

**EFFECTS OF EXTERNAL AUDITING ON CORPORATE GOVERNANCE OF  
CONSTITUTIONAL COMMISSIONS IN KENYA**

**ODERA FLORENCE JUMA, BCOMBA (FINANCE)**

**C153/CTY/PT/29877/2014**

**PROJECT SUBMITTED TO THE SCHOOL OF LAW, ARTS AND SOCIAL  
SCIENCES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE  
AWARD OF THE DEGREE OF MASTER OF PUBLIC POLICY AND  
ADMINISTRATION OF KENYATTA UNIVERSITY**

**MAY, 2023**

## DECLARATION

This project is my original work and has not been presented for a degree in any other university.

Signature \_\_\_\_\_

Date \_\_\_\_\_

**Odera Florence Juma**

**C153/CTY/PT/29877/2014**

### **Supervisor**

This project has been submitted for review with my approval as the university supervisor:

Signature \_\_\_\_\_

Date \_\_\_\_\_

**Dr. Moses M. Muthinja**

**Lecturer**

**Department of Public Policy and Administration**

**Kenyatta University**

## **DEDICATION**

This research project is dedicated to my late dad Mzee Peter Odera Okungu and Mom Mrs. Peris Odera for having instilled the confidence and courage in me at an early age and making me believe in the value of education.

## **ACKNOWLEDGEMENTS**

Special thanks to those who supported me especially Dr. Moses M. Muthinja for having agreed to supervise this research project and his guidance throughout the journey. Many thanks to Dr. Ng'eno KWA for getting me back to track when he realized I had disappeared for a while after completing my coursework.

My gratitude also goes my family, my husband Francis Okome for the unwavering support and positive pressure, my loving daughters Esther and Eliana who gave me enough pressure to graduate so as to hand over my tablet to them.

To all my classmates for being there to support in the best way possible, God bless you all.

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## **ABBREVIATIONS AND ACRONYMS**

<b>ACCA</b>	:	Association of Chartered Certified Accountants
<b>ARD</b>	:	Audit Report Delay
<b>BOD</b>	:	Board of Directors
<b>CMC</b>	:	Cooper Motors Corporation
<b>GFC</b>	:	Global Financial Crisis
<b>IASB</b>	:	International Accounting Standards Board
<b>IFAC</b>	:	International Federation of Accountants
<b>ISA</b>	:	International Standards of Audit
<b>NGO</b>	:	Non-Governmental Organization
<b>OECD</b>	:	Economic Co-operation and Development
<b>SAIs</b>	:	Supreme Audit Institutions

## **OPERATIONAL DEFINITION OF TERMS**

Compliance	This is the process of adhering to the obligations established by contractual obligations, regulations, industry ethics, laws, values, corporate commitments, corporate policies and procedures and organizational standards.
Corporate governance	is a term that refers to a concept that addresses issues of accountability and advocates for the implementation of guidelines and mechanisms that protect shareholders, thereby promoting economic development and financial market stability
External audit	Audit conducted for parties other than the auditee
Financial Statements:	is a collection of accounting data that has been properly classified into various categories some of which include; Income statements, Cash flow statement, statement of equity and balance sheet.
Fraud:	This refers to pilferage or misuse and diversion of the resources from intended purpose towards personal activities.

## ABSTRACT

Through implementing efficient controls and risk management mechanisms to achieve good governance, effective external auditing enables organizations to satisfy their financial commitments. The study's aimed to find out the effects of external auditing on the corporate governance of Kenya's constitutional commissions. The study objectives include; establish the effect of credible financial statements on corporate governance of constitutional commissions in Kenya, examine the effect of compliance with governing laws and regulations on corporate governance of constitutional commissions in Kenya, determine the effect of fraud detection on corporate governance of constitutional commissions in Kenya and evaluate the effect of timely audit reports on corporate governance of constitutional commissions in Kenya. The study was guided by Stakeholder theory and agency theory. The study adopted descriptive research design. The research was conducted in 11 constitutional commissions, with a target population of 550. Simple random sampling was used to generate a sample size of 55 individuals representing 10% of the total population. The data was collected via questionnaires from the sample respondents and analyzed using the statistical package for social science. Graphs, pie charts, and tables were utilized to show the qualitative data, while descriptive notes will be used to present the quantitative data. The researcher conducted a descriptive study. The study observed that credible financial statements ( $\beta=0.388$ ,  $p<0.05$ ), compliance with governing laws and regulations were as under: were ( $\beta=0.208$ ,  $p<0.05$ ), fraud detection ( $\beta=0.318$ ,  $p<0.05$ ) and timely audit reports ( $\beta=0.333$ ,  $p<0.05$ ) were all significant predictors of corporate governance. The study concludes that external auditing significantly enhances corporate governance. It was recommended that internal auditors working in the constitutional commissions in Kenya should work together with external auditors while promoting a high degree of independence among them. Compliance audits should be encouraged and undertaken in the constitutional commissions in Kenya. There is need to invest in State of art forensic technologies for detection of fraud among employees in the constitutional commissions in Kenya. The external auditors engaged in the constitutional commissions in Kenya should always ensure that they submit their independent audit reports on time.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

There are numerous references to the term "corporate governance," with different people claiming to have different interpretations of what the term means. A deeper meaning is asserted by some, who believe the term refers to the day-to-day operations of an organization, while others disagree. There is a particular emphasis on constitutional commissions in Kenya, and the main study purpose is to decipher various corporate governance definitions and to study effects of external auditing on the subject.

According to Burt (2016), external auditing in the United States of America enables institutions to achieve their financial operational goals through committed and well-thought-out processes to assess and improve on how to put in place effective controls, manage risk, and increase good governance. Since financial information exchange methods and management controls across public institutions are also essential components of managing public expenditures, the broad perspective of external audits positions them more centrally (Baharud-din, Shokiyah, & Ibrahim, 2016).

According to Kassem and Higson (2016), external auditors in Nigeria assist institutions in protecting their financial resources and are required to provide a transparent account of how resources have been used. They also continuously assess whether the feedback given satisfies public expectations and objectives and whether these are well-balanced to lessen the financial management risks associated with principal-agent relationships. The

external audits can answer whether the agents have used the resources as anticipated and intended by the established regulations by applying auditing principles (Maroun, 2019). As a result, institutions actively support the independence of the auditing team and should make this known to all parties in order to foster the right mindset (Abayadeera & Watty, 2017).

Cadbury (1992) views corporate governance as a holistic organizational system that is comprised of subsystems like the shareholders, management, Board of Directors, and other stakeholders, all of which work in concert for the common good of the organization. These subsystems must be guided by a well-defined framework of rules, relationships, and processes so as to attain this common goal, or rather, in order to work in unison without conflict (Chibarinya, 2014). Although the Organization for Economic Co-operation and Development (OECD, 1999) notes that rules and processes alone are insufficient to define corporate governance, the organization believes that it is also necessary to specify among various participants how the rights and responsibilities are distributed. Specifically, this concept addresses the issue of accountability and advocates for the implementation of guidelines and mechanisms to protect shareholders, which results in economic development and financial market stability, respectively (Otieno, 2012; Sanda, Mikailu & Gabra, 2004).

By defining the organization's common goal as utilization of scarce resources efficiently combined with accountability for their stewardship, Omoyale and Jacob (2017) provide additional context for the organization's common goal. The corporate governance is

defined by different scholars as the procedures and processes where a company or a firm is controlled and directed to achieve a common goal.

For many decades, the corporate governance concept has been in existence but there has been a recent increase in public awareness of the subject. This is due to the global economic crisis which had started in the year 2007. As a result of this increased awareness, a greater concern arose for rigorous standards in the corporate governance to make sure that there is effective and efficient utilization of public funds and resources which generate a positive return on investment in the public interest while also being protected from malfeasance and theft (Solomon, 2004).

It is necessary for both governing bodies and employees to act in the public interest, in accordance with applicable laws and policies, to ensure and create in the public sector some level of good governance. Some of these include the issue of action against the perceived interest of the organization, avoiding self-interest where it is necessary (IFAC, 2014). The stakeholders and the other service users can be able to enjoy or benefit from positive outcomes when there are proper strategies to secure the public benefits and interests.

The greater social benefits and utility can only be achieved when one is acting on behalf of societal wellbeing which would be reflected in the outcomes that are positive for the stakeholders and other beneficiaries in the society. The question however is, what are the corporate governance issues that have resulted in the numerous collapses of private and public corporations, how can these issues be detected early enough to avoid such collapses, and what effect does external auditing have on these issues? According to

some authors, these declines are due to a decline in corporate governance values, citing factors such as dubious accounting practices (Lumumba, 2015; Nambiro, 2007). Others attribute the declines to poor governance performance caused by a lack of clear guidelines defining roles and responsibilities in organizational management (Wahuria, 2015).

It is worth noting that several global corporate behemoths have collapsed as a result of poor corporate governance practices. Among them are Olympus, a Japanese electronics manufacturer, Imperial Bank Limited, Enron, and Blockbuster, among others. Locally, we have seen the demise of Kenya Airways, Kenya Railways Corporation, Nzoia Sugar Company, Post Bank, Cooper Motors Corporation (CMC - Kenya), Chase bank (now SBM bank), and Euro Bank, Imperial Bank, Uchumi, Nakumatt, and Tuskys Supermarkets, among others.

The majority of researches have concluded that effective accounting reforms, including distinct accounting standards, complete disclosures, internal and external auditing, and audit committees, are required to address these corporate governance issues (Nambiro, 2007; Rajagopalan & Zhang, 2008; Sarens 2007; Carcello, Hermanson & Neal, 2002; Al-Mudhaki, & Joshi, 2004; Bhasin, 2012). These researchers believe that corporate governance is governed by rules and standards and that internal audit's role is to assist governing bodies (Boards of Directors or commissioners) in executing their mandate guided by the interests of the stakeholders or that of the public.

External auditing serves as a check on whether public entities provide their stakeholders with transparent non-financial and financial information for decision-making; whether

the public sector has sound governance and performance management; and whether natural resources are used efficiently in services and goods production which is aimed at improving the societal welfare or that of the general public. Also asserted is that the audit committee's responsibility is to ensure that the audit team performs its duties efficiently and effectively. The committee's responsibility is to create an environment that encourages open participation by individuals to improve management's transparency, integrity and respect for auditors. The committee's mission is to improve management's integrity, transparency, and respect for auditors (Puri, Trehan, & Kakkar, 2010). They must be aware of the audit strategy and ensure that auditors adhere to the highest ethical and professional standards in their work (Zaman, 2001).

How much, then, does auditing, and specifically external auditing, contribute to ensuring that organizations, particularly government entities, practice sound corporate governance? Given that the governing bodies are entrusted with the organization's resources and are expected to manage them prudently and effectively in the public interest, what role does external auditing play in this? These are some of the questions that this study will attempt to address.

## **1.2 Statement of the Problem**

The stakeholders of the company, which also include the general public, shareholders, the government, and financiers, and their interests must be protected is the duty of those charged with governance, whether they are the board of directors (BOD) or commissioners. Corporate governance principles must be followed in order to achieve this. These principles include accountability for resource management, transparency in

processes and information, strong internal controls to protect the organization's assets and interests, appropriate risk management plans, efficient stakeholder management channels, and adherence to the law. To guarantee that people assigned with governance responsibilities carry out their duties successfully and in the best interests of stakeholders, external auditing acts as a watchdog. These oversight responsibilities extend beyond financial reporting to operational processes which include performance reporting accountability, effectiveness and efficiency (IFAC, 2014).

