risk. In order to comprehend the relevance of developing risk frameworks and key risk strategies that help in response to various forms of risk, it may be helpful for finance and audit administration of nationalized industries and other sectors to refer to this study. The report may potentially be useful as a future source of information for academics interested in the audit and risk management fields.

### **1.6 Scope of the Studies**

The quality of audit reports in public organizations and risk-based internal auditing are the main topics of the research. In this study, the risk-based internal audit function is based on the internal independence of auditors, expertise, and human and other resource capabilities. On the other side, the focus of an audit report's quality is on goal achievement, monitoring, market performance, innovation, and expense control. The functioning of public organizations will be the subject of a study from 2015 to 2020. The study focuses on businesses that sell goods and services to Kenyans and generate income from the goods and services they offer to customers and clients. Twenty businesses are regarded as a representative sample of 50 businesses.

### **1.7 Limitations of the study**

Participants' willingness to provide information on particular audit and internal management areas provided a major limitation to the study's ability to collect data;

this made it difficult to complete questionnaires on time. To guarantee that data collection occurred without further delays, the researcher conducted a follow-up. There was a possibility that those who responded won't be cooperative since the data sought for the study was sensitive. The researcher disclosed to them that the data will be maintained as extremely confidential and used only for academic purposes. Furthermore, it was clear from the scope that the definitions of risk-based internal auditing and financial performance are both broad and included a number of sub-variables. This was a constraint to the study, thus the participants' perceptions of RBIA and financial success differed. However, to lessen respondents' bias, the research leverages widely accepted current metrics that have been determined to be appropriate for gauging RBIA and economic success.

### **1.8 Organization of the study**

Five topics make up the research. The background of the study is explained in Chapter 1 along with the study's goals, research questions, scope, significance, and organizational structure. The focus of Chapter 2's underpinned theoretical and empirical studies for internal audit, particularly for risk-based internal audit methods and financial results, focuses on internal audit. The researcher looked at prior research from different academics and how their findings connect to the subject at hand. The third chapter covered the formulation of the study premise, the research design, and the study methodology that were used to evaluate risk-based internal auditing and economic condition in state-owned enterprises. It included the study's research design, the target demographic and sample size that will be employed, as well as the method for gathering data and analyzing it. Chapter four captures the research findings and discussions. Chapter five presents the summary of the results, conclusions and recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

A literature review measures assess and present previous research on the topic being studied by other academics (McGrath, 2014). It is a thorough analysis of previous academic research and identifies a hole that has to be addressed by the present study.

#### 2.2 Theoretical Review

According to the contributors' studies, the theoretical literature is a presupposition based on a specific field with specific facts that is assumed to be a simplified representation of consequences and behaviours under specific conditions (Liu, Manolova, & Edelman, 2017).

##### 2.2.1 Audit Quality Theory

In 2004, Walkins Hillison and Morecroft established audit quality theory. They argued that keeping an eye on an internal audit department's capabilities and reputation improves the quality of actual and perceived audits. Prior to presentation to the board's audit committee, keeping an eye on the internal auditors' performance helps to influence and preserve the quality of the audit report. On the other side, gauging the robustness is a way to assess the quality of the audit in terms of the resources available, the auditor's level of expertise, and the degree to which he worked independently (Patrick, 2018). The chief audit executive has a responsibility to supervise his auditors in order to provide audit reports of the highest calibre. When the governing body decides on the best way to proceed for areas of concern, or whether they require immediate measures of action, the quality of the internal auditor's assessment has the upper hand.

If the audit report's quality is poor, the executive committee won't be able to make an informed choice, which could have a significant negative influence on the organization's purpose. The credibility of the internal auditing has an impact on the validity and dependability of the audit data in the report. While monitoring effectiveness fluctuates over the course of internal audit assignments, the reputation of the auditor is thought to be consistent over time. In order for the information in the audit report to be trusted and credible by both management and the board of directors, the head of the internal audit department makes sure that the reputation of the auditors working under him is kept in good standing.

This hypothesis supports the response variable because it explains the internal auditor's importance in terms of his capacity to carry out an effective audit assignment in accordance with the criteria upheld by the IIA. The competence includes the knowledge, skills, and resources needed to support the audit process and provide an audit report of high quality at the conclusion.

### **2.2.2 Risk-Based Internal Audit Theory**

In 1900, Lous Bachelier developed the concept of risk-based internal auditing. According to the risk-based internal audit approach, specialized experience improves an internal auditor's permission to connect a customer's vulnerabilities more precisely over time. Previous psychological research indicates that an overweight person experiences when faced with hazards that contrast with his or her expertise (Andreas, 2018). This layout takes into account the impact of prior, favourable client experiences, pressure from effectiveness in enterprises associated with increased dangers that are expensive, and the capacity to create an efficient risk assessment. According to the RBIA concept, auditor efficiency during the participation in risk evaluation is based on a particular understanding (Lois, P. et al 2020). However,

relying on an auditor's clients' past experiences is risky and generally a backwards strategy. All internal control systems and risk management are subject to risk-based internal audits (RBIA).

The theory supports the independent variable of risk evaluation, which calls for state corporate entities' guidelines and practices to be assessed through risk-based internal audit in order to provide management with information on whether they are operating as necessary and therefore need to be improved in an attempt to optimise internal controls and help the company succeed.

### **2.2.3 Fraud Theory/Differential Association Reinforcement Theory**

The theory is connected to Burgess and Akers' work (1966). It asserts that a person's behaviour is determined by the individuals with whom they interact and varies accordingly. Recognizing cultural expectations and how members of its conduct are formed by how individuals interact with one another. According to the hypothesis, interactions between people provide a framework for understanding what is required of them in the community they are a part of (Chelengat, 2018). Because they are unaccepted in the social milieu, qualities that are regarded as inappropriate by the community are shunned. Internal auditors' interactions have an impact on fostering a positive culture within the audit community, according to the theory of internal auditing, which is applied to the profession of auditing. Internal auditors get experience by interacting with each other, organizing the audit task, carrying it out, and interacting with the audited entity (Eassey, 2017). It is strongly advised against using unethical tactics like potential conflicts and accepting bribes to exaggerate the results. Additionally, the culture of strong audit reports is built on the internal auditor's fostered and ingrained good behaviour, which is trusted and respected by the main agency and executive board. 2018 (Chelengat)

With both variables, the argument makes sense. When internal auditors communicate well, it enables the audit to be carried out using a risk-based approach, which is the modern norm and is advised by the IIA. As a result, the audit composition of the board receives high-quality reports that help them take prompt action.

## **2.3 Empirical Theories**

### **2.3.1 Auditor's Independence**

When carrying out its duties, the internal audit council's autonomy is crucial to ensuring that the activity it does adds value to the business and helps it achieve its goals. Internal auditors are guided by the operational requirements for internal auditing, which are well-documented in the IPPF Red Book (IIA et al. Zayo (2017) conducted his study on the implications of external auditors on accounting quality in Nigeria). His task was to determine the relationships between the importance of the customer and the audit's value, the client's association with CPA companies and the audit's reliability, the duration of the audit firm and the audit's reliability, and the connection between non-audit services and the audit's quality.

He applied ex-post research methods. Secondary data sources from publications, magazines, and online resources were used. There were 150 auditors from different organisations in the survey. He discovered a significant link between the independence of the auditors and the accuracy of the audit. The study focus was on a different context which cannot be generalized in Kenya

Geke (2017) studied the effects of risk-based auditing procedures on the financial performance of a few Kenyan public sugar firms that were controlled by the government. The purpose of the study was to ascertain how strategic planning analyzed the economic productivity of sugar enterprises in Kenya as well as the impacts of risk-based audit annual plans on economic conditions. The study used a

non-probability study design and a correlated research approach that included a description, correlation, and regression in order to concentrate on relationships. In order to gather data from the target population and describe the descriptive processes of perception, behaviour, and values, surveys were used. Out of 50 employees, the target population consisted of 38 internal auditors, four finance officers, and deputy finance officers, of which five were employed in a pilot study, leaving 45. The researcher was able to cut costs by using the judgmental sampling strategy while selecting population members to take part in the study. Data and analyses were analyzed using SPSS and ANOVA. The study used a non-probability study design while the current study used a description-based causal research approach

The major goals of Shiu's (2018) research were to determine how risk-based internal audit was currently being used by Taiwanese banks and to look at potential barriers to RBIA adoption. The research examined how variables related to RBIA varied with bank risks, administration, auditing standards, and independent auditors' abilities and competencies in order to get insight into the demand for RBIA in banks. According to an empirical study backed by the version used in the research, banks who used the RBIA extensively gave a great deal of information about risks in areas including financial, technological, management, accordance with regulatory responsibilities, and the ratio of non-performing mortgages (Shiu, 2018). The study found no evidence to support the null hypothesis that bank risk administration is positively correlated with the amount of risk-based internal audits practised.

