ROLE OF AUDITORS IN ENHANCING CORPORATE GOVERNANCE IN COMMERCIAL BANKS.

BY

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UNITED STATES INTERNATIONAL UNIVERSITY

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A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY

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STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ______________________ Date: ____________________

Domitilla Wanjiku Kiragu (ID 629175)

This project proposal has been presented for examination with my approval as the appointed supervisor.

Signed: ______________________ Date: ____________________

Dr. Amos G. Njuguna

Signed: ______________________ Date: ____________________

Dean, Chandaria School of Business
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ABSTRACT

The need to focus on corporate governance has increased particularly in the wake of economic collapse and financial crises. Additionally, scholars have found that corporate governance influences a firm’s performance. Corporate failures and scandals have imposed the demand for reforms and for improved regulations particularly on governance matters.

The purpose of the study was to identify ways of enhancing corporate governance through auditing. The study focused on the following research questions: What is the role of auditors on Corporate Governance? What is the role of an audit committee on Corporate Governance? And What can be done to enhance Corporate Governance through audits?

The target population for this study was made up of the ten (10) Commercial Banks licensed by the Central Bank of Kenya of which five banks are listed in the NSE while another five banks that are not listed in the NSE. The target population was 169 respondents which constitute the members of the audit function of the banks. The sample size was 119 respondents. The researcher distributed questionnaires to the identified groups of respondents. The data collected was coded and interpreted with the use of SPSS software and Microsoft excel workbook. The findings were presented in form of tables and charts and inferential statistics were also used to interpret the data.

The study conclude that the role of audit or that can enhance corporate governance were evaluating risks, evaluating controls and operations, advising managers, assessing compliance with policies and procedures, verifying the existence of assets and providing opinion on financial statements.

The study also concluded that the role of audit committee that can enhance corporate governance were review internal audit plans, report and significant figures, monitor choice of accounting principles, ensuring risk management process is comprehensive and ongoing, establishing a direct reporting relationship with the external auditors, oversee financial reporting and disclosure and ensuring that financial statements are understandable, transparent and reliable.
The study was able to conclude that the banks used audit to enhance corporate governance in the banks by prioritizing risk management, setting and enforcing clear lines of responsibility, ensuring timely and effective information policy, promoting appropriate ethics and values, clarifying board’s role in strategy, enhance information transparency, engaging stakeholders and making accountability real and promoting good values for the whole organization and demonstrating this values.

The study recommends that the auditors be given more autonomy so that they can be able to produce quality financial statements. This will help in increasing stakeholder’s confidence and attract new potential investor’s. The study recommends that the audit committee be given the authority to initiate an audit. This will help the audit committee to be able to do audits when there seems to be a problem rather than when the audit is set. The study recommends more support to the audit function in preparation of proper financial records. This will help more consistent and better records for the banks.
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ABBREVIATIONS:

CBK – Central Bank of Kenya.
USD – United States Dollar.
CEO – Chief Executive Officer.
IIA – Institute of Internal Auditors.
OECD - Organization for Economic Co-operation and Development.
SPSS – Statistical Package for the Social Science
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Corporate governance is described as the framework of rules, relationships, system and processes within and by which authority is exercised and controlled within organisations. It encompasses mechanisms by which companies are held accountable (AUX, 2003). Corporate governance is a relationships between a company’s board of directors, its shareholders, management and other stakeholders (Cadbury, 1992).

According to the Organization for Economic Co-operation and Development (OECD, 1999), corporate governance stipulates the distribution of rights and responsibilities amongst different participants and spells out the rules and procedures for making decisions on corporate affairs.

Corporate governance can be enhanced by increasing corporate accountability and maximizing sustainable wealth creation (Higgs, 2003). Solomon (2004) attributes recent examples of massive corporate collapses to weak systems of corporate governance and emphasised the need to develop and reform this system at international levels. In July 2002, the USA issued the Sarbenes – Oxley Act to protect investors from fraudulent accounting activities by corporation. Countries with developing stock markets are focussed on embarking stakeholders concern and improving accountability (Solomon, 2004).