However, massive corporate failures such as Enron, Blockbuster, Texaco, Woolworth, and Refco have occurred in the recent past. In Kenya, we have witnessed the demise of Uchumi supermarket, Tuskys supermarket, Nakumatt supermarket, CMC and Kenya Airways, to name a few. This raises the question of whether auditing has a discernible effect on corporate governance. Did the auditors do their job of determining the financial statement credibility over time? Were the auditors able to detect and report frauds? Did the auditors identify and report on areas of regulatory non-compliance? Were audit reports issued in a timely manner, allowing stakeholders to make timely and informed decisions?

Ferreira (2018), Shyaka (2018) and Kiragu (2016) are among the researchers who have examined the effect of external auditing on corporate governance in Portugal, Rwanda, and Kenya, respectively. Their conclusion was almost universal: in corporate governance the role of external auditing is critical and cannot be overstated in these organizations. They concluded that external auditing bolstered corporate governance by prioritizing risk management and enforcing clear lines of accountability, promoting appropriate ethics and

values, increasing transparency, engaging stakeholders, and ensuring accountability for those charged with governance.

However, the above studies like Shyaka (2018) adopted case study design that differs from descriptive research design that the present study adopted resulting into methodological gap. The study by Ferreira (2018) focused on listed firms which differ from constitutional commissions. The study by Kiragu (2016) focused on commercial banks and not government institutions thus creating contextual gap. The government of Kenya spends billions of shillings annually on both compliance and financial audits of government institutions and Kenyans bear this burden through taxes and will be very necessary to find out if these audits have any effect on the quality of corporate governance of the government entities focusing on the eleven constitutional commissions. Thus, the present study sought to establish the effects of external auditing on corporate governance of constitutional commissions in Kenya.

### **1.3 Objectives of the Study**

The study sought to:

- i. Establish the effect of credible financial statements on corporate governance of constitutional commissions in Kenya
- ii. Examine the effect of compliance with governing laws and regulations on corporate governance of constitutional commissions in Kenya.
- iii. Determine the effect of fraud detection on corporate governance of constitutional commissions in Kenya.

- iv. Evaluate the effect of timely audit reports on corporate governance of constitutional commissions in Kenya.

#### **1.4 Research Questions**

- i. How do the credible financial statements affect corporate governance of constitutional commissions in Kenya?
- ii. What is the effect of compliance with governing laws and regulations on corporate governance constitutional commissions in Kenya?
- iii. How does the fraud detection affect the corporate governance of constitutional commissions?
- iv. What is the effect of the timely audit reports on corporate governance of constitutional commissions in Kenya?

#### **1.5 Justification and Significance of the study**

##### **1.5.1 Justification of the study**

Kenyan government spends billions of shillings annually on financial and regularity audits of government entities, including the eleven constitutional commissions. These funds come from taxpayers' money and are borne by Kenyans in the hope of better service delivery. The government and taxpayers are clearly interested in knowing whether the audits have any impact on corporate governance, i.e., whether they help improve the performance of these government entities.

### **1.5.2 Significance of the study**

The constitutional commissions and the different players are some of the beneficiaries who would benefit from the study. They include but not limited to: The governing body (Commissioners) by identification of the areas of weaknesses and creation of strategies to review the corporate structures and improve on the same. The study will be important to the management by helping to improve on corporate governance and provide guidance on strategies that they can adopt. The government as it will help point out areas that require improvement so as to ensure the citizens' interest is served. The auditors, the general public by improving corporate governance practices and therefore resource utilization, the quality of service and service delivery. The research field since because the future researcher will be able to adopt the same for review of literature and creation of gaps.

The study will also assist future scholars and researchers it as a source of empirical literature while informing the appropriate methodologies that can be adopted to study the concepts. This would help in enhancing available literature on the effects of external auditing on corporate governance. The study would also support future scholars by identifying possible gaps in literature that would inform their studies.

## **1.6 Scope and Limitations of the study**

### **1.6.1 Scope of the Study**

The study emphasized importance of external auditing in the corporate governance of Kenya's constitutional commissions. The commissioners and top management of Kenya's eleven (11) constitutional commissions will be the respondents.

### **1.6.2 Limitations of the Study**

First and foremost, due to the short duration of the research project, the researcher was time constrained. The Covid-19 pandemic at the time of the research caused some institutions to restrict access to their head offices, where the necessary study data was collected, from outsiders. Furthermore, it was possible that the targeted study respondents withheld important information because they believed it was too sensitive to disclose.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.0 Introduction**

The review of literature is presented and formulated in the second chapter of this study. It covers the role played by external auditing in enhancing corporate governance in the constitutional commissions in Kenya. The chapter summary provides an outline of the areas covered in this chapter and a brief description of what chapter three entails.

#### **2.1 Empirical Review**

This section reviews literature with regard to the aspects of external auditing that would affect the corporate governance of the constitutional commissions in Kenya. It starts by explaining the external auditing function in an organization and goes ahead to explain the aspects including auditor independence, credibility of financial statements, compliance with governing laws and regulations, fraud detection and timely audit reports.

##### **2.1.1 External Auditing**

External audits are conducted for parties other than the auditee, and the reports and findings are submitted by the auditor to these parties. In the case where the experienced and competent professionals who are not independent of the auditee or the members of staff therein get to conduct the audit with considerations of the different requirements as required by the law on behalf of the client. This includes analytical review, system evaluation, compliance, and substantive testing (Porter, Simon & Hatherly, 2011). Internationally, the public sector's external audit is conducted by Supreme Audit

Institutions (SAIs), which are considered the public sector's highest auditing bodies. Some of the functions of the SAIs' are critical as the stewardship of the public resources which includes the control process, the governance of public entity and the management of risks. Not only financial reporting is included in the oversight responsibility, but so are processes which are operational, this also include the accountability for effectiveness and efficiency and also reporting of performance (IFAC, 2014). To gain a better understanding of external auditing, we will examine its limitations, quality, and role.

During an external audit exercise, management and other stakeholders place expectations on the external auditors. It is critical to keep in mind that the audit expectation gap may result when the expectations are never met in full. It is the discrepancy between auditor's perception of his or her role and the expectations of financial statement users. There is a no harmony between the expectations of the community on the Auditor and what the Auditor is seen to be doing which means that there is a disconnect which gives the impression that the statutory objective of audit is not responsive to the public's social needs (Okaro,2009).

Ferreira (2018) observed that there was a statistically significant positive association between the corporate governance fulfillment in terms of recommendation and the external auditor verification while examining external auditors' functions in the corporate government among the different companies which are listed in the NYSE Euronext Lisbonon Stock market. Ferreira (2018) attributed the existence of this relationship to ROC's increased involvement in adhering to corporate governance recommendations, resulting in increased information transparency and a decrease in fraud, economic crimes

and agency problems. The study's methodology involved comparing various company reports by the government for the companies which are listed on NYSE Euronext Lisbon over time, as well as surveys done in first half of 2013 in Portugal of the external auditors responsible for the majority of legal certification of company accounts from 2007 to 2011. The knowledge gap in this study is that no other researcher in Kenya has attempted to establish the critical role that external auditing plays in enhancing corporate governance among publicly traded companies.

The audit expectation gap is a result of external auditors being constrained by a variety of factors. These factors include, but are not limited to: sample auditing, as performing an audit test on all balances and transactions in a client's account would take an inordinate amount of time; and auditing costs, as longer audit hours would imply increase resource requirements and thus higher audit charges. Another constraint is imposed by government regulations. This is because auditors are only authorized to act within a specified scope (Dimitrijevic *et al.*, 2020).

These constraints have the potential to dilute or enhance the quality of any auditing exercise. While it is true that quality is what matters at the conclusion of any audit exercise, this is debatable in light of the numerous corporate failures despite the presence of very large audit names. Audit quality can be defined as the possibility or probability of auditors independently identifying and reporting material weaknesses in an entity's accounting system and financial statement errors (Francis, 2011). The likelihood of detecting breaches and errors is contingent upon the auditor's competence, while the auditor's independence dictates whether the auditor will report them (Muchugia, 2018).

Ball (2006) argued that high-quality auditing is associated with sound corporate governance, in which numerical reports are less manipulated.

Shyaka (2018) conducted a study to ascertain how the corporate governance in Rwanda that is the Guaranty Trust Bank in Rwanda. The study adopted a research design that is descriptive with a sample of 135 individual sample members who included the accountants, the managers that is senior, internal auditors and the customers who were served in the Guaranty trust Bank in Rwanda. A descriptive research design was adopted by the study and a sample population of 135 participants, including senior managers, accountants, customers, and an internal auditor from the bank of Guaranty trust. The research findings in this case indicated that the audit size, audit hours and audit report all have a significant impact on corporate governance, whereas audit fees had no effect. The knowledge gap in this case is that the previous study examined a different aspect of external audit than the current study, thereby creating the gap that this study will address.

Alabede (2017) conducted a study in which he examined the role of the external auditors, challenges and responsibilities in corporate governance in Nigeria by identifying the different accounting bodies that are adopted by the government in a bid to regulate the role of the auditors. The study's findings indicated that the effective and efficient function of the external auditor is powered by the ICS and a good cooperation among the audit committee members. However, while performing their duties the study has shown that auditors have been found to compromise their integrity professionally in order to make financial or economic gain after altering the reports or the audit outcomes/outputs. Additionally, the study identified the following issues as impeding the auditor's effective

role within the framework of corporate governance: auditor morality, independence, audit market cartel and public expectation.

A high audit quality builds stakeholders' and the public's confidence in the financial reports generated by managers, thereby narrowing the expectation gap (ACCA, 2015). Additionally, it mitigates audit risk and the likelihood that the audit firm will issue an incorrect audit opinion. The researcher identified auditor independence as a moderating factor affecting external audit quality in this study.

### **2.1.1 Auditor Independence**

The public accounting profession has long been recognized for its independence and privilege to self-govern, including the society grants it power and privilege (Ayowale, 2019). As stated by Muchugia (2018), citing Hooper, Fornelli, and Chipman (2016), an auditor's independence is indicated by qualitative factors such as professional skepticism, which helps make objective audit judgments. Auditors' independence may be compromised if they earn money from non-audit services (Fearnley *et al.*, 2002). Non-audit services divert the auditor's attention and cause unnecessary compromise. In fact, some studies find no link between auditor independence and non-audit fees, arguing that an auditor's desire to maintain a high-quality auditing reputation may prevent them from engaging in activities that jeopardize independence (Krishnamurthy *et al.*, 2003).

The appointment of an external auditor is another area of independence that is rarely discussed. In reality, management appoints and the auditor may favor his employer (Solomon, 2010). It is central to audit because stakeholder trust that the independence of the auditors from the management is used to inform the report by the auditor. Reliability

and credibility of an auditor's report may be questioned (Fearnley *et al.*, 2002). Somoye *et al.* (2020) investigated how the auditor's independence is able to impact or influence the corporate governance in Nigeria. The data used was collected from the Nigerian Stock Exchange that is the financial statements for a sample of 18 firms listed on the stock exchange in Nigeria. Following the study's findings, it was recommended that external auditors be given more power to protect them from client influence or intimidation, and that they not be in the client's audit for more than three (3) years to protect their independence.

Salehi (2018) examined the relationship between corporate governance and audit independence among Iranian bankers and discovered a huge gap between auditors and bankers when assessing audit independence. As a result, it was concluded that effective corporate governance is required to resolve the issue of auditor independence. The independence of the Internal auditors cannot be counted on because they are under direct control and influence of the management since they are adopted on placed there to function as part of the internal control systems, thus their independence cannot be guaranteed (Yen, Thuy, Tien & Anh, 2019). The shareholders have the right and the obligation to suggest and choose the external auditor who they feel is independent and cannot be easily compromised. This is as opposed to the internal auditor who is the employee of the company.