The study's findings, however, indicated a bad link between RBIA use and knowledge of safety and environmental risk mitigation. The usage of a conventional auditing model focused more on evaluating procedures for accuracy, reliability, and dependability of accounting records and legal conformity with rules and procedures,

therefore a modification in IAD in banks was viewed as the best answer (Shiu, 2018). The original study process of data collection utilized secondary data. The study discovered a favourable link between RBIA and its use in banks. There is a contextual gap since the study was done in Taiwan.

De Angelo (2011) in a study came to the conclusion that in order to improve the auditor's independence, the audit committee should meet with the external auditor without the participation of the company's management and senior committee members. The contextual gap was identified since the study was done almost 12 years ago hence the need to ensure that the findings of a recent study are applicable to the conditions of the present

Ejoh and Ejom (2014) performed a study in order to better understand how the internal audit function affects tertiary institutions' financial performance in Nigeria. In order to evaluate the performance records of tertiary institutions, the study used interviews and primary data sources that were semi-structured in design. Then, simple percentages, correlations, and Z-score were used to analyze the data. It was discovered that senior management, which was responsible for starting all of the operations in the institutions, had influence over the internal audit employees, making them insufficient and preventing them from carrying out their duties independently. The study focused on the internal audit function affects tertiary institutions' financial performance in Nigeria while the current study focused on RBIA effect on the audit report quality in state corporations in the ministry of water, sanitation, and irrigation

On the other hand, Kimeli (2013) examined the variables that affect audit fees, which have a significant impact on the independence of an audit and, consequently, the quality of the audit for businesses listed on the NSE. He gathered information on companies listed on the NSE over a period of five (5) years, from 2012 to 2012, using

a deductive methodology. Correlation analysis and multiple regression analysis were used to test the study goal. He stated that the major 4 audit firms were these corporations' primary auditors. The study focused on businesses listed on the NSE while the current study focused on state corporations in the ministry of water, sanitation, and irrigation.

Baharud, Shokiyah, and Ibrahim (2014) conducted a study to look at the factors that have helped the internal audit function in the public sector be successful. Competence, objectivity, and managerial support were examined as research components. A sample of 330 people was utilized as the target group, which consisted of the 636 internal audit staff members seconded by the National Audit Department, or 56% of all Malaysian auditors. The study's goals were accomplished with the use of primary data. The efficacy of the internal audit function was shown to be positively and noticeably correlated with the auditors' competence, managerial support, and objectivity. Due to the fact that it was done in the public sector and that the study's target population was internal auditors, who might not provide unbiased answers to the questionnaire, there are a number of holes in this research. Therefore, the current study was carried out in state corporations in the ministry of water, sanitation, and irrigation.

Wanyama (2018) carried out a research titled Internal audit functions and their connection to Rift Valley Bottler's financial performance. The goals of the study were to look at governance, risk management, and internal controls in relation to Rift Valley Bottler's financial performance. The study, which included both closed-ended and open-ended questionnaires, was correlational in character and was aimed at a population of 40 staff members from different departments. The study's data were evaluated for descriptive results in the form of means and variances, as well as for

regression and correlation analyses to determine the relationship between the two variables. The study's conclusions showed that the internal auditing component helped the company reach its objectives. Other outcomes meant that the Rift Valley Bottlers' internal audit led to an improvement in financial performance. The study focused on governance, risk management, and internal controls in relation to Rift Valley Bottler's financial performance while the current study focused on internal auditors' independence, skills and competence and risk assessment effect on the audit report quality in state corporations in the ministry of water, sanitation, and irrigation.

### **2.3.2 Auditors' Skills and Competence**

A requirement of ISPPIA (2016) standard no. 1210 is that an internal auditor possesses the knowledge and abilities required to carry out audit tasks. The possession of professional credentials, such as Certified Internal Auditor (CIA) status, is advocated for internal auditors. They should have adequate information technology understanding as well as the ability to assess fraud risk. It is crucial to staff the internal audit department with competent individuals in order for the department to function effectively. For internal auditors to be useful to the business, they must be technically proficient and up to speed on all new internal audit concerns. Internal auditors are well-versed in new audit dynamics thanks to continuous professional experience (CPE). The knowledge and professionalism that may be obtained through schooling, on-the-job training, and obtaining practical experience can also be referred to as internal auditor competency (Alzeban & Gwilliam, 2014).

De Angelo (2011) asserts that based on the audit reports presented, readers of financial statements can infer unobserved quality audits using the reputation of the auditor. By delivering high-quality work over time, an auditing business develops its reputation. Since a well-earned reputation should conform to the report generated in

each audit report, complete commitment is required from every team member to maintain this reputation. The contextual gap was identified since the study was done almost 12 years ago hence the need to ensure that the findings of a recent study are applicable to the conditions of the present

Klein and Leffler (2011) developed a model for endogenous quality to examine the relationship between audit firm reputation and audit quality. They claimed that one important factor that enhanced audit quality was a company's reputation or brand. Due to higher levels of available resources and better levels of staff training and competence, high-reputation businesses provided audits of high quality. Similarly to this, reputational costs act as a motivator to communicate higher audit quality. In the end, "auditors develop a brand name reputation for providing higher quality assurance, with a resulting increase in the quality of audited financial statements" (Li et al. 2013, emphasis added). The study was conducted in other countries, indicating a research deficit that necessitates conducting the study domestically

According to Hennes et al. (2011), companies with a reputation for trustworthy financial reporting are more likely to switch auditors when the quality of the audit is questioned in order to prevent the negative effects on the capital markets of possibly incorrect financial reporting. As a result, highly regarded organizations are more driven to keep on qualified auditors in order to uphold the reputation of reliable audit quality. The study focus was on a different context which cannot be generalized in Kenya.

Sundgren (2015) argues that certified auditors provide a better level of assurance compared to noncertified auditors. He pointed out that non-certified auditors are less likely than their counterparts to modify their audit reports, and that at a minimum, the two types of audits have different quality standards. This meant that auditors who are certified offer a better level of confidence than accountants who are not certified. Through continuing professional education (CPE), an auditor must maintain their

level of expertise. One of the most important learning opportunities is through practical labour. The study focus was on a different context which cannot be generalized in Kenya

Manita and Elommal (2010) established a new research stream that concentrated on the professionalism and competence of auditors, which is driven by the whole audit process as per the IAASB (2011). According to the IAASB, "audit quality" (AQ) is a process that considers issues including the validity of the audit methodology, the efficacy of the audit instruments employed, and the availability of sufficient technical assistance, all of which are directed at supporting the execution of the quality audit.

Svanström's (2013) paper claimed that managers are in the best position to observe quality audit improvement because they are heavily involved in communicating with auditors and producing annual reports that capture the extent to which reporting quality is raised by the audit process. The author measures audit quality via the management's perception.

### **2.3.3 Risk Assessment**

Inusah (2015) aver that using risk management techniques in one's personal and professional life might help decrease risk even though it cannot be completely eliminated (Chandra, 2002). Karagiorgos et al. (2008) defined risk assessment as the process of identifying, assessing, and controlling relevant risks in the creation of financial statements that are comprehensible and consistent with generally accepted accounting rules. The nature and extent of the risks that the firm confronts must thus be thoroughly and continuously assessed in order to establish a good financial management system.

Transfer, tolerance, treatment, and termination are the four types of risk reactions that should be taken into account; nevertheless, the proper controls can either be preventative or detective (Ntongo, 2012). Putting in place procedures to recognize and respond to deviations that might have a significant impact on the operations is one of the risk appraisal gauges. The degree of risk that may be allowed must be carefully evaluated by management, and it must work to remain within acceptable bounds. In order to take the necessary safeguards, public agencies must regularly assess the amount of risk they face.