Sanda, Mikailu & Gabra (2004), concluded that corporate governance is a critical factor in economic development and financial market stability. Otieno (2012) is of the opinion that corporate governance deals with issues of accountability and advocating for implementation of guidelines and mechanism to protect shareholders.

According to Morgan (1979), internal audit was considered a monitoring function that is the policeman and watchdog of an organization. The role of shareholders’ is to engage directors and auditors to satisfy that the appropriate governance is in place. Institute of Internal Auditors (IIA), define internal auditing as an independent, objective reassurance and consulting activity intended to add value and develop an organization’s operations by assessing and refining risk management, controls and governance procedures.
According to Hermanson and Rittenberg (2002), the function of internal audit activity has now developed and expanded to that of compliance work, risk management and control governance. Internal audit now plays a serious role in improving corporate governance in organizations (Okafor & Ibadin, 2009). Internal audit is conducted in different environments which vary in size and structure. However, the IIA have set mandatory guidance on how audits should proceed.

Beneficiaries of audit are the organizations undergoing the audit. Audits are a form of assertion that all is well in the organization and they recommended what needs to improve. It is a form of guided enquires into the processes and procedures (Waruhiu, 2015). Audits help form a correlation between board’s effectiveness and an organization’s annual performance.

According to Lumumba (2015), decline in corporate ethics values can be attributed to dubious accounting practices. He notes that the number of corporate institutions being placed under statutory management has been increasing the latest organization been Imperial Bank Limited in 2015 and references 2011 when Olympus, a Japanese electronics company fired its Chief Executive Officer (CEO) after he raised questions regarding concealed accounting losses and massive advisory fees paid and in the year 2012 a hole in the balance sheet of USD 1 billion was unveiled.

Nambiro (2007) states that the collapse of Enron brought about a considerable interest in corporate governance practices in the modern corporations. Enron, an American organization was declared bankrupt in December 2001 and it was discovered that they had lied about it profits and was accused of falsifying accounts to cover debt. This pointed out the need for efficient reforms in accounting and corporate governance.

Wahuria (2015) notes that board evaluation in Kenya are been embraced due to poor performance and that directors play two dual roles that of formulating a company’s policy and supervision of corporate management. She concluded that it is important that public listed companies have external directors to constitute a third of all directors and that focus be directed towards the appointment of members of a board as they are likely to influence different matters in an organization.

In Kenya, Uchumi Supermarket and Cooper Motors Corporation (CMC - Kenya) have been hit by corporate governance scandals while Euro Bank collapsed in the year 2003.
due to a fraud case. For solid corporate governance, distinct accounting standards and complete disclosures are a requirement (Rajagopalan & Zhang, 2008). According to Sarens (2007), internal audit plays a key role in helping the board of directors to discharge it responsibilities and it is the responsibility of an audit committee to ensure that the audit team is functioning efficiently and effectively.

Abbott, Parker, Peter & Raghunandan (2003) are of the opinion that the board of directors of an organization can influence the level of audit assurance by exercising decision rights and implementing corporate governance responsibility.

What ails Kenya’s financial sector is poor corporate governance resulting from weaknesses such as ineffective laws, poor financial sector oversight, base sector culture and overbearing political and executive corruption (Global Corruption Report, 2009). With the help of audits gaps this can be clarified and managed.

According to Lumumba (2015), in as much as auditors report to shareholders, their allegiance is with the management who guarantee them continuous opportunity to render their services. In this case, the auditors may choose to turn a blind eye to the financial improprieties hoping to be re-appointed in the next financial year. Effective corporate governance can be achieved by adopting a set of principles and best practices (Lumumba, 2015).

Audit committees have an important role to contribute to enhancing of audit quality (Carcello, Hermanson, & Neal, 2002). An effective audit committee creates confidence in the reporting process. Audit committee contributes an essential role in making the conducive environment for quality auditing (Al-Mudhaki, & Joshi, 2004). It is the committee’s duty to build an environment which accommodates an open participation by individual to increase integrity, transparency and respect among management and auditors (Puri, Trehan, & Kakkar, 2010).