Laws "require external audits of organizations to address the agency problem caused by ownership separation from corporate management (Salehi, 2018). As a result, Generally Accepted Auditing Standards require external auditors to make independent judgments

about control risk levels and the level of professional skepticism with consideration of the client setting (Roy & Saha, 2016). Aside from the regulatory approach, academics have continued to focus on auditor independence, especially in light of corporate failures and auditor reputational damage. Regulatory safeguards and sanctions created by the profession (the practice environment) and which include other parties like the other firms, regulatory bodies of the Audit client are examples of suggested regulation which have been put in place by the profession. One cannot overstate the impact of these misdeeds on the auditing profession. The capital market is important and crucial to the growth of the economy and creation of wealth for the shareholder, this means that the efficiency and the effectiveness and transparency must be provided in the corporate governance system in order to encourage continued investments by the investors and the flow of production and creation of wealth in the long run (Roy, 2015).

Importance of the auditor's responsibilities in enhancing corporate governance may come in handy especially where there is conflict of interest between the different parties and for essential certification according to Bahrawe, Haron, and Hasan (2016). The researcher used descriptive research to investigate Saudi corporate governance reforms and the Saudi auditing market. Problem with the study is that it was only a literature review examining Saudi corporate governance and audit independence, leaving out the actual corporates where auditor independence is vital to improve corporate governance (Bahrawe, Haron, & Hasan, 2016).

One cannot overemphasize the function of the auditors and the auditing procession because it gets to maintain a level of confidence and efficient running of the market

system which makes it very important. The role of the auditor and the auditing profession in ensuring the smooth running of the market system and maintaining confidence in it cannot be overstated (Yen, Thuy, Tien & Anh, 2019). Due to the fact that their appointment and compensation were largely decided by the management to whom they reported, auditors used to be in a precarious position (Ayowale 2019). However, this has changed now that the Audit Committee is responsible for recommending their appointment and other matters relating to auditors. This includes their audit scope, independence, and an alternative communication channel (Muchugia, 2018). It is reasonable to expect that this will improve corporate communication, audit quality, and transparent reporting.

### **2.1.2 Credibility of Financial Statements and Corporate Governance**

A financial statement is a collection of accounting data that has been properly classified into various categories, including the income statement, statement of equity, cash flow statement and balance (Wood & Sangster, 2008). This information is used by a variety of stakeholders to analyze and comprehend a company's financial position, as well as to instill shareholder confidence through the financial statements' transparency and reliability. Financial statements contain information that is used to make numerous business decisions by a variety of external and internal stakeholders.

Dimitrijevic, Jovkovic and Milutinovic (2020) state that in order for stakeholder confidence to be increased in the quality of financial statements, it is important for the statements to be reviewed and an opinion on their quality to be given by independent, external parties. It is the exact role or function of the external audit. In corporate

governance the external auditors' primary role should be to safeguard interest of the shareholders' interests. The host or domestic organization does not have any control of the external auditors and as such the external auditor is an independent officer. External auditors report on a company's financial situation and certify the validity of any released financial reports. All data must be accurate and dependable (Ferreira, 2018).

According to PWC (2014), providing an opinion is the main responsibility or function of the external auditor, the same should be done in accordance to the accepted accounting standards without misstatements in the statement of financial position or any financial statements and be presented fairly. To express an opinion on accuracy of a company's financial statements, auditors must be convinced that the balance sheets items are accurate and of the accuracy of all balance sheet items and the management's disclosure of other relevant information (Jovkovic, 2014).

Dabor and Adeyemi (2019) investigated the association between the financial statements credibility and the corporate governance among selected firms in Nigeria which are quoted. It was concluded that the credibility of the financial statements can be restored or improved by way of adding or including non-executive directors in the board of directors and then compliance with the audit committees' requirements which are set out in the Nigerian Companies and Allied Matters Act (CAMA) 1990.

The study's methodology included the collection of primary data from 248 respondents as well as secondary data from twenty quoted firms in Nigeria. Multiple regressions were adopted in data analysis procedures for secondary data, whereas the chi-squared test was used to test hypotheses with primary data (Dabor & Adeyemi) (2019). In this case, the

research gap is that the particular study was done in Nigeria while this study is being done in Kenya.

Regina (2019) observed that there was a relationship but positive association between the quality of financial reporting of listed firms in Kenya and the practices of corporate governance. To complete the study, the researcher sampled a total of 40 firms listed on the NSE as of the end of 2016 and then used a descriptive correlation research design to sample heads of listed companies' internal audit functions. The relationship between the variables was investigated using correlation analysis and multiple regression. The research gap in this case was that the study focused exclusively on firms listed on the NSE and did not examine constitutional commissions, which is what the current study has done.

Additionally, Wang, Zhou, and Wang (2020) investigated use of the credibility-enhancing mechanisms in the reports integrated among firms that are in Johannesburg and listed in the stock exchange therein. This was in consideration of the effects of these factors on the corporate governance. It was found that the credibility of the integrated reports and the quality of the same is affected or influenced positively by the inclusion of the non-financial performance mechanisms and the sustainability committee. This can be attributed to the sustainability committee's expertise and the independence therein coupled with the due diligence and the professionalism of the audit committee and the board of directors. According to Wang, Zhou, and Wang (2020). the methods used in this case included a review of a sample of integrated reports published by the Johannesburg Stock Exchange between 2012 and 2015.

### **2.1.3 Compliance with Governing Laws and Regulations and Corporate Governance**

Compliance is the process of adhering to the obligations established by regulations, contractual obligation, organizational standard, corporate policies and procedures, the values, ethics and laws. Regulatory bodies require an organization to have a compliance function that assists in enforcing corporate governance. The process of checking the ability of the organization to adhere to the specific policies, regulations and rules established by a given authority or the regulator in the market is referred to as the compliance audit.

In order to find out whether the entity is compliance or complies with the established criteria the compliance audit is used; thus, the organizational structure of the company that is used for regulation compliance and the majority of the regulators always trust the company's disclosures that have been attested to by the auditor. According to Satka (2017) the issue of compliance with the regulation and the laws set by the governing authority are mostly achieved by use of external audit report and its uniqueness and is related to the impartiality of the report process and the same is able to provide the assurance that the money there in will be utilized in according to the regulatory act, laws and company policy.

Leung, Cooper and Robertson (2018) explored how the management and corporate governance are influenced by the function of the internal auditors, this was done with consideration of a sample of firms in Australia and it was found that the internal auditors are not confident on how to about their role in corporate governance even though the internal auditors are optimistic about the same. The internal control system and the risks

are directly connected to the internal audit while the governance standards are concerned with the compliance. The study was completed through the use of an online survey that was designed to elicit information about the state of practice, the accountability structure and their role and performance, as well as 25 face to face in depth interviews that provided context for the online survey's findings. The current study will be done in Kenya which the study reviewed here was done in Australia hence the research gap.

Gao and Kling (2012) examined how compliance with mandatory disclosure is influenced by the external audit and corporate governance in China. It was found that the opinion of the external auditors influences the issue of compliance positively courtesy of the mandatory disclosure requirement and the same applied for the improvement in the internal governance. The study employed a direct measure of compliance that was published by the Shenzhen Stock Exchange (SZSE) between 2001 and 2007. “

Juhmani (2017) “examined corporate governance and the extent to which Bahraini corporations complied with IFRS disclosure requirements, it was established that there are three mechanisms which were connected to the disclosure of the IFRS which includes the duality of the chief executive officers, the audit committee independent and the board of directors independence. This demonstrates that the financial reporting practices were influenced by effectiveness of corporate governance mechanisms. The study was completed using ordinary least-squares regressions.

Gerged, Mahamat, and Elmghaamez (2020) conducted a study in the United Kingdom to determine how the audit quality influences the corporate governance (GC) among 350 selected companies in the FTSE. They discovered that in the United Kingdom the sound

corporate governance has no significant influence on the decision to contract a Big4 Auditor. The binary logistic model was adopted for the estimation of the relationship between the variables under investigation nexus between the audit quality and the corporate governance for the period between 2012-2017 using a sample of 180 firms.

The study by Ebrahim and Fattah (2015) investigated how compliance with IFRS disclosure and recognition is affected or influenced by the different factors that include the audit quality that is independent and corporate governance factors in Egypt. It was established that it was easy for a firm or firms to consider and external auditor with international affiliations where the ownership of the firm or the high level ownership of the firm has significant share of foreign representatives on board, this firms were also found to be more likely to have adherence to the disclosure requirements and the recognition of the IFRS. It was found that the results put more emphasis on the importance of the regulations and the professional development and the regulations specifically in the emerging countries.

#### **2.1.4 Fraud Detection and Corporate Governance**

The presence of fraud or human error can bring about the inaccuracies in the financial statements. The definition of fraud is the deliberate concealment, omission of the truth or misrepresentation of the fact with an intention of financial deception or manipulation to the disadvantage of the organization or other individuals. It also refers to theft, embezzlement or such attempts to harm or misuse the assets of the organization. According to Bunget (2009) found that the function of the external auditing in the detection of errors and fraud that when carrying out and planning the procedure of audit

and the assessment or reports of the audit results should take into account the misstatements that are material in the financial statement in order to assist in the detection of the errors and fraud.

There should be a high punishment or premium for every fraud that is committed in order for there to be a level of prevention and incentive to not commit fraud. This will make it more difficult for the individuals to engage into corruption and corrupt activities because they are afraid of the strict law and punishment. Those in position of authority can be able to create or foster an environment or ethical standard and behaviors that are encouraged by active oversight and honesty in the service.

The management and those administrators in the control of the organization can be able to influence the auditor's report in order for there to be better or positive perceptions by the analysts which will favor the company's status and going concern. Therefore, those in governance positions of enforcement and authority must be able to come up with ways and policy that is able to put in place the regulations which do not allow an override of the laws and procedures by the management (Bunget, 2009).

Birol (2019) conducted a study in which he examined the relationship between detection of fraud and corporate governance at Borsa Istanbul, Turkey. It was found that the risk of fraud in Turkey in relation to the principles governing the corporate governance was not strictly adhered to and that profitability and indebtedness of businesses have an effect on the risk of preparing fraudulent financial statements, as well as provides clues about the misstatements. The study was conducted using a logistic regression technique in which 134 companies listed on the Istanbul Stock Exchange were studied using financial

statements published between 2010 and 2014. The knowledge gap in this case is that the previous study was conducted in Turkey and included only publicly traded companies, whereas the current study will be conducted in Kenya and will include selected constitutional commissions.

Additionally, In'airat (2015) conducted a study on how fraud in business environment in Saudi Arabia is influence by the corporate governance and how the same can help reduce fraud therein. It was discovered that there are three types of corporate governance of the components but the most important that is considered to have most influence is the internal audit. It was also established that the effectiveness as a component had the greatest impact on the reduction of the fraud, other components includes the, implementation, existence and the effectiveness. The study considered about 160 executives in the survey and the rate of response was 43.8%.

Costa (2017) observed in his study titled corporate governance and fraud that corporate governance for the purpose of preventing fraud defines the functions, principles and essential components of a corporate governance system. It discusses the controversy surrounding CEO duality, the committees that every organization's board of directors should have, and how to set up a tone that is appropriate in the high levels. As a result, effective corporate governance is critical for avoiding corporate scandals, fraud, and potential civil and criminal liability (Costa, 2017).

Magnanelli, Nasta, and Pirolo (2017) observed that there was an inverse association between the corporate governance and the quality of the system and the two occurrences and magnitude of financial statement, fraud in their study on preventing financial

statement frauds through improved corporate governance. In addition to this it was also established that fraud deterrence for large amount of the financial system in the firm can be achieved by use of the consolidated governance systems. It was found that among one hundred and one publically traded firm that a fraud was confirmed or detected. The study was conducted using a sample of 101 publicly traded firms for which a fraud was detected and a principal component analysis to develop a corporate governance index that quantifies the quality of the firms' governance system.