In the UK, Spekle (2012) looked into how risk assessment practices affected private sector fraud detection. The research adopted a visual overview strategy. The 443 manufacturing businesses made up the target population, and stratified irregular testing was used to choose the test from which data was obtained. The study discovered that manufacturing businesses were using a few risk evaluation techniques and anticipating measures to reduce the risk of extortion already present. It was discovered that the risk of real-time gross settlement-related fraud was quite high. The regression analysis revealed that extortion detection techniques and anticipation tactics had a detrimental impact on extortion types and vices. The UK manufacturing businesses should handle the problem of extortion risk as a group and not as an individual.

In Ghana, Adeleye, (2014) investigated the risk assessment practice for the detection of fraud by in government. The top officers in the risk management divisions served as the study's target demographics. Using a standardized questionnaire, the initial sample was created. Through drop and pick later, the questionnaire was self-administered. 154 respondents in all participated in the survey. The study's findings showed a strong correlation between Ghanaian government ministries' performance

and their fraud assessment practices. Additionally, it was discovered that both preventive and detective fraud risk management practices had a very strong positive impact on government performance as measured by the provision of services to citizens (Pearson correlation coefficients of 0.932 and 0.868, respectively). The senior officers were the only group on which the study focused. In most organizations, fraud execution begins with entry-level workers. Coming up with sound findings and recommendations would benefit from input from the junior employees.

In Kenya, Ngare (2013) evaluated the impact of risk assessment techniques on the discovery of frauds by Kenyan commercial banks. All Kenyan commercial banks served as the study's target population, and it had a specific research objective. Both primary and secondary sources of information were used in the investigation. Microsoft Excel and SPSS were used to code and analyze the data that was obtained. Utilizing inferential measurements, an inferential investigation was conducted. A relapse demonstration was used in the study to examine the effects of random evaluation approaches on the discovery of fakes by commercial banks in Kenya. The findings suggest that risk assessment methodologies have a favourable and notable influence on Kenyan commercial banks' ability to identify phoney currency. The findings include that commercial banks' extortion detection and avoidance divisions should use extortion management approaches to reduce financial extortion losses and improve development in financial execution in order to optimize the bank's value. Kenya has conducted a lot of research on risk assessment techniques and procedures. However, none of the studies examined the connection between risk assessment procedures and Kenya's CDF offices' ratings.

Ng'ang'a (2017) conducted a study for the Kenyan ministry of East Africa community, labour, and social protection on the implications of risk-based audits on the financial results of state-owned enterprises. His research's goal was to determine the impact of RBIA approach tactics on economic conditions and the scope of control actions in government entities. Both primary and secondary sources of data were used in the report's descriptive research design for data collection. 136 respondents were the primary audience, and he used a censoring method. It was discovered that there was a favourable association between RBA and the performance of firms because when RBA is improved, it enables the company to spot problems early in high-risk areas, resulting in more accountability and responsibility in the exercise of its duties.

#### **2.4 Summary of Literature Review and Research Gaps**

The established theoretical concerns and empirical research on risk-based internal audit function and the calibre of audit reports in state corporations in the Kenyan ministry of water, drainage, and water management were surveyed and summarized in this chapter. The table below summarizes the study focus of the reviewed studies, conclusions, knowledge gap, and focus of the present study

**Table 2.1 Summary of Literature Review and Research Gaps**

<b>Author</b>	<b>The focus of the study</b>	<b>Finding</b>	<b>Research Gap</b>	<b>Address the research gap</b>
Zayol, P.V (2017)	Audit Quality and Auditor Independence	There was a link between the independence of the auditors and the calibre of	Ex-post-research methodology was used.	The research project will use a descriptive research design.

		the audit.		
Geke A. M (2017)	Effect of RBIA practices on financial performance in selected public-owned sugar companies in Kenya	Proper RBIA strategies contributed to overall organization performance in sugar-owned companies	Both SPSS and ANOVA were applied in the data analysis.	This study will adopt SPSS and Microsoft Excel 2013 will be used in data analysis
Shiu (2016)	Application of RBIA by Taiwanese banks	RBIA applied is positively related to the risk management of the bank.	Reports, journals and database information were used in data collection	Questionnaires will be used in data collection
Ng'ang'a (2017)	Effects of Risk Based Auditing on the financial performance of state-owned corporation in the ministry of East Africa Community, Labour and Social Protection in Kenya	There was a positive correlation between Risk-Based Auditing and Corporate Governance.	This study focused on how Risk-Based Auditing relates to financial performance. It did not address the risk-based audit conducted internally by internal auditors and internal controls.	This research will address how an audit conducted by internal auditors on a risk-based model will affect internal organizational controls.
Ogega	Influence of	There was a	This study	The research

(2018)	risk-based internal audit on the financial sustainability of non-governmental organization at Nakuru County in Kenya	positive correlation between RBIA and the financial sustainability of the non-governmental organization. In Kenya	focused on non-governmental organizations based in Nakuru County in Kenya	will focus on state corporations in the ministry of water, sanitation and irrigation spread across the country.
Gachanja (2017)	Enterprise risk management practices and performance of selected commercial State Corporations in Kenya.	ERM practices contributed to the performance of commercial state corporations in Kenya	The study used Both SPSS and ANOVA was applied in data analysis	This study will adopt SPSS and Microsoft excel for data analysis

**Table 2.1 summaries of Research Gaps**

Source: Research, 2021

## **2.5 Conceptual Framework**

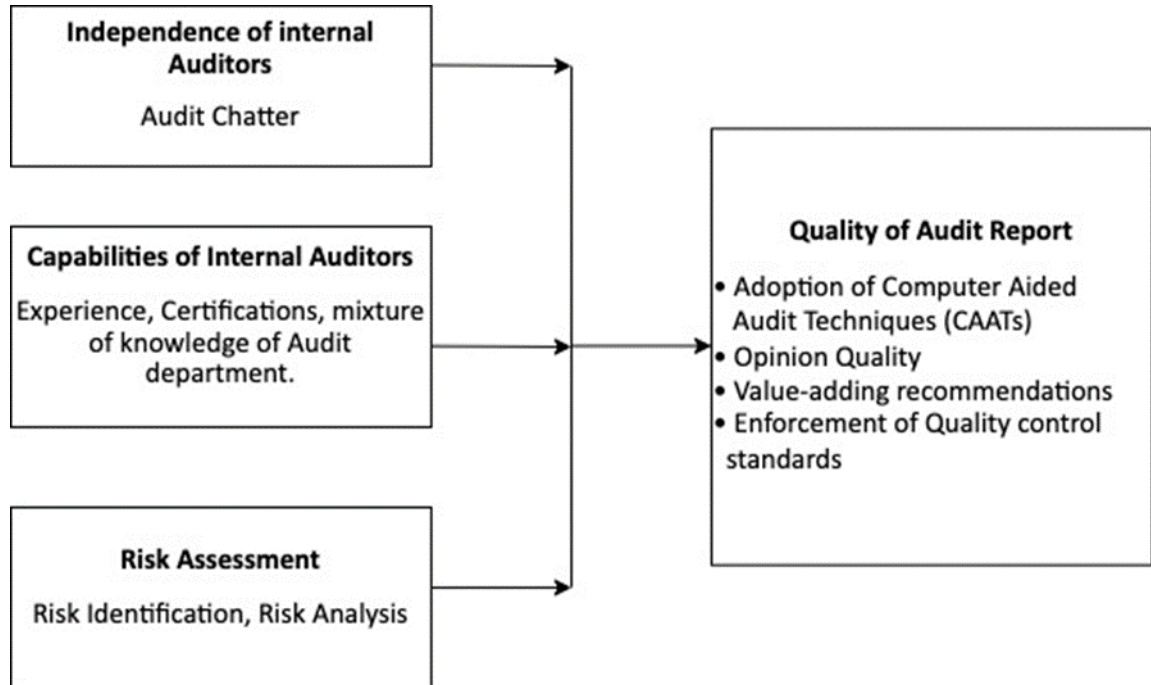
An explanation of the connections between different variables is provided by a theoretical model. Two types of variables—dependent and independent—show the connection between risk-based internal audit and financial effectiveness in a theoretical model. The conceptual framework describes a conceptual interpretation of the research and explains guidance for the research by illustrating the relationship

between the independent and dependent variables in the investigation (Creswell, 201).

The theoretical foundation is displayed in Figure 2.4.1.

**Independent Variable**

**Depended Variable**



**Figure 2.1 Conceptual Framework**

**Source: Research, 2023**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The methodology used in this study that will be used to conduct the research study is presented in this chapter. Additionally, the sample size, sampling, data collecting, and data analysis will be presented.