The committees are responsible for the oversight of the work done by the auditors. They need to know the audit strategy and ensure the auditors practice appropriate professional practices (Zaman, 2001). They need to make sure that the auditors have no interference from management which helps the committee to have quality audit and doesn’t raise questions on effectiveness of the audit. Audit committees should ensure that there is audit consistency, execution and that the audit fees paid are fair (Zaman, 2001). Audit
committees are the major solutions contributors to majority of the audit quality issues by ensuring that audit firms develop a good institutional relationship with their clients and avoid a negatively effect on auditor professional skepticism and independence (Bhasin, 2012).

The relationships between the audit committee and the various corporate actors such as the management, internal audit, external audit, board of directors in the corporate governance administration have been seen as complex (Cohen, Krishnamoorthy, & Wright, 2004). The audit committee needs to be totally independent of the other players and should be autonomous with no influence from other plays.

In 2006, the Central Bank of Kenya (CBK) emphasized the need for the board of directors to set up effective internal audit department for internal audit purposes which should have qualified employees. For banks, the internal audit function should ensure that they have sufficient authority, independence, resources and unlimited access to the board of directors (Basel Committee, 2012).

1.2 Statement of the Problem

In developed and developing economies, the need to focus corporate governance has increased particularly in the wake of economic collapse and financial crisis (Brown & Caylor, 2006). Issues concerning corporate governance are receiving increased attention since an organization’s corporate governance affects both its economic performance and ability to access long term low investments (Mordelet, 2009).

Corporate governance is a major discussion in the world because of the frequent corporate financial scandal (KPMG, 2004). Corporate failures and scandals have imposed the demand for reforms and for improved regulations particularly on governance matters (Power, 2000). Organizations that exhibit good corporate governance have easier access to world’s capital markets and enhances investors’ confidence (Price Waterhouse Coopers, 2007).

Kipngetich (2012) sought to find out how risk based auditing related to corporate governance in Kenya. The study concluded that there was a relationship between corporate governance and audit practices. Some of the audit practices like risk management and assessment, planning and auditing standards increased accountability
and transparency. The study recommended that institutions should enhance audit practices to increase effective and efficient corporate governance.

Mutave (2014) studied the relationship between audit function and corporate governance and found out that risk management had the greatest effect on corporate governance. In addition, internal controls, audit committees and consulting also had an effect on corporate governance. It recommended that institutions should implement corporate governance practices in their daily activities but did not state what the activities to be implemented were.

In a study carried out by Chacha (2000), he found out that International Standards on Auditing represent best international practices were not practiced by auditors in the conducting of quality auditing. This was as a result of management interference which proved to be a major challenge in the audit process.

Njeru (2013) studied the relationship between internal audit independence and corporate governance and concluded that there was indeed a threat of internal audit independence. The threat was due to the linear relationship between auditors and shareholders and management since the latter had powers of approval over audit budget, determining the chief audit executive together with the terms of employment. With this threat auditors cannot fully enhance corporate governance during audits and hence this study sought to find the role of auditors in enhancing corporate governance. Njeru concluded by stating that there is a significant contribution that the internal audit function can contribute towards enhancing effective corporate governance in banks.

This study explored ways in which an audit team can enhance corporate governance given independence and opportunity to improve the corporate structure. The above studies focused on the relationship between audit functions and auditors and corporate governance. The focus of this study was on role of auditors and audit committees in enhancing corporate governance and ways to enhance corporate governance through audits.

1.3 Purpose of the Study

The purpose of the study is to identify ways of enhancing corporate governance through auditing.
1.4 Research Questions

1.4.1 What is the role of auditors on Corporate Governance?

1.4.2 What is the role of an audit committee on Corporate Governance?

1.4.3 What can be done to enhance Corporate Governance through audits?

1.5 Importance of the Study

1.5.1 Banks

This study will help organizations to enhance their corporate governance as well as to guide them on things that they can adopt.

1.5.2 Board of Directors and Management

The study will benefit the management of an organization by enabling them to review their corporate governance procedures and improve on areas of weaknesses.