### **2.1.5 Timely Audit Reports and Corporate Governance**

Primarily, all stakeholders within an organization deserve to be aware of the true financial state of the business. This is only possible with an audit report that contains accurate and reliable financial data deemed pertinent for decision-making (Ayowale 2019). The only thing that serves as a link or the mediator between the reliability of the financial reports and the relevance and the delay in the audit report is the conceptual framework for financial reporting; it is also utilized in the metric for gauging the audit efficiency for the outsiders (International Accounting Standards Board's (IASB)). The material information about the corporation should be collected or obtained by the shareholders (Organization for Economic Cooperation and Development). According to the Organization for Economic Cooperation and Development's (OECD) code, shareholders should obtain timely and material information about the corporation (OECD, 2004).

According to Muthuva *et al.* (2019), all information that is material concerning the company should be disclosed in a timely and accurate manner, including its financial

situation, performance, ownership, and governance. This is supported by Callen and Khan (2013), who examined the quality of audit information reporting and effect of information delayed on the stock price and its relationship to future stock returns in their research. They stated that when the quality of audit and accounting reporting is reduced, its relevance and reliability are diminished, reducing investors' ability to forecast cash flows and returns accurately.

The association between the timeliness of the financial statements that have been audited among firms that are publically traded in Kenya and the corporate governance was investigated by Mathuva, Tauringana and Owino (2019) and it was established that the annual reports timeliness is positively influenced by the features or the characteristics of the board diversity. Additionally, the findings indicate that a longer tenure of independent directors on the board is associated with a shorter duration of the annual report. About 543 firms were considered for the study with a period of between 2007 and 2016 and analyzed the data using both granular and aggregated approaches.

Baatwah, Salleh and Ahmad (2015) investigated the how corporate governance mechanisms affect the timeliness of the audit reports in Oman and found out that the features such as the size of the board and the professionalism and the features of the audit committees like the financial professionals have a relationship with the timeliness of the audit reports. As opposed to simply adhering to the practices that are pro-forma, the regulators in the developing economies like the Oman should be able to focus on and encourage corporate governance that is substantive. The conclusion of the study found

that the corporate governance doctrines or measures adopted in Oman are not as effective compared to those in developed economies. The study used the panel data approach and the firms in listed on the capital market of Oman were considered.

Gacheru (2018) considered listed companies in the East African Community States and investigated significance of lag of the audit report and its determination of the corporate governance and discovered that the competence of the clients' finance team, the completeness and quality of information provided to auditors, and the type of audit report (qualified or unqualified) all had a significant impact on auditor report lag. Boards of directors, management, and external auditors are urged to prioritize timely financial reporting, as investors in East Africa place a high premium on publicly available financial information when making investment decisions. The study was completed by focusing on a ten-year period from 2007 to 2016.

Eze and Nkak (2020) Assessed the companies that are quoted in Nigeria on how their corporate governance and how the same influence the audited reports timeliness among these listed firms in Nigeria, it was concluded that late filers have significantly fewer directors that are non-executive and those who are independent audit committee members who have expertise in the finance as a field on their boards than early filers do, and that these factors have a positive effect that is significant on the timeliness of audited financial reports filed by companies. The methodology used involved a sample from the stock exchange in Nigeria for all quoted companies, the obtaining of secondary data, and testing the study's hypotheses using the regression model.

Syofyan *et al.*, (2021) investigated the features of the audit committee that affect the audit report's timeliness in Indonesia and concluded that the audit committee's meeting frequency is critical in ensuring the audit committee's role in company's oversight, resulting in the timely submission of audited financial statements. The methodological approach used 240 observations from 48 manufacturing firms or companies in Indonesia that were listed stock market (IDX) for the years 2014 to 2019 as samples and logit regression analysis to test the study's hypotheses.

## **2.2 Theoretical Review**

This section gives a review of theories related to the study of effects of external auditing to the corporate governance. The study takes a look at two theories named Stakeholder theory and agency theory to see how they affect the study.

### **2.2.1 Stakeholder Theory**

Stakeholders are any group or individual who has the ability to influence or is influenced by the firm's achievement of its objectives (Freeman 1984). These groups or individuals anticipate that a business or entity will always live up to their expectations. Customers expect high-quality products and services and to be treated with respect, shareholders expect maximum returns on their investment, suppliers expect prompt payment on invoices, the government expects compliance with applicable laws and regulations, employees expect improved terms of service, and the community expects the business or entity to undergo a general facelift.

According to stakeholder theory, the purpose of a business is to maximize value for stakeholders in order to succeed and remain sustainable over time. Managers' primary

responsibility in business is to keep the interests of employees and stakeholders aligned and moving in the same direction (Albasu & Nyameh, 2017). According to stakeholder theory, all stakeholders should be treated fairly, honestly, and even generously (Harrison et al., 2015). This theory is relevant to the study because it elucidates what and how stakeholders expect to be treated by and from the firm or entity, while the entity maintains a focus on business sustainability.

In order to maintain the going concern of the business the stakeholder theory states that the organization must purpose to maximize or grow the investments of the firm and the stakeholder's value. The managers primary responsibility in the business is to ensure that the employees are well looked after and that the interest of the stakeholders are taken care off so that there is coherence and good working relationships between these groups (Albasu and Nyameh, 2017). There should be generous, fair and honest treatments for all the stakeholders as stated by the theory of stakeholders (Harrison et al., 2015).

### **2.2.1 Agency Theory**

Agent “refers to a person who acts or transacts on behalf of another individual referred to as the principal. Thus, agency theory defines the relationship between agent and principal in terms of interests and conflicts. According to Eisenhardt (1989), agency theory is concerned with analyzing and resolving problems that arise when a principal interacts with their agents or top management. The theory is predicated on the premise that organizations' primary objective is to maximize the wealth of their owners or shareholders (Blair, 1995). Donaldson and Davis (1991) argue that managers will not act in the shareholders' best interests unless and until appropriate governance structures are

in place to protect shareholders' interests. According to the principal-agent model, the central issue of corporate governance is self-interested managerial behavior in a universal principal-agent relationship, and agency problems arise when the agent does not share the principal's objectives (Mallin, 2010).

Jensen and Meckling (1976) portrayed the firm as a black box that operates in the interest of maximizing its value and profitability. Maximizing wealth is possible through effective coordination and collaboration among the firm's stakeholders (Brahmadev & Madhabika, 2017). However, when the parties' interests diverge, a conflict of interest develops, which can be resolved only through managerial ownership and control. Additionally, the self-interested parties were aware that their interests could be met only if the firm existed (Brahmadev & Madhabika, 2017).

The agency theory is an excellent fit for the study's subject. This theory attempts to resolve the problem that arises when the principal's and agent's objectives diverge, creating information asymmetries; consequently, it seeks to ensure the agent's loyalty to the principal in exchange for a just compensation system (Hernández *et al.*, 2018).

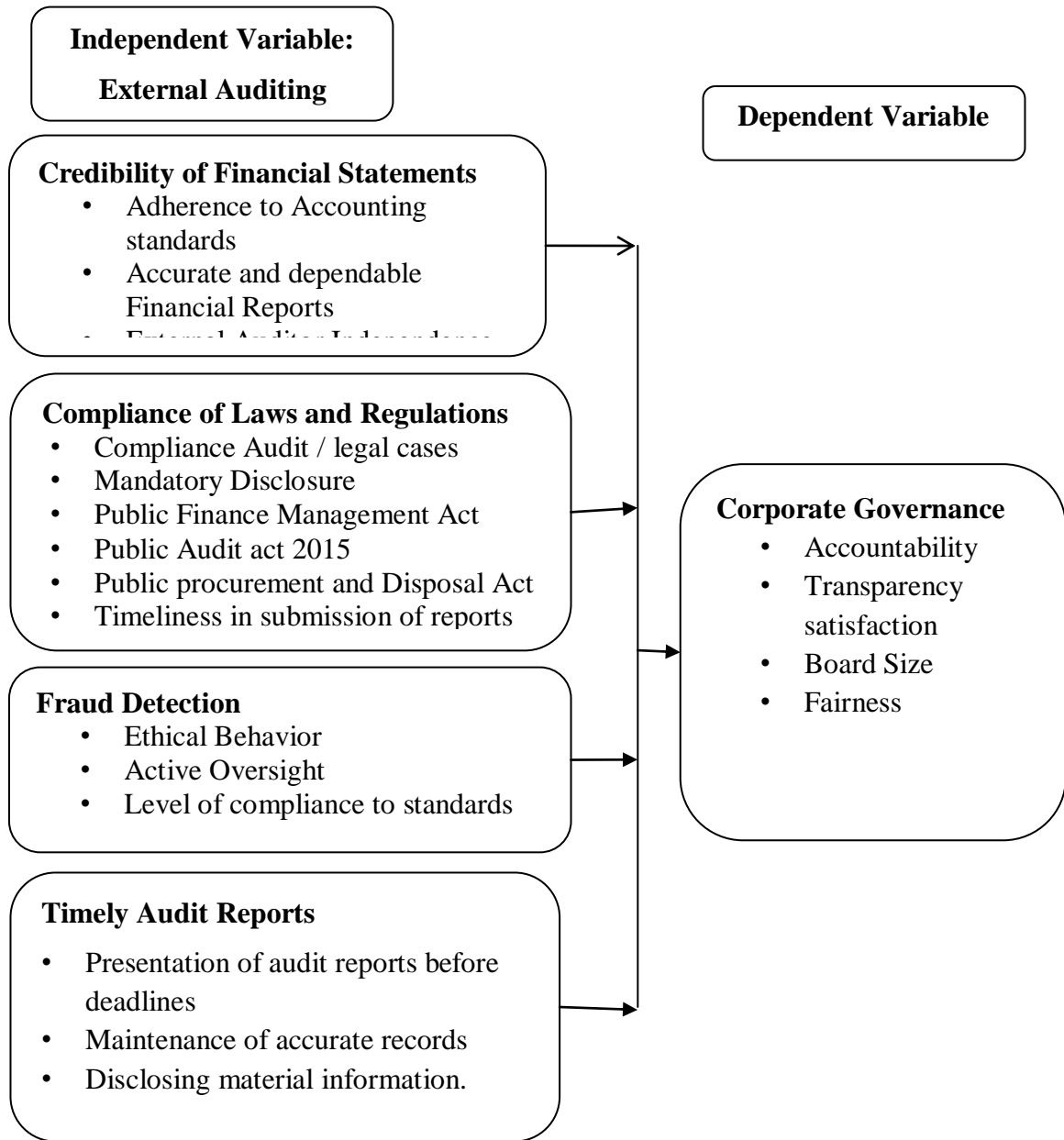
### **2.3 Summary of Literature Review**

From the reviewed literature, effectiveness of audit can be determined by audit independence, size, tenure, knowledge and frequency of meetings. The audit tenure and knowledge posited a relationship with effectiveness while independence had positive relationship with audit effectiveness. The statutory role of external auditors is to offer an audit opinion on the financial statements' accurate and fair view for use by shareholders and other stakeholders. As a result, external auditing is one of the pillars of corporate

governance. It provides an external objective check on how financial statements are created and presented, as well as a tool for shareholders to monitor and control management, thereby increasing transparency in a firm. As a result, it is critical to employ an independent expert to audit the financial accounts. Corporate governance is concerned with creating openness and fairness within an organization by monitoring performance and guaranteeing responsibility. External auditors, in this regard, function as a fundamental tool and protector of corporate governance in every organization. The job of an external auditor is critical in accomplishing corporate governance goals. External auditors are in charge of auditing the company's financial statements and providing reasonable assurance that they are presented fairly and in accordance with the applicable standards.