#### **3.2 Research Philosophy**

The researcher adhered to positivism. This is because the study only used factual data. The positivist research philosophy disregards prejudiced people in its pursuit of facts. The decision was made since the investigation was theoretically grounded and used a theoretical design. Quantitative information and related analytical methods were required for this ideology. The paradigm was also needed to implement assessment ideas and used larger samples (Chelengat, 2018). The researcher approached concept planning and implementation and evaluation with objectivity.

#### **3.3 Research Design**

A comprehensive examination of risk-based internal auditing and auditor independence in the ministry of water, sanitation, and drainage is part of the study's research methodology. State corporations' contextual analysis provides a wealth of detailed data (Leavy 2017). The research design outlined the steps that must be taken in order to accomplish the study's goal. Basic data gathering, assessment, and evaluation are all included in the research design (Tapang, Kankpang, Inah, Bessong, & Uklala 2020). An investigator can allocate resources by using the correct procedure thanks to the research design.

The study used a causal survey to draw conclusions about how RBIA might impact the standard of audit reports in state businesses under Kenya's ministry of water, sanitation, and irrigation. Furthermore, according to (Lai 2019), the objective of a contextual study is to gather data at a given period and utilize it to illustrate the idea of the conditions that exist at that point in time. The technique also offers a foundation for path analysis and hypothesis testing.

Explanatory investigations, according to Lai (2019), are not just limited to fact-finding; they can also frequently lead to the formulation of key knowledge principles and the resolution of critical issues. Explanatory research is additionally used to quantify, categorize, analyse, contrast, and understand data. As a result, the expert believed that it was crucial to use visuals and a scientific approach for the evaluation. The design was chosen because the researcher can better understand what needs to be changed for it to be beneficial by creating a repeatable method to utilize in many scenarios. In 2020, Hassanommer, Aljaaidi, and Habtoor. Additionally, research design accurately depicts a population's features (Khoufi & Khoufi, 2018). Both a quantitative and a qualitative study design were used.

### **3.4 Target Population**

A population is a collection of people or things that are being considered in a statistical study. There are 12 government companies, as per the department of water affairs, sanitation, and drainage. The target population for the study consisted of the heads of the internal audit function and the other three internal auditors who report to them. Twenty companies participated in the study using a random sample methodology., the targeted audience also included directors of internal audit departments, senior internal audit, and audit committees from other parastatals in the

nation's ministry of water, sanitation, and irrigation. In total, 48 participants were intended for the research.

### **3.5 Sampling Technique**

Every one of the twelve governmental corporations' internal auditors was found using a probabilistic sampling technique. The responses were from the heads of the audit divisions. According to Mugenda & Mugenda (2013), a representative sample somewhere between 10% and 30% is a good reflection of the population and thus is sufficient for assessment when the research population is smaller than 10,000. There were 48 participants in the study.

### **3.6 Data Analysis**

Both quantitative and qualitative methods were used to analyze the data that has been gathered. Analyses that are both descriptive statistics and inferential statistics were used in numerical techniques. The Statistical Package for Social Science (SPSS) version 23.0 was used to code and analyze the questionnaire's information. Collected information, component descriptive statistics, coefficient of determination and correlation, and regression analysis were performed using SPSS.

#### **3.6.1 Empirical Model**

The association between the risk-based internal audit and the calibre of the audit report was determined using a multiple regression model. Analysis for two or more independent variables that could explain the dependent variable is possible with a multiple regression analysis. The model also helped in establishing the connections between each element of risk-based internal auditing and the calibre of the audit report. Following is the association between the explanatory and dependent variables;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + c$$

Where:

**Y:** Quality of Auditor's Reports

**B<sub>0</sub>** = Intercept

**B<sub>1</sub> – β<sub>4</sub>** = Beta coefficients

**X<sub>1</sub>** = Independence of auditors

**X<sub>2</sub>** = Auditors Competency

**X<sub>3</sub>** = Risk Assessment

### 3.6.2 Operationalization and Measurement of the Study Variables

The research variables description and measurement are presented in the cross-sectional table as shown below,

**Table 3.1 Operationalization and Measurement of the Research Variables**

<b>Variable</b>	<b>Type</b>	<b>Operationalization</b>	<b>Measurement</b>	<b>Expected Relationship</b>
Quality of audit report	Dependent variable	Quality assurance improvement program, External assessment audit quality, Internal assessment for quality of audit engagements	Pass or fail on the quality evaluation by both the internal assessor, external assessor	Positive/negative
Independence	Independent Variable	Availability of approved Internal audit charter	Authority to access all resources, Direct access to the Board of Directors and the CEO	Positive/Negative
Capabilities of Internal auditors	Independent variable		Availability of CPE/PD, time to access training	Positive/Negative
Risk Assessment	Independent variable	Qualitative or quantitative assessment		Positive/Negative

**Source: Research (2023)**

### **3.7 Data Collection Procedure**

In the study, both primary and secondary data were collected. The moderate questionnaire was used to gather information for the independent variable; it was dropped off at various locations for department heads before being picked up and given to the respondents. Questionnaires with both open-ended and closed-ended questions were among the main data collection tools. While open-ended questions provided respondents with more leeway in how they react and the opportunity to go into greater detail, close-ended questions have the advantage of yielding useful quantitative data (Ismail 2016). Additionally, secondary data was used in data collection from the websites of the corporations or from the audit reports of various state corporations that have already been approved by the appropriate authorities. Additionally, the analysis of secondary data for the dependent variable took into account data mining of audit findings from OAG sites.

### **3.8 Pilot Testing**

A pilot test was undertaken prior to the real collection of data in order to verify the reliability of the questionnaires and the anticipated dependability of the information obtained. The researcher had the opportunity to evaluate the instrument's usability and clarity during the pre-test (Mugenda & Mugenda, 2009). Prior to actually conducting studies, design or equipment testing is used (Gupta, 2017). The rule of thumb states that the pilot test should consist of 5–10% of the target sample (Khoufi & Khoufi, 2018). As a result, 10 per cent of the study's participants—or five respondents—was chosen. It helped to demonstrate the suitability of the research tools and the viability of the research process. It assisted in determining validity (the degree to which created data actually measures what is intended to measure and dependability) (consistency of data collected).

### **3.9 Reliability of Data Collection Instruments**

Cronbach's alpha coefficient of dependability was used to provide reliability. Reliability, according to Khoufi & Khoufi (2018), is the extent of measuring data gathering methods and instruments that are more accurate and consistent. In accordance with Franken (2017), equipment is regarded as dependable if it accurately measures the thing it is intended to measure. The range of Cronbach's alpha coefficient is 0 to 1. The created scale is more dependable the greater the score. In order to examine the relationship between the dependent variables and the four independent variables, the statistical application SPSS was utilized as an analysis tool. When Cronbach's alpha is more than 0.7, the analysis can be made with confidence in the equipment.

### **3.10 Data Validity**

The degree to which study research assesses whatever it is intended to do is the measure of the credibility of the research tools (Husain & Rini, 2020). The easiest way to assess whether a study is reliable is to consult an expert. Authenticity also refers to the extent to which conclusions were drawn after data analysis accurately depict the phenomenon being studied. According to Baatwah, Salleh, and Stewart (2019), the best way to determine whether a research project is valid is to consult an expert. To increase the study's accuracy, the research coordinator and a safety or audit specialist were consulted.

### **3.11 Diagnostic Tests for Regression Model**

The results of diagnostic procedures were used to gauge how well the study data complies with the multiple linear regression analysis's underlying assumptions. This is consistent with the idea that if certain assumptions made by statistical procedures are not followed, the findings may be successful or unsuccessful and lead to errors of type

I or type II, as well as inaccurate or exaggerated estimates of relevance or coefficient of determination (Chelengat, 2018)

### **3.12 Ethical Consideration**

Lai (2019) claims that ethics is a discipline of philosophy that helps individuals, organizes them, and provides them with guidelines for their behaviour, interactions with one another, and daily conventions. In light of this, the researcher explained to the study participant of the study's goal and assure them that it was only to be used for academic purposes. Furthermore, the researcher protected the confidentiality of respondents and retain their confidentiality with regard to the data gathered. Furthermore, the researcher asked the appropriate authorities for authorization to do research. Additionally, the researcher requested the institution for permission to conduct the study to further demonstrate to the participant that it is simply educational.