1.5.3 Auditors

This research will be important to auditors as it will guide them on ways that they can help organizations improve on the corporate governance structure, policies among other things.

1.5.4 Researchers and Academics

This study will benefit other researchers who will use the research as referencing and learning material and also future research on gaps developed from the research.

1.6 Scope of the Study

The study focused on highlighting ways in which corporate governance can be enhanced through audit. The target was Commercial Banks that are based in Kenya and have been licenced by the Central Bank of Kenya. The study compared ten (10) Commercial Banks licenced by the Central Bank of Kenya of which five banks are listed in the NSE namely CFC Stanbic Bank Ltd., Diamond Trust Bank Kenya Ltd., Housing Finance Ltd, Equity Bank Ltd. and Co-operative Bank of Kenya Ltd. and five banks that are not listed in the NSE namely Bank of Baroda (K) Ltd., Commercial Bank of Africa Ltd., Development bank of Kenya Ltd., Eco Bank Ltd. and I & M Bank Ltd. The study targeted auditors,
managers, board members, employees and the audit committees from the commercial banks. The respondents were chosen because of their knowledge regarding the study.

1.7 Definition of Terms

1.7.1 Corporate Governance

Corporate governance is the system by which companies are controlled and directed (Cadbury Committee, 1992).

1.7.2 Auditing

Auditing is an independent assessment function for the review of system of control and the quality of performance within an organization (Millichamp, 2000).

1.7.3 Board of Directors

The Board of Directors is a body of elected individuals who are jointly tasked to oversee the operations of a company (Moran & Kral, 2015).

1.7.4 Policies

Refers to a principle or course of action which is adopted by a, party, individual or business (Armstrong, 2011).

1.8 Chapter Summary

Chapter one of this study gives the background, problem statement, purpose, general objective and scope and finally definition of terms. Chapter two is a literature review discussing theories on role of auditors and audit committees in enhancing corporate governance and enhancing corporate governance through audits. Chapter three details the methodology that were used to carry out the study such as the sample size and frame, data collection methods and procedures. Chapter four analyses the results and findings received from the respondents interpreted the data using tables and charts. Chapter five included the summary of the findings as well as conclusions and recommendations drawn from the research.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of various literature related to the area of study based on the research questions. It covers the role of auditors and audit committee and ways of improving corporate governance through audits. The chapter summary provides an outline of the areas covered in this chapter and a brief description of what chapter three entails.

2.2 Role of Auditors

2.2.1 Risk Evaluation and Management.

According to the IIA (2005), it is the mandate of auditors to identify the risk facing the organization and how it impacts on the delivery of objectives. They are required to ascertain the threshold of risk for the organization and implement controls and procedures to safeguard and ensure the threshold is not exceeded. Evaluation of risk facilitates auditors to anticipate impending concerns and providing reassurance, guidance and perceptions when needed. Risk management refers to the design and implementation of actions and remedies to address risk through a reflection of potential treatments and the assortment of the most appropriate course of action (Mohamed, Uniugbokhai & Ihimkpen, 2014). The main aim of risk management is to provide the board with an objective assurance of the effectiveness of the risk management activities of the organization.

Risk taking is an essential element of financial institutions’ operations (Lienhard, 2013). Strategies are required to be incorporated in decision making regarding certain risks the business are willing to commit and how to manage and mitigate these risks (ISO, 2009). Risk evaluation and management is an important element to corporate governance which is a distinct and crucial factor in business to ensure success. Risks arise from the direct exposure undertaken by various parties, subsidiaries and affiliates in a business (Lienhard, 2013). Business need to be in a position to help identify the various risks likely to be faced, assessing the potential impact and therefore having policies and controls for managing them effectively. Risk management and evaluation depends on the systems and practices in a business (Jabbour, 2013). They will differ according to the size and scope of the business and the type of risk faced. To manage risks properly Boards of directors
and Management have to fully understand risk the company’s facing (ISO, 2009). Management should regularly oversee and review the risk management policies and practices by ensuring that they are appropriate and effective in changing circumstances (Kaplan & Mikes, 2012). The management should seek assistance from auditors in ensuring that these set controls are performing effectively and that any financial records are in compliance with the regulatory authorities and limits (Allen & Vani, 2013). It should establish in the business to ensure all records are accurately presented since this help in decision making.