## **2.4 Conceptual Framework**

The conceptual framework identified consists of independent variables that are: credibility of financial statements, compliance of laws and regulations, fraud detection and timely audit reports and corporate governance as dependent variable. The illustration is indicated in figure 1.1.



**Figure 2.1: Conceptual Framework**

**Source: Researcher (2021)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Chapter three is composed of the methodology of the study. Some of the sections which are covered and presented in this study includes the design of research, sample size, the target population, sample and sampling procedures, the data collection and data analyst's procedures.

#### **3.2 Research Design**

In this study, the descriptive research design was adopted to investigate the association between the variables (Kothari, 2004). Research design was defined by Creswell (2003) as a blueprint or action plan that serves as the foundation for the entire study; it dictates how the study will be conducted and serves as the study's road map in terms of sample size, data collection instruments, and the procedures for analysis of data.

This study employed a descriptive technique due to its adaptability and ability to incorporate both qualitative and quantitative data, allowing the researcher greater flexibility in selecting data collection instruments (Nassiuma & Mwangi, 2006). The descriptive design method of research enabled the researcher to collect data about the subject through uninhibited interaction with the study's respondents; with an emphasis on describing rather than judging (Creswell, 2006).

### **3.3 Population Design, Data Collection and Analysis**

#### **3.3.1 Target Population**

The study targeted 550 respondents that was drawn from 11 Constitutional commissions established by the Constitution in Kenya. These respondents were sourced from the commissions' commissioners and secretariats. This is because the population was small and the researcher could consider it for the study, and as such, random sampling of the population occurred in each commission in order to arrive at a sample. As a result, it was prudent to consider five of these commissions' respondents as direct sample members.

#### **3.3.2 Data Collection**

Semi-structured questionnaires were adopted as the main instrument of collection of data and the same was combined with the semi-structured questionnaires. The primary data collection instrument for this study was a semi-structured questionnaire. The questionnaire was divided into several parts or sections, including general information for respondents, issues and challenges related to corporate governance in constitutional commissions, and the role of auditing in addressing these issues and challenges. The questionnaires were constructed in such a way that they include both close and open ended questionnaires. Those that were open ended included a space or provision for respondents to complete their responses. According to Gay (2008), a sample size of 10% is considered minimum representative sample for social sciences research. Data was gathered from a random sample of five commissioners from each commission, totaling 55 respondents. The researcher employed all available methods online, such as survey

monkey and through telephone conversations, in order to minimize the risk of infection or virus spread.

The respondents were drawn from the commissions' commissioners and top management. To minimize physical meetings and contacts as a result of the COVID-19 pandemic, questionnaires were distributed electronically and dropped and picked up later or immediately, depending on the respondents' availability.

### **3.3.3 Sampling Techniques and Sample Size**

Mugenda and Mugenda (2003) notes that approximately 10% of the data gathered in the field can be used to represent the study population as a sample or representation of the whole. The researcher used systematic random sampling to obtain or identify approximately 200 sample members ( $n > 30$ ) from the commissions that participated in the study. The researcher selected 200 sample members from a target population of 1000 for direct participation in the study as sample respondents. Due to the population's size and homogeneity in Nairobi County, random sampling method was used.

### **3.4 Data Analysis**

After collecting data, the first step toward data analysis was to edit the completed household questionnaires. The questionnaires were scrutinized for data gaps and inaccuracies. Where possible, the concerned respondents were contacted for additional information. Where significant data gaps were discovered in the questionnaire and contact could not be established, a decision was made to exclude the questionnaire from the data analysis. As a result, if a total of 18 questionnaires were not analyzed since they

did not provide adequate information, the remaining 198 questionnaires were used to analyze the data.

After editing, the questionnaires (data) were coded and the data analyzed using the Statistical Package for Social Sciences (SPSS). The SPSS software was used to invoke all other analytical procedures. The software is user-friendly and could be used to analyze multiple-response questions, cross-section and time series analysis, and cross-tabulation; (Cohen, Cohen, West & Aiken, 2003).

The data was presented graphically, through frequency tables, and through regression analysis in order to ascertain the effect of external auditing on the corporate governance of Kenya's constitutional commissions. Regression analysis is a versatile technique for data analysis that is appropriate whenever a quantitative variable's relationship to any other factor is to be examined (Cohen *et al*, 2003). The study conducted multiple regression where Model summary, ANOVA, Coefficient of correlation and regression analysis was conducted to show the relationship between the independent variable and dependent variables.

The regression equation is:

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

Where: Y is the dependent variable (Corporate governance)

X<sub>1</sub> = Credible financial statements

X<sub>2</sub> = Law and regulation compliance,

X<sub>3</sub> = Fraud detection

X<sub>4</sub> = Timely audit report

$\beta$ , =The Estimated coefficients of the regression model

$\epsilon$ , = Error term

**Table 3:1: Operationalization of Variables**

<b>Variable</b>	<b>Indicators</b>	<b>Measurement Scale</b>	<b>Method of Data Collection</b>	<b>Data Analysis</b>
<b>Credibility of Financial Statements</b> Independent Variable	External Auditor Accurate Financial Reports	Likert/ordinal	Administering Questionnaires	Frequencies and percentages
<b>Compliance with Governing Laws and Regulations</b> Independent Variable	Compliance Audit Mandatory Disclosure	Likert/ordinal	Administering Questionnaires	Frequencies and percentages
<b>Fraud Detection</b> Independent Variable	Ethical Behavior Active Oversight	Likert/ordinal	Administering Questionnaires	Frequencies and percentages
<b>Timely Audit Reports</b> Independent Variable	Audit Efficiency Relevance and Reliability	Likert/ordinal	Administering Questionnaires	Frequencies and percentages
<b>Corporate Governance</b> Dependent Variable	Board Diversity Audit Committee	Likert/ordinal	Administering Questionnaires	Frequencies and percentages
<b>Auditor Independence</b> Moderating Variable	Conflict of Interest Management Influence	Likert/ordinal	Administering Questionnaires	Frequencies and percentages

### 3.5 Ethical Considerations

#### 3.5.1 Informed Consent

Prior to administering a questionnaire, the researcher needed to obtain permission to collect data and also demonstrate respect, as humans are not like specimens that have no legal rights. Even prior to initiating the data collection process, the researcher needed to

convey good intentions and express gratitude. Appropriate treatment of respondents was critical for positive field responses.

### **3.5.2 Voluntary Participation**

The respondents were not coerced into responding to the queries that resulted in the data collection. The research had to select respondents at random who were willing to respond, leaving those who refused to share any information behind. This factor can also have a significant effect on the data because individuals with shy behavior or who are less talkative may not be sampled and may have very distinct views in comparison to those with a vibrant personality; additionally, this factor may result in biased conclusions.

### **3.5.3 Confidentiality**

The respondents expressed grave concern about the mismanagement of the data provided. This significantly hampered the data collection process. Thus, the data collected is intended solely for academic purposes, with the letter of permission to obtain the data provided.

The respondents withheld some responses due to their perception of them as a breach of personal privacy. The majority did not want a profile based on income and personal preferences, which they considered to be integral components of personality. The searcher was required to provide sufficient assurance that he/she would not violate the respondent's privacy by insisting on the queries that the respondent was unwilling to share. Anonymity for respondents was ensured by ensuring that respondents do not include any form of identification on the questionnaire. The questionnaire did not include the respondents' names.



## CHAPTER FOUR

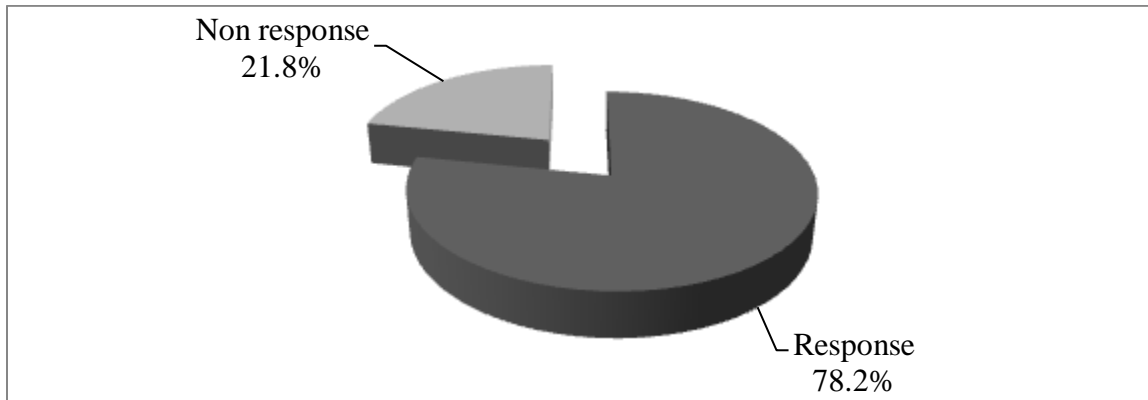
### DATA ANALYSIS AND INTERPRETATIONS

#### 4.1 Introduction

This chapter is designed to present the analyzed findings starting with the response rate, general information and the descriptive statistics. The findings of inferential statistics guided by correlation and regression analysis are also presented.

#### 4.2 Response Rate

Out of the 55 questionnaires that were administered to respondents, 43 were completely filled in and collected for analysis. This was equivalent to a response rate of 78.2% as shown in Figure 4.1.



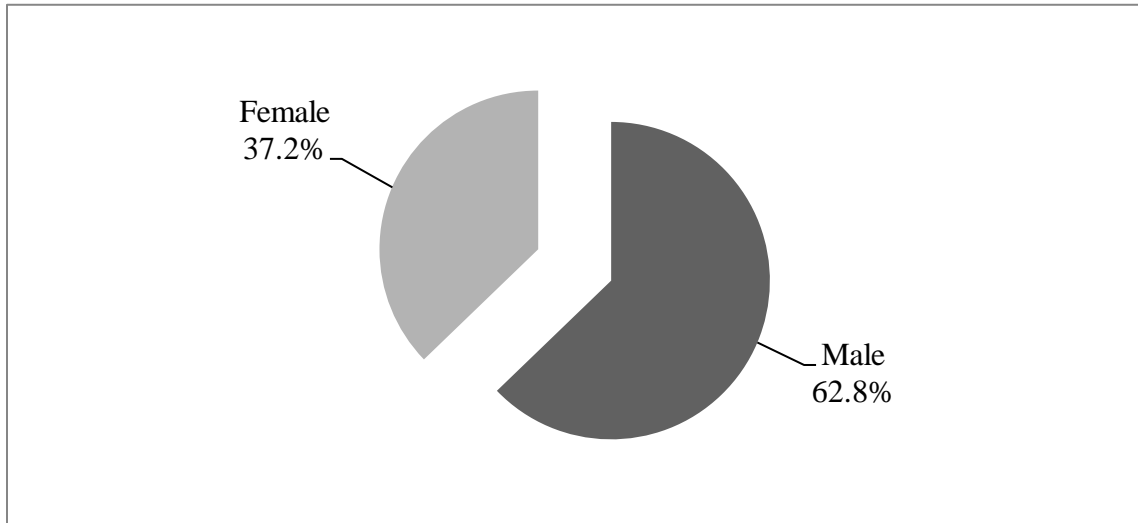
**Figure 4.1: Response Rate**

#### 4.3 General Information

The general information of the respondents was ascertained and the findings established and presented as shown in the subsequent sections.

### 4.3.1 Gender Distribution

The findings on gender distribution of the respondents were determined and summarized as shown in Figure 4.1.