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSIONS

#### 4.1 Introduction

This chapter summarizes the research findings as they are recommended by the data collected, examined, and understood. The chapter includes demographic information, diagnostic tests, and descriptive and inferential analyses of the responses.

#### 4.2 Response Rate

The results of the study were based on questionnaires that were disbursed and fully filled and returned by the staff in state corporations in the ministry of water, sanitation, and irrigation.

**Table 4.1 Response Rate**

Questionnaire	Frequency	Percentage
Response	38	79%
Non-Response	10	21%
<b>Total</b>	<b>48</b>	<b>100%</b>

**Source: Researcher (2023)**

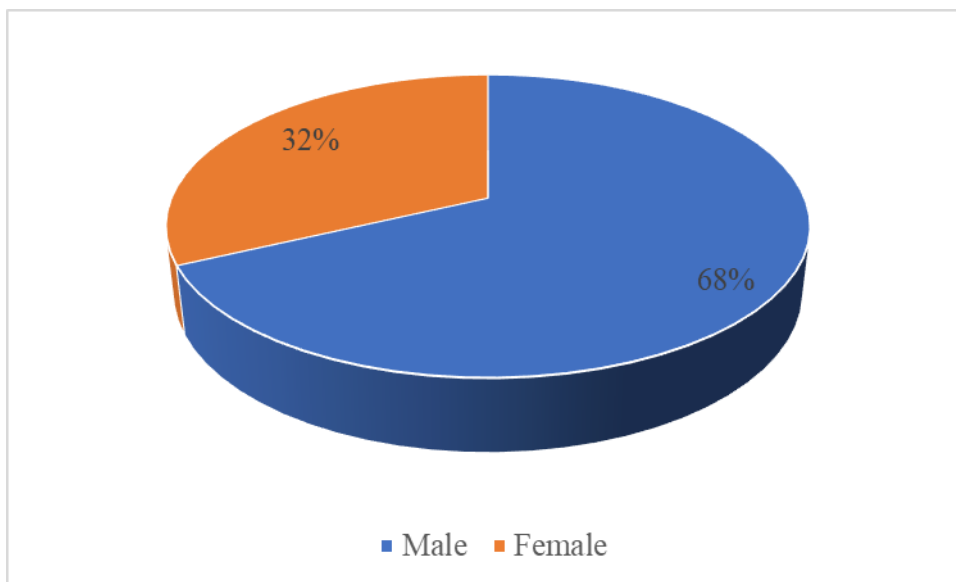
A total of 48 questionnaires were distributed to directors of internal audit departments, senior internal audit, and audit committees from the state corporations in the ministry of water, sanitation, and irrigation and according to Table 4.1 above, of which 38 were filled and returned. This demonstrated an overall response rate of 79%, which, in Kothari's (2010) opinion, was an excellent response rate, which enabled analysis of findings, discussion and drawing inferences from the sampled respondents.

### 4.3 Demographic Characteristics

The demographic characteristics studied were gender, age, highest education qualification and years of experience of directors of internal audit departments, senior internal audit, and audit committees from the state corporations in the ministry of water, sanitation.

#### 4.3.1 Gender of the Respondents

The study aimed to determine the respondents' gender distribution. The results were summarized in Figure 4.1 below.



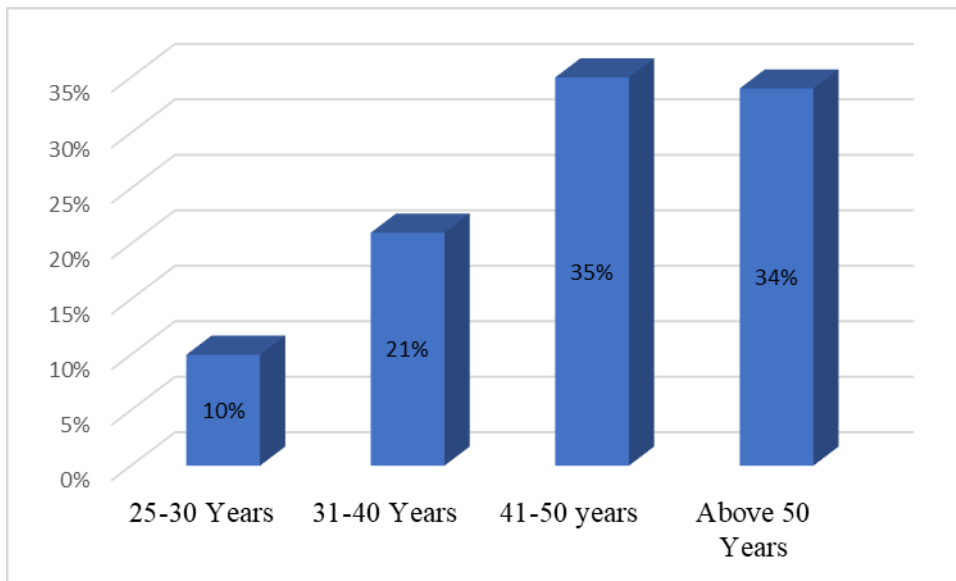
**Figure 4.1 Gender of the Respondents**

**Source: Researcher (2023)**

The results in Figure 4.1 above show that the majority of the respondents (68%) were male while 32% were female. From these findings, it can be stated that there was gender parity in the state corporations in the ministry of water, sanitation, and irrigation even though the male percentage was higher compared to females.

#### 4.3.2 Age of the Respondents

The study sought to determine the age distribution of the respondents. The results were as presented in Figure 4.2 below.



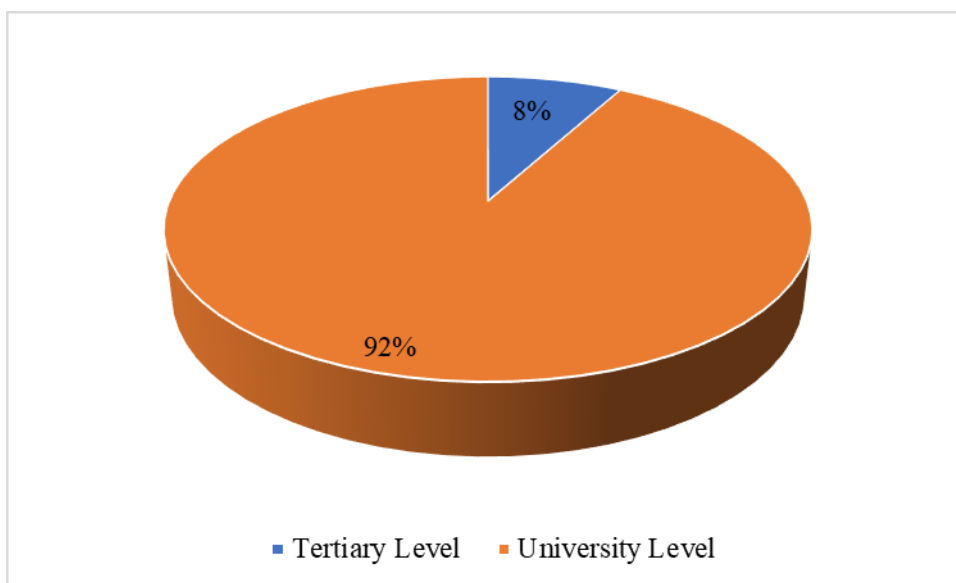
**Figure 4.2 Age of the Respondents**

**Source: Researcher (2023)**

The findings in Figure 4.2 above indicate that 10% of the respondents were aged between 25 and 30 years while 21% were aged between 31 and 40 years. 35% was made up of those aged between 41 and 50 years while 34% were those aged above 50 years. From the study findings, it can be stated that the highest majority (69%) of the respondents were old enough to make the right choice regarding the audit report quality in the ministry of water, sanitation, and irrigation's state businesses.

#### **4.3.3 Respondents' Highest Level of Education**

The study sought to ascertain the respondents' greatest educational level. The findings were as displayed in Figure 4.3 below.