2.2.2 Evaluating Controls and Operations

Auditors work closely with managers to review operations such as systems, processes and people and report finding. According to the IIA (2009), audit is defined as being the objective activity of certification and consultation that seeks to streamline the operations of a company. The institute defines evaluating controls and operations as assessing the attitude and actions of the board and management regarding controls within a company (IIA, 2011).

Internal auditors are responsible for financial operations and controls and are important elements of corporate governance because of their knowledge in financial reporting having a primary contribution to ensuring reliability and integrity of financial statements (IIA, 2011). There is a need for auditors to be familiar with the strategic objectives of the organization and different departments to have a clear understanding of the operations (IIA, 2005).

The process of corporate governance is concerned with the development and maintenance of an adequate and effective audit system to protect assets loss (Ahmad & Taylor, 2009). The internal audit activity must therefore evaluate the adequacy and effectiveness of controls in responding to risk within the company’s controls (IIA, 2011).

2.2.3 Advising Managers.

The auditors are tasked with the responsibility of advising managers on issues of financial reporting and accountability in the daily operation of a company (Ahmad & Taylor, 2009). The corporate board of directors and top managers are faced with an evolving landscape of corporate governance regulations and requirements (Burnaby, Abdolmohammadi, Hass, Sarens & Allegrini, 2009) which has had an implication on the
day to day operation. Therefore, there is need for auditors to advise managers on various aspect of financial reporting which helps in ensuring best practices and the interpretation of this regulation. The auditors are important in advising the managers on various matters which concern financial reporting. This helps in coping with a range of new standards and regulatory requirements which may be misunderstood without the input of auditors (Wicaksono, 2009). The auditors also help in the creating of good financial records that can be used by managers to understand the status of the company.

2.2.4. Assessing Compliance with Policies and Procedures.

Compliance is defined as the process of following the set obligations put in regulations, laws, industry, ethics, values, contractual commitments, corporate commitments, organizational standards, and corporate policies and procedures (Michael, 2009). For corporate governance effectiveness there is need for compliance with policies and procedures that govern it. Both internal and external audit help in the compliance function in the organization and plays a very important role in the providing information to the various stakeholders about the company’s financial performance (Reuters, 2015). The regulatory bodies strongly insist on an existence of a compliance function within the organization this helps in the enforcement of the corporate governance (Mitton, 2002). The role of compliance is helps the management to be able to mitigate the various risk of legal or regulatory sanctions, loss to reputation financial loss (Rabelo & Vasconcelos, 2002).

Although the various requirements of compliance change according to industry there are a common set of duties that which are required for most compliance by organizations. They can be categorizes astracking and assessing regulations; developing and implementing policies; providing education and guidance, and monitoring auditing, and documenting (Thomson Reuters, 2015).

2.2.5. Verifying the Existence of Assets.

The act of verification of assets within an organization is performed by an auditor (Wangome, 2003). An auditor refers to an independent individual, who checks and confirms the truthfulness of financial records after verification statements are made for the managers (Horngren, Sundem & Elliott 2002.). Adeniji (2012) defines internal
auditing as the periodic examination of financial statements in order to ascertain the compliance with set guidelines, regulations, standards, laws, procedures and policies.

Basu (2010) defines verification as ownership rights scrutiny, existence of assets in the trade and its freeness from any kind of mortgage or charge. If a statement of financial position contains an asset which does not exist or stated at a different value that can be considered reasonable, both the statement of comprehensive income and statement of financial position would be incorrect (Basu, 2010). Auditors are responsible for reviewing the activities of a company to make sure that they are in conformity with set goals and objectives (Picket, 2011). Auditors generally evaluate and appraise an organization’s operation and ensures that the records are kept properly.

Adeniji (2012), asserts that the audit department is the backbone of a company’s operation. Audit department assist the organization in achieving the set objectives by ensuring effective and efficient management of resources, risk management, corporate governance and therefore improving organizations performance (Denis & McConnell, 2003). The auditor is required to authenticate the original cost of assets and to confirm that such a value is fair and practical (Basu, 2010).