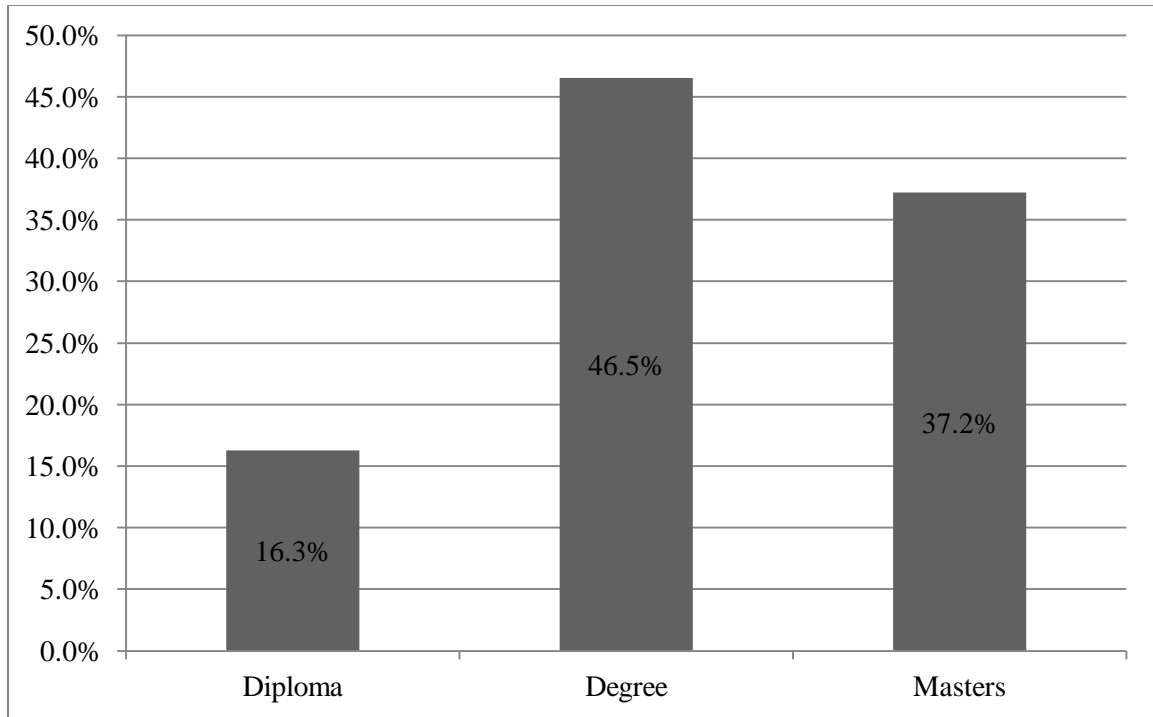


**Figure 4.2: Gender Distribution**

Figure 4.2 indicate that while 62.8% of the respondents were male, 37.2% were female. This implies that there was gender diversity in in the study.

### 4.3.2 Level of Education

The findings on level of education of the respondents were determined and summarized as shown in Figure 4.3.



**Figure 4.3: Level of Education**

Figure 4.3 indicate that while 46.5% of the respondents had degrees, 16.3% had diplomas. This implies that participants who took part in the study were learnt and thus could interpret the research questions.

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

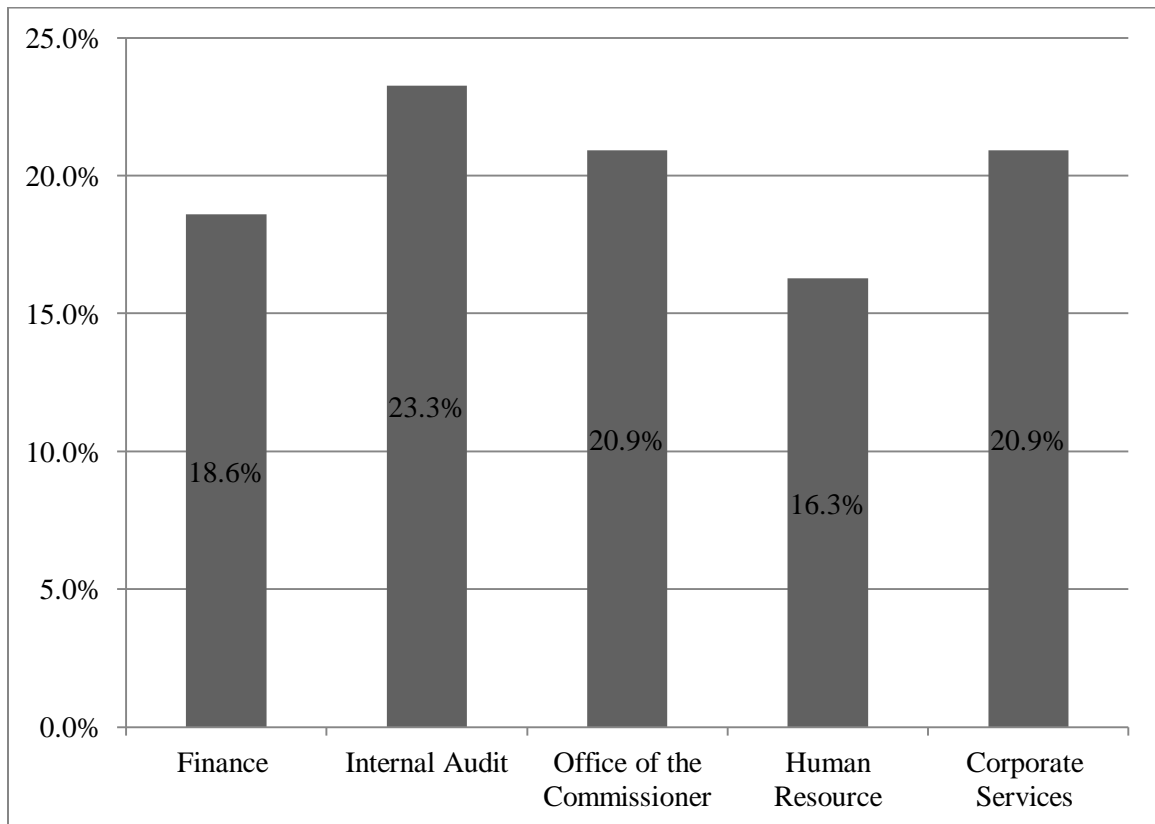
The findings on years of experience of the respondents were determined and summarized as shown in Table 4.1.

	<b>Frequency</b>	<b>Percentage</b>
Below 4 years	3	7.0%
4-8 years	14	32.6%
8 – 12 years	17	39.5%
Above 12 years	9	20.9%
<b>Total</b>	<b>43</b>	<b>100.0</b>

Table 4.1 indicates that while 39.5% had worked for 8-12 years, 7% had worked for less than 4 years. This means that respondents who participated in the study had gained significant level of experience which they shared as required by the study.

#### 4.3.4 Working Department

The findings on departments that respondents worked in were determined and summarized as shown in Figure 4.4.

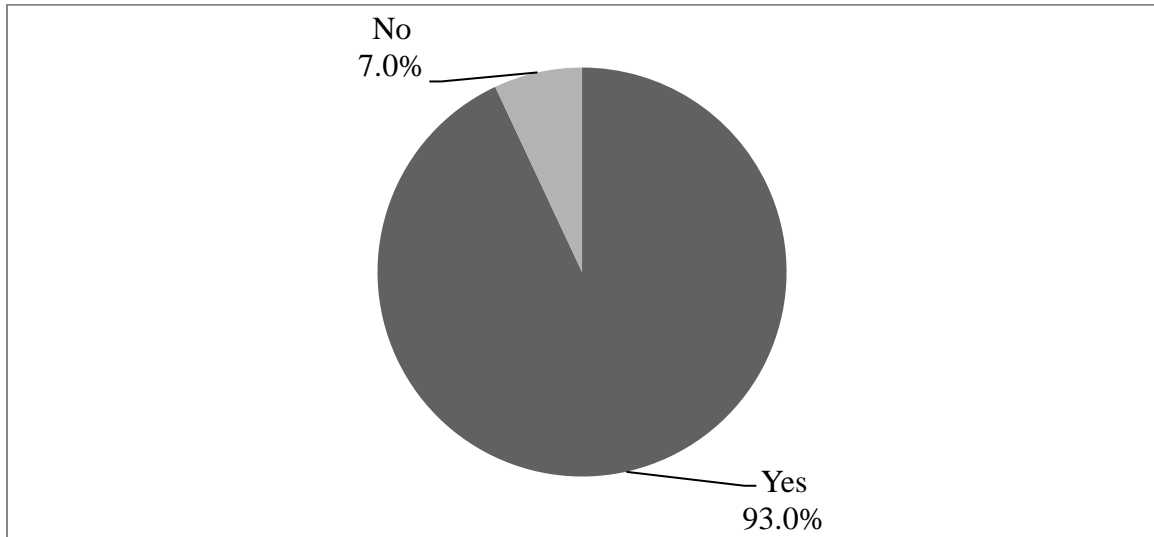


**Figure 4.4: Working Department**

Figure 4.4 indicates that while 23.3% worked in internal audit, 16.3% worked in the HR departments. This implies that respondents were drawn from diverse departments implying there was versatility in the views that were shared.

### 4.3.5 Involvement in External Auditing

The findings on involving of external auditors were determined and summarized as shown in Figure 4.5.



**Figure 4.5: Involvement in External Auditing**

Figure 4.5 indicate that 93% of the respondents believed that their Commission involved external auditors. This perhaps contributed to the independence of the auditing process and report.

### 4.4 Descriptive Statistics

The findings of descriptive statistics on the objective variables of the study were determined a summary presented as shown in the subsequent sections.

#### 4.4.1 Credible Financial Statements

Table 4.2 is an overview of the results of descriptive statistic on credible financial statements.

**Table 4.1: Credible Financial Statements**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
Our financial statements are prepared in accordance with international accounting standards for public finance	3.61	1.120
Our Financial Statements accurately capture the state of affairs in our Commission at any one given time	3.57	1.010
Our Financial statements are objectively prepared hence can inform quality decision making	3.87	0.962
Our Commission is audited by an independent external auditor to give an opinion	3.74	0.963
Our financial statements are free from errors	3.81	0.652
Credibility of our financial statements has improved general transparency in the Commission	3.68	1.088
Credibility of our financial statements has improved general accountability in the Commission	3.70	0.845
<b>Average</b>	<b>3.71</b>	<b>0.949</b>

From Table 4.2, the value of average is given as 3.71; this means that generally, respondents agreed on the statements that had been provided under credible financial statements. It means that credible financial statements were prepared among independent offices that were studied. Enhancing this creditability of the financial statements according to Dabor and Adeyemi (2019) involves addition or inclusion of non-executive directors in the board of directors and then compliance with the audit committees' requirements. It was observed that the financial statements were objectively prepared hence could inform quality decision making (M=3.87, SD=0.962) besides being free from errors (M=3.81, SD=0.652). This implies that objectivity and accuracy were key issues that external auditing focused on. This finding concurs with Ferreira (2018) who noted that external auditors report on a company's financial situation and certify the validity of any released financial reports and that all data must be accurate and dependable.

The study noted that the Commission was audited by an independent external auditor to give an opinion (M=3.74, SD=0.963) and that credibility of the financial statements had improved general accountability in the Commission (M=3.70, SD=0.845). This means that external auditors who were engaged worked to ensure financial statements were credible. This finding is corroborated by Wang, Zhou, and Wang (2020) who found that the credibility of the integrated reports and the quality of the same is affected or influenced positively by the inclusion of the non-financial performance mechanisms and the sustainability committee.

It was observed that credibility of the financial statements had improved general transparency in the Commission (M=3.68, SD=1.088), the financial statements were prepared in accordance with international accounting standards for public finance (M=3.61, SD=1.120) and that the financial statements accurately captured the state of affairs in the Commission at any one given time (M=3.57, SD=1.010). This means that external audits in the commission contributed towards transparency by ensuring compliance with international standards during preparation of financial statements so as to provide the actual state of affairs in the commissions. The finding is consistent with Dabor and Adeyemi (2019) who raised the need for compliance with the audit committees' requirements.