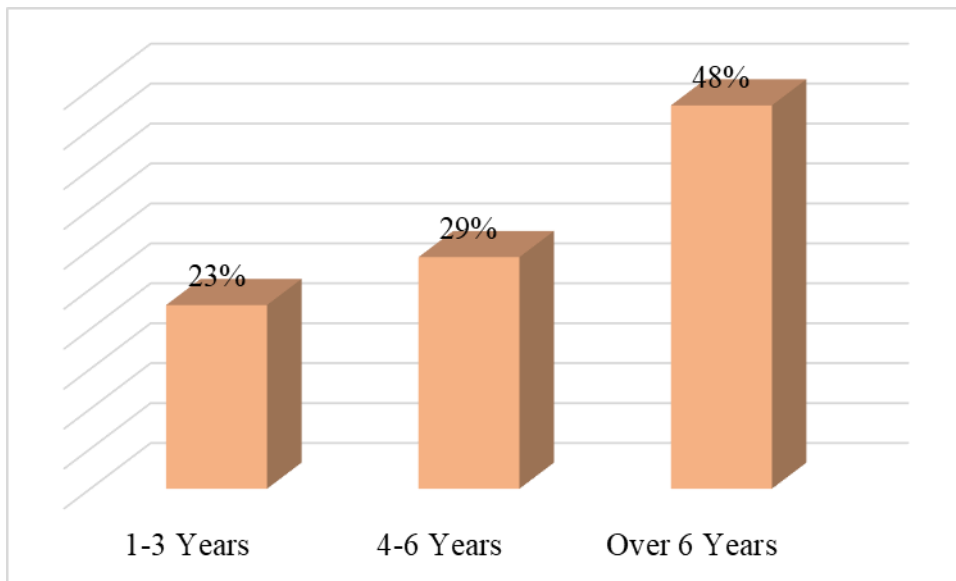
**Figure 4.3: Respondents' Highest Level of Education**

**Source: Researcher (2023)**

The results in Figure 4.3 above indicate that the majority of the respondents (92%) were Degree holders while 8% of them had a tertiary level of education. This can be concluded that the majority of directors of internal audit departments, senior internal audit, and audit committees from the state corporations in the ministry of water, sanitation had the relevant educational background to make the right decisions regarding risk-based internal audits.

#### **4.3.3 Years of Experience**

The study sought to determine the respondents' years of experience. The findings were as displayed in Figure 4.4 below.



**Figure 4.4 Respondents' Year of Experience**

**Source: Researcher (2023)**

The results in Figure 4.4 above indicate that 23% of the respondents had a working experience of between 1 and 3 years. 29% of the respondents had a working experience of between 4 and 6 years while 48% had a working experience of over 6 years.

#### **4.4 Descriptive Analysis**

Each of the research variables was given a thorough descriptive analysis. This was done based on data collected from the research. The researcher was able to reach relevant findings by using the frequency, mean, and standard deviation. The study's goal was to determine how risk-based internal auditing affects the calibre of audit reports produced by state corporations for the Kenyan ministry of water, sanitation, and irrigation. The results were tabulated according to the precise goals of the study. The responders were asked to apply a Likert Scale Key:

**1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree**

#### 4.4.1 Audit Independence

The study sought to determine the effect of internal auditors' independence on the audit report quality in state corporations in the ministry of water, sanitation, and irrigation. The findings were as presented in Table 4.2 below.

**Table 4.2: Auditors' Independence**

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
The head of the audit department prepares the internal audit charter and is approved by the audit committee of the Board of directors	4.7632	.54198
The head of the audit has direct access to the board of directors	4.9211	.27328
Auditors report functionally to the board of directors and administratively to the chief executive officer of the company	4.6842	.57447
Any limitation in the scope of the audit is reported to the audit committee	4.0526	.46192
<b>Aggregate Mean Score</b>	<b>4.6053</b>	<b>.46291</b>

**Source: Researcher (2023)**

The results in Table 4.2 above show that the majority of the respondents strongly agreed that the head of the audit had direct access to the board of directors as illustrated by a mean of 4.9211 and a standard deviation of 0.2732 respectively. The majority of the respondents also strongly agreed that the head of the audit department prepared the internal audit charter and it was approved by the audit committee of the Board of directors as evidenced by a mean of 4.7632 and a standard deviation of 0.5420 respectively, and that auditors reported functionally to the board of directors and administratively to the chief executive officer of the company as demonstrated by a mean score of 4.6842 and a standard deviation of 0.5745 respectively. The majority

of the respondents agreed that any limitation in the scope of the audit was reported to the audit committee as evidenced by a mean score of 4.0526 and a standard deviation of 0.4619 respectively. The findings indicated that internal auditors' independence affected the quality of audit reports in state corporations in the Ministry of Water, sanitation, and Irrigation. The findings are in accordance with those of Zayol (2017) which showed a link between the independence of the auditors and the calibre of the audit. The findings also agreed with those of Wanyama (2018) that concluded that the internal auditing component helped the company reach its objectives.

#### 4.4.2 Auditors' Skills and Competence

The study sought to ascertain how internal auditors' skills and competence affect the audit report quality in state corporations in the Ministry of Water, sanitation, and Irrigation. The findings were as presented in Table 4.3 below.

**Table 4.3 Auditor's Skills and Competence**

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
Internal auditors' professional qualification is taken into consideration during hiring a new auditor	3.6316	.67468
Auditors are sponsored to attend workshops for continuous professional education each year	3.2135	.90501
The head of internal takes into consideration individual capability when assigning engagement to each auditor	4.8684	.34257
The head of the internal audit conducts an evaluation of internal auditors annually on their performance and discusses with them	3.8684	.87522
Valid N (listwise)	3.8421	.74574

**Source: Researcher (2023)**

The results in Table 4.3 above show that the majority of the respondents strongly agreed that the head of internal took into consideration individual capability when assigning engagement to each auditor as evidenced by a mean score of 4.8684 and a

standard deviation of 0.3426 respectively. The respondents also agreed that the head of internal audit conducted an evaluation of internal auditors annually on their performance and discussed with them as indicated by a mean score of 3.8684 and a standard deviation of 0.8752 respectively and that internal auditors' professional qualification was taken into consideration during hiring a new auditor as illustrated by a mean score of 3.3616 and a standard deviation of 0.6746 respectively. The majority of the respondents also indicated that they were not sure if Auditors are sponsored to attend workshops for continuous professional education each year as evidenced by a mean of 3.2135 and a standard deviation of 0.9050 respectively. With an aggregate mean score of 3.8421 and a standard deviation of 0.7457 respectively these findings indicated that internal auditors' skills and competence affected the quality of audit reports in t in state corporations in the ministry of water, sanitation, and irrigation. The findings are in line with those of Sundgren (2015) who argues that certified auditors provide a better level of assurance compared to noncertified auditors.

#### 4.4.3 Risk Assessment

The study sought to determine how risk assessment affects the audit report's quality in state corporations in the Ministry of Water, sanitation, and Irrigation. The findings are presented in Table 4.5 below.

**Table 4.4 Risk Assessment**

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
Risk assessment is a continuous process in the institution	4.7368	.55431
Risk identification is the responsibility of all employees of the organization	4.4211	.59872
There is consideration of risk assessment in the detection of errors	3.8947	.55941
<b>Valid N (listwise)</b>	<b>4.3509</b>	<b>.57081</b>

**Source: Researcher (2023)**

The results in Table 4.4 above show that the majority of the respondents strongly agreed that risk assessment was a continuous process in the institution as evidenced by a mean score of 4.7368 and a standard deviation of 0.5543 respectively and that risk identification was a responsibility of all employees of the organization as illustrated by 4.4211 and a standard deviation of 0.5987 respectively. The majority of respondents agreed that there was consideration of risk assessment in the detection of errors as indicated by a mean score of 3.8947 and a standard deviation of 0.5708 respectively. The study findings showed that risk assessment affected the audit report's quality in the state corporations under the Ministry of Water, Sanitation, and Irrigation as evidenced by an aggregate mean score of 4.3509 and a standard deviation of 0.5708 respectively. The study findings correspond with those of Ng'ang'a (2017) who discovered that there was a favourable association between RBA and the performance of firms.

#### **4.4.4. Quality of Audit Report**

The study sought to determine the quality of internal audit activity reports in the state corporations under the Ministry of Water, Sanitation, and Irrigation. The findings are presented in Table 4.5 below.