2.2.6. Providing Opinions on Financial Statements.

Deloitte (2005), are of the opinion that for an auditor to express a professional opinion on financial statements of an organization they must be able to scrutinize the financial statements and supporting records using sound auditing practices.

PWC (2014), state that expressing an opinion is an auditor’s responsibility. The opinion should be reasonable guarantee that the financial statements are free from material misstatements and that they are a just presentation in accordance with the relevant accounting standards. External auditors provide opinions on the extent to which financial statements meet accounting standards. Organizations often have clean opinions which state that its financial statements in all material respects do follow the common accepted accounting principles (Schwartz & Mayne, 2005).

According to Gilbertson, Lehman & Gentene (2012), stockholders want assurance that a company’s financial statement accurately presents its financial conditions and results of operation. Further, they ascertain that company’s hire auditors to audit financial statement
to provide assurance and provide written opinion on whether this statements can be relied upon. Auditors examine accounting records then form opinions.

According to Schwartz et al. (2005), financial opinions give assurance to the people that qualified auditors have scrutinized the organizations financial statement and the supporting information provided since they rely on financial statements to make economic decision to minimize the uncertainty and risk.

2.3 Role of Audit Committee

2.3.1. Ensuring that Financial Statements are Understandable, Transparent and Reliable.

According to Wood & Sangster (2008), accounting refers to the process in which economic information is identified, measured, and communicated to be used to make informed decisions and judgments. They continue to define a financial statement as being a set of accounting information which has been properly organized into various classifications such as the balance sheet: income statement; statement of equity and cash flow statement. This information is used by various stakeholders to analyze and understand the financial position of a company as well as creating shareholders confidence through transparency and reliability of the financial statements. Issues on transparency and reliability in these financial statements have been a dilemma for the investors since they use this information to make decision on investing. Crumpton (2011) defines transparency as the enhanced flow of reliable and timely social, economic, and political information for investors and stakeholders use. Transparency may be manipulated by management which leaves investors in problems (Bessiere, 2005). The collapse of companies such as Enron made investors and shareholders to open their eyes on the need for transparency. The investors and shareholders have a need to know the effect of existence of transparency in the financial statements and how it affects decision making.

Wood et al. (2008) assert that financial statements have to give a fair and true view of the accounting position of a company and should be consistent with the set accounting standards and legislation. Crumpton (2011), stressed that transparency is of high importance in the business world. According to Berggren & Bernshteyn (2007), transparency is important so as to improve the company performance. When companies
are transparent these helps in improving employee contributions by motivating the employees to work better and strive for the future of the organizations if accurate results showing the actual performance are presented since it gives a clear picture of what needs to be done.

2.3.2. Review Internal Audit Plans, Report and Significant Figures.

Organizations in the past have encountered various rapid changes in economic, technological advancements and expanded regulatory requirements. These changes have awarded the auditors a collection of increased opportunities such as supporting and advising management, evaluating risk exposures that relating to the organizations corporate governance, information systems and operations by identifying the internal control system efficiency, generating more direct reporting links towards the shareholders audit and committee, the safeguarding of company assets and increased compliance with contracts, laws and regulations (MoFED, 2004).

Auditors have the ability and right to evaluate all information in all parts of the company and their responsibility at all of these activities of the corporate governance agenda. All stakeholders can profit from having a strong audit function which provides value to the benefit of corporate governance (Smet & Mention, 2011). The complex and larger systems also require greater internal audit (Cecilia Nordin Van Gansberghe, 2003). Internal auditors assist in the identification of risk and weakness in the internal control system and also help to facilitate the implementation of risk management within the organization plus contributing to the appropriateness of operations and procedures of the audited body (Dittenhofer, 2001, Cohen & Sayag, 2010 and Arena & Azzone, 2009).