#### **4.4.2 Compliance with Laws and Regulations**

The findings of descriptive statistics on compliance with laws and regulations were determined and presented as shown in Table 4.3.

**Table 4.2: Compliance with Laws and Regulations**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
Our commission complies with legal requirement in having its financial statements audited	3.81	0.709
Our Commission Discloses all mandatory information as per the international accounting standards in its financial statements	3.94	0.602
Our Commission adhered to the provisions of Public Finance Management Act	3.83	0.580
Our Commission adhered to the provisions of Public Audit Act of 2015	3.94	0.886
Our Commission adhered to the provisions of Public procurement and Disposal Act in procurement functions	3.51	0.953
Our Commission adhered to timeliness set for submission of audited reports	3.89	0.577
Our Commission has no legal cases related to compliance of laws and regulations	3.51	0.775
Compliance of Laws and Regulations has improved overall corporate governance in our Commission	3.75	0.875
<b>Average</b>	<b>3.77</b>	<b>0.745</b>

Table 4.2 indicate the value of average as 3.77, this shows that respondents were in agreement on the statements that they had been provided with in respect to compliance with laws and regulations. According to Satka (2017), this issue of compliance with the regulation and the laws set by the governing authority are mostly achieved by use of external audit report and its uniqueness and is related to the impartiality of the report process and the same is able to provide the assurance that the money there in will be utilized in according to the regulatory act, laws and company policy.

The study observed that the Commission disclosed all mandatory information as per the international accounting standards in its financial statements (M=3.94, SD=0.602) besides adherence to the provisions of Public Audit Act of 2015 (M=3.94, SD=0.886). This means that Public Audit Act of 2015 formed an instrumental law and regulation that the independent commissions adhered to. This finding is supported by Dabor and

Adeyemi (2019) who noted that there is need for compliance with the audit committees' requirements which are set out in the Nigerian Companies and Allied Matters Act (CAMA) 1990. It was noted that the commission adhered to timeliness set for submission of audited reports (M=3.89, SD=0.577) besides adhering to the provisions of Public Finance Management Act (M=3.83, SD=0.580). This implies that timely submission of audited reports and compliance with Public Finance Management Act enabled the Commissions to adhere to the generally established laws and regulations.

The study noted that the commission complied with legal requirement in having its financial statements audited (M=3.81, SD= 0.709) besides compliance with Laws and Regulations that had improved overall corporate governance in the Commission (M=3.75, SD=0.875). This means that having a requirement to audit financial statements helped the Commissions to comply with laws and regulations which in turn contributed towards better corporate governance. This concurs with Satka (2017) who noted that compliance with the regulation and the laws is related to the impartiality of the report process and the same is able to provide the assurance that the money there in will be utilized in according to the regulatory act, laws and company policy. The findings of the study were that the Commission adhered to the provisions of Public procurement and Disposal Act in procurement functions (M=3.51, SD= 0.953) and that there was no legal cases related to compliance of laws and regulations (M=3.51, SD=0.775). However, these two statements received a relatively low rating by the respondents indicating some concerns as far as compliance with laws and regulation was concerned.

### 4.4.3 Fraud Detection

The findings on fraud detection were determined and presented as shown in Table 4.3.

**Table 4.3: Fraud Detection**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
Our Commission has implemented several strategies for detection of fraud	3.49	0.846
Employees involved in fraud are suspended	3.87	0.652
Our Commission has an active oversight for detection of fraud	3.72	0.717
Our commission carries out regular audits to detect any form of fraud	3.74	1.288
Our Commission has consistently adhered to international standards in detection of fraud	3.58	1.064
<b>Average</b>	<b>3.68</b>	<b>0.913</b>

The findings in Table 4.3 indicate that on average, respondents agreed ( $M=3.68$ ,  $SD=0.913$ ) that fraud detection was practiced as an aspect of external auditing in their Commission. This observation is consistent with Bunget (2009) who noted that the function of the external auditing in the detection of errors and fraud that when carrying out and planning the procedure of audit and the assessment or reports of the audit results should take into account the misstatements that are material in the financial statement in order to assist in the detection of the errors and fraud.

The study observed that employees involved in fraud were suspended ( $M=3.87$ ,  $SD=0.652$ ) besides carrying out regular audits to detect any form of fraud ( $M=3.74$ ,  $SD=1.288$ ). This means the Commission had in place relevant measures for detection of fraud among employees. These findings are corroborated with Bunget (2009) who orated that there should be a high punishment or premium for every fraud that is committed in

order for there to be a level of prevention and incentive to not commit fraud. This will make it more difficult for the individuals to engage into corruption and corrupt activities because they are afraid of the strict law and punishment. The study noted that the Commission had an active oversight for detection of fraud (M=3.72, SD=0.717) besides consistently adhering to international standards in detection of fraud (M=3.58, SD=1.064). Magnanelli, Nasta, and Pirolo (2017) observed that fraud deterrence for large amount of the financial system in the firm can be achieved by use of the consolidated governance systems

#### 4.4.4 Timely Audit Reports

The findings of descriptive statistics on timely audit reports were determined and summarized as indicated in Table 4.4.

**Table 4.4: Timely Audit Reports**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
Our Commission submits audit reports on time	3.81	0.726
Our Commission submits Complete audit reports as required by law	3.81	0.912
Our Commission maintains accurate record of its operations	3.57	0.839
Our Commission discloses material information in its audit reports.	3.80	0.802
<b>Average</b>	<b>3.75</b>	<b>0.820</b>

The findings in Table 4.4 indicate that on average (M=3.75), respondents were in agreement that there was timely audit reports in their Commission. According to Muthuva *et al.* (2019), all information that is material concerning the company should be disclosed in a timely and accurate manner, including its financial situation, performance, ownership, and governance. Respondents observed that their Commission submitted audit reports on time (M=3.81, SD=0.726) besides completing audit reports as required

by law (M=3.81, SD=0.912). This means that completion of the audit reports in accordance with the laws and in time was the reason that informed timely audit reports in the studied Commissions. Gacheru (2018) shared that boards of directors, management, and external auditors are urged to prioritize timely financial reporting, as investors in East Africa place a high premium on publicly available financial information when making investment decisions. The study observed that the Commission disclosed material information in its audit reports (M= 3.80, SD=0.802) in addition to maintaining accurate record of its operations (M=3.57, SD=0.839). This means that aside from the audit reports being timely, they need to have all the material information and the same should be properly maintained by an organization. This finding is consistent with Muthuva *et al.* (2019) who argued that all information that is material concerning the company should be disclosed in a timely and accurate manner.

#### 4.4.5 Corporate Governance

The findings of descriptive statistics on corporate governance was established and summarized as indicated in Table 4.5.

**Table 4.5: Corporate Governance**

<b>Statement</b>	<b>Mean</b>	<b>Std. Dev</b>
The level of transparency in the Commission operations has been high	3.54	0.984
The level of accountability in the Commission operations has been high	3.75	0.830
The Board size of the Commission optimises on diversity	3.84	0.664
The Board of the Commission promotes fairness in its operations	3.95	0.614
<b>Average</b>	<b>3.77</b>	<b>0.773</b>

The findings in Table 4.5 indicate that respondents agreed on various statements that had been provided as far as corporate governance was concerned (M=3.77, SD=0.773). The study observed that the Board of the Commission promoted fairness in its operations (M=3.95, SD=0.614) in addition to optimizing on diversity (M=3.84, SD=0.664). The study revealed that while the level of accountability in the Commission operations had been high (M=3.75, SD=0.830) and that the level of transparency in the Commission operations had been high (M=3.54, SD=0.984).

#### 4.5 Inferential Statistics

The subsequent sections detail the findings of correlation and regression results which were key inferential statistics.

##### 4.5.1 Correlation Matrix

Table 4.6 is a breakdown of the correlational results as an inferential statistic used in the present study.

**Table 4.6: Correlation Matrix**

		<b>Corporate governance</b>	<b>Credible financial statements</b>	<b>laws and regulations</b>	<b>Fraud detection control</b>	<b>Timely audit reports</b>
Corporate governance	Pearson	1				
	Correlation					
Credible financial statements	Pearson	.712	1			
	Correlation					
laws and regulations	Pearson	.454	.267	1		
	Correlation					

Fraud detection	Pearson					
	Correlation	.651	+.479	.449	1	
Timely audit reports	Pearson					
	Correlation	.280	.294	.384	.650	1

The results in Table 4.6 indicate that credible financial statements ( $r=0.712$ ) and fraud detection ( $r=0.651$ ) were strong and positive correlates of corporate governance. This implies that credibility of financial statements and fraud detection are instrumental components of external audits that contributes towards corporate governance in the studied Commissions. The finding is supported by Regina (2019) who observed that there was a relationship but positive association between the quality of financial reporting of listed firms in Kenya and the practices of corporate governance. Similarly, Wang, Zhou, and Wang (2020) found that the credibility of the integrated reports and the quality of the same is affected or influenced positively by the inclusion of the non-financial performance mechanisms and the sustainability committee.

On the other hand, compliance with governing laws and regulations ( $r=0.454$ ) and timely audit reports ( $r=0.280$ ) had moderate and positive nexus with corporate governance. This implies that laws and regulations as well as the audit reports had a moderate contribution towards corporate governance in the studied Commissions. The finding is in line with Mathuva, Taurigana and Owino (2019) who established that the annual reports timeliness is positively influenced by the features or the characteristics of the board diversity

### 4.5.2 Regression Results

Regression analysis was conducted to predict the implication of external audit on corporate governance and Table 4.7 is a breakdown of the model summary of the study.

**Table 4.7: Regression Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.833 <sup>a</sup>	.694	.653	.83719

The findings in Table 4.6 indicate that 69.4% variation in corporate governance in the studied Commissions was explained by variation in external auditing ( $R^2=0.694$ ). It follows that aside from external auditing; there exist aspects and variables with an effect on corporate governance in the said Commissions which should be the focus of the future studies. Table 4.7 is a breakdown of the beta coefficients and significance of the regression model.

**Table 4.8: Beta Coefficients and Significance**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.002	2.602		3.075	.004
Credible financial statements	.388	.090	.500	4.311	.000
Compliance with governing laws and regulations	.208	.061	.201	3.410	.028
Fraud detection	.318	.096	.492	3.313	.002
Timely audit reports	.333	.118	.264	2.822	.019

From Table 4.7, the following equation is predicted between external auditing and corporate governance:

$$Y = 8.002 + 0.388X_1 + 0.208X_2 + 0.318X_3 + 0.333X_4$$

Where: Y is the dependent variable (Corporate governance)

$X_1$  = Credible financial statements

$X_2$  = Law and regulation compliance,

$X_3$  = Fraud detection

$X_4$  = Timely audit report

The study was set out to establish the effect of credible financial statements on corporate governance of constitutional commissions in Kenya. From Table 4.7, the results on credible financial statements were ( $\beta=0.388$ ,  $p<0.05$ ). This means that credible financial statements had significant effect on corporate governance of constitutional commissions in Kenya. The finding is consistent with Regina (2019) who observed that there was a

relationship but positive association between the quality of financial reporting of listed firms in Kenya and the practices of corporate governance. Similarly, Wang, Zhou, and Wang (2020) found that the credibility of the integrated reports and the quality of the same is affected or influenced positively by the inclusion of the non-financial performance mechanisms and the sustainability committee

The objective of the study was to examine the effect of compliance with governing laws and regulations on corporate governance of constitutional commissions in Kenya. The findings on compliance with governing laws and regulations were as under: were ( $\beta=0.208$ ,  $p<0.05$ ). It then follows that compliance with governing laws and regulations is a significant predictor of corporate governance of constitutional commissions in Kenya. Satka (2017) noted that compliance with the regulation and the laws set by the governing authority are mostly achieved by use of external audit report and its uniqueness and is related to the impartiality of the report process and the same is able to provide the assurance that the money there in will be utilized in according to the regulatory act, laws and company policy.