**Table 4.5 Quality of Audit Report**

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
There is the adoption of computer-aided audit techniques in the internal audit activities department	3.8947	.83146
There is a developed quality assurance and improvement program covering all aspects of internal audit activity	4.0526	.80362
Internal audit reports have value-adding recommendations	3.6053	.82329
There is enforcement of quality control standards as per the requirements of the International Professional Practice Framework (IPPF)	3.7055	.75479
The internal audit engagement report's tone emphasizes improvement rather than condemnation.	4.1053	.64889
Reports follow the guidelines contained in the public finance management Act 2012.	3.9737	.75290
<b>Valid N (listwise)</b>	<b>3.8895</b>	<b>.76916</b>

**Source: Researcher (2023)**

The results in Table 4.5 above, show that the majority of the respondents agreed that the internal audit engagement report's tone emphasized improvement rather than condemnation as illustrated by a mean score of 4.1053 and a standard deviation of 0.6489 respectively and that there was developed quality assurance and improvement program covering all aspects of internal audit activity as evidenced by a mean score of 4.0526 and a standard deviation of 0.8036 respectively. The respondents also agreed that the reports followed the guidelines contained in the public finance management Act 2012 as shown by a mean score of 3.9737 and a standard deviation of 0.7529 respectively and that there was the adoption of computer-aided audit techniques in the internal audit activities department as evidenced by a mean score of 3.8947 and a standard deviation of 0.8315 respectively. The respondents also agreed that there was an enforcement of quality control standards as per the requirements of the

International Professional Practice Framework (IPPF) as illustrated by a mean score of 3.7055 and a standard deviation of 0.7548 respectively and that internal audit reports had value-adding recommendations as evidenced by a mean score of 3.6053 and a standard deviation of 0.8233 respectively.

#### 4.5 Inferential Analysis

Regression and correlation analyses are discussed in this subsection. Correlation analysis was utilized to gauge the potency of the correlation while regression analysis was utilized to ascertain the correlation between the independent variables (audit independence, auditor's competence, risk assessment) as well as the dependent variable (quality of audit report).

##### 4.5.1 Correlation Analysis

The research used Pearson correlation analysis to ascertain the relationship between independent variables and dependent variables. The results are presented in Table 4.6 below

**Table 4.6 Correlations**

		<b>Auditors' Independence</b>	<b>Auditors' Competence</b>	<b>Risk Assessment</b>	<b>Quality Report</b>
Auditors' Independence	Pearson Correlation	1	.589*	.322*	.417*
	Sig. (2-tailed)		.000	.000	.000
	N	38	38	38	38
Auditors' Competence	Pearson Correlation	.589*	1	.618*	.340*
	Sig. (2-tailed)	.596		.686	.037
	N	38	38	38	38
Risk Assessment	Pearson Correlation	.322*	.618*	1	.288*
	Sig. (2-tailed)	.000	.000		.000
	N	38	38	38	38
Quality Report	Pearson Correlation	.417*	.340*	.288*	1
	Sig. (2-tailed)	.000	.000	.000	
	N	38	38	38	38

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

**Source: Researcher (2023)**

The study findings in Table 4.6 illustrate that the quality of audit reports and all variables were positively and significantly correlated but the correlation varied. Internal auditors' independence and quality of audit reports were positively and significantly correlated ( $r = 0.417$ ,  $p = .000$ ). The findings also indicated that internal auditors' competence and quality of audit reports were positively and significantly correlated ( $r = 0.340$ ,  $p = .000$ ). The report also showed that risk assessment and quality of auditors' report were positively and significantly correlated ( $r = 0.288$ ,  $p = .000$ ). The findings are dissimilar to those of Shiu, (2018) which found no evidence to support the null hypothesis that bank risk administration is positively correlated with the amount of risk-based internal audits practised.

#### 4.5.2 Regression Analysis

Regression analysis was utilized to determine how risk-based internal audits affect the quality of audit reports. Results from the Model summary, ANOVA and coefficient calculations are displayed in Tables 4.7, 4.8, and 4.9 respectively.

**Table 4.7 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.374 <sup>a</sup>	.140	.640	.34441

a. Predictors: (Constant), Risk Assessment, Auditor's Competence, Auditors' Independence

**Source: Researcher (2023)**

The above model summary specifies the correlation coefficient (R) and Coefficient of determination adjusted R square. The value of R was 0.374 indicating a strong correlation between variables. The adjusted R square value of 0.640 indicated that

64% of the quality of the audit report was a result of a risk-based internal audit. The remaining 36% can be ascribed to variables not displayed in this study.

**Table 4.8 ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.658	3	.219	1.848	.003 <sup>b</sup>
	Residual	4.033	34	.119		
	Total	4.691	37			

a. Dependent Variable: Quality Audit Report

b. Predictors: (Constant), Risk Assessment, Auditors' Competence, Auditors' Independence

**Source: Researcher (2023)**

Table 4.8 shows a p-value of  $0.000 < 0.05$  and a F statistic of 1.848. This suggests that the study model accurately predicted the dependent variable and was statistically significant (good fit). This infers that risk-based internal audits substantially affected the quality of audit reports in state corporations in the Ministry of Water, sanitation, and Irrigation.

**Table 4.9 Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.384	1.394		1.710	.096
	Auditors' Independence	.182	.261	.114	.698	.000
	Auditors' Competence	.344	.162	.339	2.119	.004
	Risk Assessment	.154	.187	-.134	-.825	.001

a. Dependent Variable: Quality of Audit Report

**Source: Researcher (2023)**

The model adopted was  $Y = 2.384 + 0.182X_1 + 0.344X_2 + 0.154X_3 + \epsilon$

Based on the findings, the subsequent hypotheses were tested;

**H<sub>01</sub>:** There is no correlation between the impartiality of internal auditors and the calibre of audit reports in the state corporations under the Ministry of Water, Sanitation, and Irrigation.

Table 4.9 above showed that auditors' independence had a positive and significant effect on the quality of internal auditors' reports ( $\beta = 0.182$ ,  $p < 0.05$ ). This means that an increase in the independence of the internal auditor will result in an increase in the quality of auditors' reports by 0.182 units. Thus, the hypothesis was rejected. The findings concur with those of Geke (2017) which indicated that proper RBIA strategies affected the overall organization performance in sugar-owned companies.

**H<sub>02</sub>:** There is no correlation between the competencies of internal auditors and other assets on the quality of audit reports in the state corporations under the Ministry of Water, Sanitation, and Irrigation.

Table 4.9 revealed that auditors' competence had a positive and significant effect on the quality of internal auditors' reports ( $\beta = 0.344$ ,  $p < 0.05$ ). This means that an increase in the competence of the internal auditor will result in an increase in the quality of internal auditors' reports by 0.344 units. Thus, the hypothesis was rejected. The findings agreed with those of Sundgren (2015) who argued that certified auditors provide a better level of assurance compared to noncertified auditors.

**H<sub>03</sub>:** There is no correlation between risk assessment and audit report quality in the state corporations under the Ministry of Water, Sanitation, and Irrigation.

Table 4.9 above showed that risk assessment had a positive and significant effect on the quality of internal auditors' reports ( $\beta = 0.154$ ,  $p < 0.05$ ). This means that an increase in the risk assessment will result in an increase in the quality of auditors'

reports by 0.154 units. Thus, the hypothesis was rejected. The findings are similar to those of Ngare (2013) which suggest that risk assessment methodologies have a favourable and notable influence on Kenyan commercial banks' ability to identify phoney currency.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS.**

#### **5.1 Introduction.**

This chapter discusses the summary of the findings, a synopsis of the research, and recommendations based on the findings. The research study's specific objectives, which included attempting to ascertain the effect of the risk-based internal audit on the quality of audit reports in state corporations in the Ministry of Water, sanitation, and Irrigation, were addressed in the order in which the findings in this chapter were described.

#### **5.2 Summary**

This sub-section sets out the summary of the study findings. General objective aimed to figure out how the risk-based internal audit affects the quality of audit reports in state corporations in the Ministry of Water, sanitation, and Irrigation. In particular, the research assessed the effect of auditors' independence, auditors' skills and competence and risk assessment on the quality of audit reports in state corporations in the Ministry of Water, sanitation, and Irrigation. Moreover, data was analyzed by employing descriptive statistics and inferential analysis.

The following are the major findings.

##### **5.2.1 Internal Auditors' Independence and Quality of Auditors' Report**

The first object of the study was to determine the effect of the independence of internal auditors on the quality of the audit report in state corporations in the Ministry of Water, sanitation, and Irrigation. In the descriptive analysis, the majority of respondents indicated that the independence of the internal audit affected the quality

of the audit report. On the correlation results, internal auditors' independence and quality of audit report showed a positive and significant correlation ( $r = 0.417$ ,  $p = .000$ ). Regression analysis resulted in the rejection of hypothesis one and revealed a favourable and statistically significant correlation between internal auditors' independence and quality of audit report ( $p\text{-value} = 0.000$ ).

### **5.2.2 Internal Auditors' Competence and Quality of Auditors' Report**

The second objective of the study was to determine the effect of internal auditors' skills and competence on the quality of the audit report in state corporations in the Ministry of Water, sanitation, and Irrigation. In the descriptive analysis, the majority of respondents indicated that the skills and competence of internal audit affected the quality of audit reports. On the correlation results, the competence of internal auditors and the quality of audit reports showed a positive and significant correlation ( $r = 0.340$ ,  $p = .000$ ). Regression analysis resulted in the rejection of hypothesis one and revealed a favourable and statistically significant correlation between the competence of internal auditors and quality of audit report ( $p\text{-value} = 0.000$ ).

### **5.2.3 Risk Assessment and Quality of Auditors Report**

The third objective of the study was to determine the effect of risk assessment on the quality of the audit report in state corporations in the Ministry of Water, sanitation, and Irrigation. In the descriptive analysis, the majority of respondents indicated that risk assessment affected the quality of the audit report. On the correlation results, risk assessment and quality of audit report showed a positive and significant correlation ( $r = 0.288$ ,  $p = .000$ ). Regression analysis resulted in the rejection of hypothesis one and revealed a favourable and statistically significant correlation between risk assessment and quality of audit report ( $p\text{-value} = 0.000$ ).

### **5.3 Conclusion**

The study findings indicate that internal auditors' independence had a very favourable impact on the quality of the audit report in state corporations in the Ministry of Water, sanitation, and Irrigation. In view of these findings, the audit committee of the Board of Directors approves the internal audit charter prepared by the head of the audit department. This suggests that addressing the issues of the internal audit charter improves the quality of the audit report. The board of directors can directly contact the audit head and auditors report administratively to the CEO and functionally to the board of directors. This helps the internal auditors to achieve the level of independence needed to effectively perform internal audit duties. The audit committee is informed of audit limitations. This helps the committee on determining the actions to take in aiding the auditor to complete all aspects of his or her audit procedures.

The study equally found that auditors' skills and competence affect the quality of audit reports. This informs the conclusion that professional qualifications are considered when hiring internal auditors. This makes them more trustworthy and credible and helps the directors in decision-making. The head of internal considers auditor capability while allocating engagement. This will help your initiatives succeed, on schedule, and on budget. The head of the internal audit appraises internal auditors annually and discusses with them their performance. This is due to the fact that the organization's entire business success may be significantly impacted by how well the Internal Audit department is doing.

The study also concluded that a continuous mechanism exists in the institution for risk assessment. A good risk audit program will identify essential business processes, risks to them, their relevance, risk mitigation solutions, and a course of action. All

personnel in the corporations are accountable for identifying risks. This enables organizations to develop plans to minimize harmful events before they arise.

#### **5.4 Recommendations**

The study found that internal auditors' independence improves the quality of the audit report in state corporations in the Ministry of Water, sanitation, and Irrigation. The study hence recommends that internal auditors should have independence since it allows them to make the objective decisions necessary for the appropriate conduct of engagements.

The study established that internal auditors' skills and competence have a positive and significant effect on the quality of auditors' reports in state corporations in the Ministry of Water, sanitation, and Irrigation. The study, therefore, recommends that internal auditors should have the necessary skills and be competent due to the fact that they assist the business's financial, operational, compliance, control, and governance activities.

The study also found that risk assessment positively and significantly affects the quality of auditors' reports in state corporations in the Ministry of Water, sanitation, and Irrigation. The study, therefore, recommends that state corporations should carry out risk assessment since it is essential for audit planning and analysing the risks of significant misstatement at the financial statement and related assertion levels, whether due to mistake or fraud.

#### **5.5 Contribution to Knowledge**

This study will add more information to the auditing body of knowledge on the risk-based internal audit and also to other studies relating to the quality of internal audit reports.

## **5.6 Suggestions for Further Studies**

This study assessed the effect of risk-based internal audits on the quality of audit reports in state corporations in the Ministry of Water, sanitation, and Irrigation. Although the risk-based internal audit accounted for 64% of the variation in the quality of the audit report, 36% was unaccounted for. As a result, additional research is required to determine the other factors that affect the quality of audit reports.

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## **APPENDICES**

### **Appendix I: Letter of Introduction**

Dear Respondent,

I am conducting research on how risk-based auditing affects the caliber of audit reports at state corporations within the Kenyan ministry of water, sanitation, and irrigation. This satisfies a portion of the requirements for the Kenyatta University Master's Degree Program. Please complete the questionnaire that is included, indicating your sincere agreement with each item. Any of these statements can be answered in any way that is appropriate. Only the information provided in the questionnaire will be utilized for this research, and it will be handled with utmost secrecy. I appreciate you taking the time to complete the survey.

Thank you in advance,

Yours sincerely,

Maurice Kivoto

## Appendix II: Questionnaire

### SECTION A: DEMOGRAPHIC CHARACTERISTIC

1. What is your gender?

Male  Female

2. What is your age bracket?

25- 30 years  31-40 years  41-50years  above 50 years

3. What is your highest level of education?

Primary school  Secondary school , Tertiary college  University

4. Years worked with the institution

Below 1 year  1 – 3 years  4 – 6 years  Over 6 years

### SECTION B: Independence of Internal Auditor

This Section is involves assessing the effects of independence of internal auditor on quality of audit reporting state corporations in the ministry of water, sanitation and irrigation in Kenya. Kindly mark [√] in the box, which best describes your agreement or disagreement on each of the following statements. The choices given are; Strongly Disagree – 1; Disagree – 2; Neutral – 3; Agree – 4; Strongly Agree –

Statement	1	2	3	4	5
The head of audit department prepares the internal audit charter and is approved by the audit committee of the Board of directors					
The head of audit has direct access of board of directors					
Auditors report functionally to the board of directors and administratively to the chief executive officer of the company					
Any limitation in the scope of audit is reported to the audit committee					

### SECTION C: Auditors Competence

This Section is concerned with assessing the effects of auditor’s capability on state corporations. Please tick [√] in the box which best describes your agreement or disagreement on each of the following statements.

Strongly Disagree 1

Disagree 2

Neutral 3

Agree 4

Statement	1	2	3	4	5
The head of internal takes into consideration individual capability when assigning engagement to each auditor					
Internal auditors’ professional qualification is taken into consideration during hiring a new auditor					
Auditors are sponsored to attend workshops for continuous professional education each year					
The head of internal audit conducts evaluation of internal auditors annually on their performance and discuss with them					

### SECTION D: Risk Assessment

This Section is concerned with assessing the effects of risk assessment on performance of state corporations. Please tick [√] in the box which best describes your agreement or disagreement on each of the following statements. The choices given are Strongly Disagree – 1; Disagree – 2; Neutral – 3; Agree – 4; Strongly Agree –

Statement	1	2	3	4	5
In the institution, risk assessment is a continuous process					
Risk identification is a responsibility of all employees of the organization					
There is consideration of risk assessment in the detection of errors					

**Section E: Quality of Audit Report**

This Section is focused with evaluating the quality of state corporations' internal audit activity reports. Please mark the option adjacent to the remark that best represents your agreement or disagreement. The choices given are Strongly Disagree – 1; Disagree – 2; Neutral – 3; Agree – 4; Strongly Agree –

Statement	1	2	3	4	5
There is adoption of computer aided audit techniques in the internal audit activities department					
There is developed quality assurance and improvement program covering all aspects of internal audit activity					
Internal audit reports have value –adding recommendations					
There is enforcement of quality control standards as per the requirements of International Professional Practice Framework (IPPF)					
The internal audit engagement report's tone emphasises improvement rather than condemnation.					
Reports follows the guidelines contained in the public finance management Act 2012.					

### Appendix III: Risk Based Audit Matrix

	Consequence				
Likelihood	Insignificant	Minor	Moderate	Major	Critical
Rare	LOW Accept the risk Routine management	LOW Accept the risk Routine management	LOW Accept the risk Routine management	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review
Unlikely	LOW Accept the risk Routine management	LOW Accept the risk Routine management	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review
Possible	LOW Accept the risk Routine management	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review	HIGH Quarterly senior management review
Likely	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review	HIGH Quarterly senior management review	EXTREME Monthly senior management review
Almost certain	MEDIUM Specific responsibility and treatment	MEDIUM Specific responsibility and treatment	HIGH Quarterly senior management review	EXTREME Monthly senior management review	EXTREME Monthly senior management review