This study aimed at determining the effect of fraud detection on corporate governance of constitutional commissions in Kenya. The results of the study were that ( $\beta=0.318$ ,  $p<0.05$ ). It can then be inferred that fraud detection has significant effect on corporate governance of constitutional commissions in Kenya. Costa (2017) observed in his study titled corporate governance and fraud that corporate governance for the purpose of preventing fraud defines the functions, principles and essential components of a corporate governance system. Magnanelli, Nasta, and Pirolo (2017) observed that fraud deterrence

for large amount of the financial system in the firm can be achieved by use of the consolidated governance systems.

The study sought to evaluate the effect of timely audit reports on corporate governance of constitutional commissions in Kenya. The study established as follows ( $\beta=0.333$ ,  $p<0.05$ ). It can then be deduced that timely audit reports is a significant predictor of corporate governance of constitutional commissions in Kenya. This finding is consistent with Mathuva, Tauringana and Owino (2019) who established that the annual reports timeliness is positively influenced by the features or the characteristics of the board diversity.

## **CHAPTER FIVE**

### **SUMMARY FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The chapter is set out to provide a summary of the analyzed results and the conclusions. The recommendations and areas that require further research are also indicated. The key findings and the specific objectives guided the presentation in summary, conclusion and recommendations.

#### **5.2 Summary**

The following sections gives a summary of the analyzed results:

##### **5.2.1 Credible Financial Statements and Corporate Governance**

Credible financial statements were prepared among independent offices that were studied. It was observed that the financial statements were objectively prepared hence could inform quality decision making besides being free from errors. The study noted that the Commission was audited by an independent external auditor to give an opinion and that credibility of the financial statements had improved general accountability in the Commission. It was observed that credibility of the financial statements had improved general transparency in the Commission; the financial statements were prepared in accordance with international accounting standards for public finance. This study noted that credible financial statements had significant effect on corporate governance of constitutional commissions in Kenya.

### **5.2.2 Compliance with Laws and Regulations**

Respondents were in agreement on the statements that they had been provided with in respect to compliance with laws and regulations. The study observed that the Commission disclosed all mandatory information as per the international accounting standards in its financial statements besides adherence to the provisions of Public Audit Act of 2015. It was noted that the commission adhered to timeliness set for submission of audited reports besides adhering to the provisions of Public Finance Management Act. The study noted that the commission complied with legal requirement in having its financial statements audited besides compliance with Laws and Regulations that had improved overall corporate governance in the Commission. The findings were that compliance with governing laws and regulations is a significant predictor of corporate governance of constitutional commissions in Kenya.

### **5.2.3 Fraud Detection**

The findings were that fraud detection was practiced as an aspect of external auditing in their Commission. The study observed that employees involved in fraud were suspended besides carrying out regular audits to detect any form of fraud. The study noted that the Commission had an active oversight for detection of fraud besides consistently adhering to international standards in detection of fraud. This study inferred that fraud detection has significant effect on corporate governance of constitutional commissions in Kenya.

### **5.2.4 Timely Audit Reports**

The findings indicate that respondents agreed that there were timely audit reports in their Commission. Respondents observed that their Commission submitted audit reports on

time besides completing audit reports as required by law. The study observed that the Commission disclosed material information in its audit reports in addition to maintaining accurate record of its operations. The study established that timely audit reports are a significant predictor of corporate governance of constitutional commissions in Kenya.

### **5.3 Conclusion**

Credible financial statements had significant effect on corporate governance of constitutional commissions. Objectivity and accuracy were key issues that external auditing focused on. External auditors were engaged who played worked to ensure financial statements were credible. External audits in the commission contributed towards transparency by ensuring compliance with international standards during preparation of financial statements so as to provide the actual state of affairs in the commissions.

Compliance with governing laws and regulations is a significant predictor of corporate governance of constitutional commissions. Public Audit Act of 2015 formed an instrumental law and regulation that the independent commissions adhered to. Timely submission of audited reports and compliance with Public Finance Management Act enabled the Commissions to adhere to the generally established laws and regulations. Having a requirement to audit financial statements helped the Commissions to comply with laws and regulations which in turn contributed towards better corporate governance.

Fraud detection has significant effect on corporate governance of constitutional commissions. The Commissions had in place relevant measures for detection of fraud

among employees. These included suspension of staff involved in fraud, regular audits, active oversight and adherence to international standards.

Timely audit reports are a significant predictor of corporate governance of constitutional commissions. Completion of the audit reports in accordance with the laws and in time was the reason that informed timely audit reports in the studied Commissions. The Commission disclosed material information in its audit reports in addition to maintaining accurate record of its operations.

#### **5.4 Recommendations of the Study**

The internal auditors who work for the constitutional commissions in Kenya should work together with external auditors while promoting a high degree of independence among them. There should be strict adherence to accounting standards during the preparation of financial statements by Finance Managers and Accountants working in the constitutional commissions in Kenya.

Compliance audits should be encouraged and undertaken in the constitutional commissions in Kenya. The main focus of such audits should be the determination of whether there is strict compliance with Public Finance Management Act, Public Audit Act 2015 as well as the Public procurement and Disposal Act in the constitutional commissions in Kenya.

The management of the constitutional commissions in Kenya should work closely with criminal offices like the Director of Criminal Investigation (DCI) so that legal actions is taken to any employee found to have participated in fraudulent activities. There is need to

invest in State of art forensic technologies for detection of fraud among employees in the constitutional commissions in Kenya.

The external auditors engaged in the constitutional commissions in Kenya should always ensure that they submit their independent audit reports on time. The external auditors of the constitutional commissions in Kenya should make every effort to ensure their audit reports have disclosed all material information relevant for decision making.

### **5.5 Suggestions for Further Research**

The present study noted that external auditing could not fully explain corporate governance in the constitutional commissions in Kenya. This means that aside from external audits, future studies should dwell into providing information on other variables aside from external auditing that can also contribute to corporate governance issues in the constitutional commissions in Kenya. Away from the constitutional commissions in Kenya, the focus of further research should be on other government institutions like the commercial state corporations.



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## APPENDICES

### Appendix I: Questionnaires

I am a student in the University and undertaking a Master's Degree course in Public Policy and administration. The main objective of this study is to assess the effects of external auditing on corporate governance of constitutional commissions in Kenya. The information and the results about the study will be available to the different participants and the sample members once the study is done. The information provided will be highly appreciated and the same will be treated with anonymity and confidentiality.

Kindly put a tick (√) on the response that most applies to you

#### SECTION A. Demographic variables

1. Kindly indicate your Gender

Male (      )      Female (      )

2. What is your highest level of education?

Certificate (      )      Diploma (      )      Degree(      )

Masters (      )      PhD (      )

3. How long have you worked in the commission?

Below 4 years (      )      4-8 years (      )      8 – 12 years (      )

Above 12 years (      )

4. In what department are you based in the Commission?

Finance ( ) Human Resource ( )

Internal Audit ( ) Corporate Services ( )

Office of the Commissioner ( )

Other please explain \_\_\_\_\_

5. Have you ever worked with external auditors/been involved in an external audit exercise?

Yes ( ) No ( )

If yes, briefly describe the areas of coverage during such audits e.g finance, human resource, procurement etc.

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**SECTION B: CREDIBLE FINANCIAL STATEMENTS**

6. Below are several statements on elements of external auditing on corporate governance among independent commissions. Kindly indicate the extent of your agreement with each in as far as corporate governance is concerned. Use a scale of 1-5 where **SA - Strongly Agree**      **A- Agree**, **U- Undecided**, **D- Disagree**, **SD- Strongly Disagree**.

<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>U</b>	<b>A</b>	<b>SA</b>
Our financial statements are prepared in accordance with international accounting standards for public finance					
Our Financial Statements accurately capture the state of affairs in our Commission at any one given time					
Our Financial statements are objectively prepared hence can inform quality decision making					
Our Commission is audited by an independent external auditor to give an opinion					
Our financial statements are free from errors					
Credibility of our financial statements has improved general transparency in the Commission					
Credibility of our financial statements has improved general accountability in the Commission					

7. In your opinion, how else has credibility of financial statements affected the level of corporate governance in your commission?

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**SECTION C: COMPLIANCE OF LAWS AND REGULATIONS**

8. Below are several statements on elements of compliance of laws and regulations and corporate governance among independent commissions. Kindly indicate the extent of your agreement with each in as far as corporate governance is concerned. Use a scale of 1-5 where: **SA - Strongly Agree, A- Agree, U- Undecided, D- Disagree, SD- Strongly Disagree.**

Statement	SD	D	U	A	SA
Our commission complies with legal requirement in having its financial statements audited					
Our Commission Discloses all mandatory information as per the international accounting standards in its financial statements					
Our Commission adhered to the provisions of Public Finance Management Act					
Our Commission adhered to the provisions of Public Audit Act of 2015					
Our Commission adhered to the provisions of Public procurement and Disposal Act in procurement functions					
Our Commission adhered to timeliness set for submission of audited reports					
Our Commission has no legal cases related to compliance of laws and regulations					
Compliance of Laws and Regulations has improved overall corporate governance in our Commission					

9. In your opinion, how else has compliance of laws and regulations affected the level of corporate governance in your commission?

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**SECTION D: FRAUD DETECTION**

1. Below are several statements on fraud detection and corporate governance among independent commissions. Kindly indicate the extent of your agreement with each in as far as corporate governance is concerned. Use a scale of 1-5 where: **SA - Strongly Agree, A- Agree, U- Undecided, D- Disagree, SD- Strongly Disagree.**

<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>U</b>	<b>A</b>	<b>SA</b>
Our Commission has implemented several strategies for detection of fraud					
Employees involved in fraud are suspended					
Our Commission has an active oversight for detection of fraud					
Our commission carries out regular audits to detect any form of fraud					
Our Commission has consistently adhered to international standards in detection of fraud					

2. In your opinion, how else has fraud detection affected the level of corporate governance in your commission?

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**SECTION E: TIMELY AUDIT REPORTS**

1. Below are several statements on timely audit reports and corporate governance among independent commissions. Kindly indicate the extent of your agreement with each in as far as corporate governance is concerned. Use a scale of 1-5

where: **SA - Strongly Agree, A- Agree, U- Undecided, D- Disagree, SD- Strongly Disagree.**

<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>U</b>	<b>A</b>	<b>SD</b>
Our Commission submits audit reports on time					
Our Commission submits Complete audit reports as required be law					
Our Commission maintains accurate record of its operations					
Our Commission discloses material information in its audit reports.					

2. In your opinion, how else has Timely audit reports affected the level of corporate governance in your commission?

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**SECTION F: CORPORATE GOVERNANCE**

Below are several statements on Corporate governance aspects in Commissions. Kindly indicate the extent of your agreement with each in as far as corporate governance is concerned. Use a scale of 1-5 where: **SA - Strongly Agree, A- Agree, U- Undecided, D- Disagree, SD- Strongly Disagree.**

<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>U</b>	<b>A</b>	<b>SD</b>
The level of transparency in the Commission operations has been high					
The level of accountability in the Commission operations has been high					
The Board size of the Commission optimises on diversity					
The Board of the Commission promotes fairness in its operations					

## Appendix II; Nacosti Permit

  
REPUBLIC OF KENYA

  
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Ref No: 933580

Date of Issue: 22/March/2022

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