2.3.3. Establishing a Direct Reporting Relationship with the External Auditors.

According to Jabbour (2013), external auditor has to directly report to the audit committee on the findings of their auditing so as to ensure that the financial reporting is up to best practice. He further states that it is also important to develop a direct relationship between the internal and external auditor and there needs coordination between internal audit activity and the external audit activity to ensure that both parties work together efficiently. The external auditors can raise the efficiency in which financial statements audit have been done. By establishing a direct relationship they ensure that there is no interference by management and board of directors (Jabbour, 2013).
According to the IIA (2011), the audit committee is supposed to own the direct relationship with the external auditors who give a yearly opinion on the financial reporting. Ownership refers to the direct reporting, the ongoing communication, the frequent meetings and various robust discussions about the audit results and scope. Oversight matters also include the compensation, selection criteria, scope, independence, monitoring, and rotation and performance assessment. If attempts management takes ownership of the auditors rather than the audit committee, the committee should take up measures for claiming ownership (Lienhard, 2013).

2.3.4. Ensuring Risk Management Process is Comprehensive and Ongoing.

Risk management refers to an activity that integrates the identification of risk, its assessment, developing various strategies to manage risk, and the mitigation of various risk through the use of managerial resources (Galorath, 2006). Financial risk management is done by auditor and the audit committee focuses on risks that can be managed using various financial instruments (ISO, 2008). The objective of risk management activity is to decrease various risks related to financial records in companies (SBP, 2003). These risks are as result of numerous types of threats caused by technology, environment, politics, humans, and organizations. Risk is an unavoidable element that is present in every day human situations (Rolland, 2008). It is present in daily lives, public and private sector organizations need to assess the risk they face on a daily basis. This helps in the auditors in the continuous to identify the financial risk the business face in the operating environment (PricewaterhouseCoopers, 2007).

Risk management is not a new tool for audit committees and a lot of standards have been set up for use of risk management methods (Rolland, 2008). All departments in a company need to manage risk continuously sometimes more rigorously and systematically. Risk management occurs most visibly in those departments whose core mandates are to protect against the financial loss (Anderson & Terp, 2006). Today companies are challenged by various types of risk such as policy, operational, financial, human resources, technological and political which need to be dealt with in a coordinated and systematic way. Therefore, there is need for a more integrated risk assessment and management for this proactive, continuous, and systematic process so as to understand, manage and address risk from whole company perspective (Brymman & Bell, 2007).
The audit committee helps in making decisions which will contribute to the attainment of company corporate objectives. An integrated financial risk management requires that there be an ongoing effort to assess all potential risks likely to face organization at every level (Henriksen & Uhlenfeldt, 2006). This should form the organization's financial risk management culture within the company shaping the company towards the achievement of the set goals. The continuous identification, assessment and management of the financial risks across the company helps reveal the importance of understanding how being proactive helps achieve the organizational goals (PricewaterhouseCoopers, 2007).

2.3.5. Oversee Financial Reporting and Disclosure.

The main objective for the preparation of financial statements is to show the real financial position and performance of a company (IASB, 2001). The value, objectivity, transparency and relevance of financial statement are a major issue for investors, shareholder and regulators. The users of financial statement s require them to be truthful so that they do not make bad decision as a result of poor information. Accounting and financial information should provide financial statements that are useful in the making of informed economic decisions. It is the duty of the audit committee to see that the financial information in the financial reporting accurately presents the true financial position of the company (Alqabas, 2007).

A study done by Al-Shammari et al. (2008) looked into the way companies that operate in the six Gulf member states such as Qatar, Oman, Kuwait, Saudi Arabia Bahrain and United Arab Emirates are able to comply with the set Financial Reporting and disclosure Standards. The study showed that the financial information and disclosure was poor and it led to poor decision by the investors. In Kuwait, financial disclosure is governed by the commercial company law these is the primary legislation used to regulate standard that governs financial reporting (Al-Qahtani, 2005). Investors and others stakeholders have in the past strongly criticized this law, stating that it weak on financial reporting (Borsuly, 2007). In 2001, the Kuwait enforcement body which oversees the financial reporting in the country, admitted that the law’s had various limitations and there was need for a new regulation. Transparency and disclosure are integral to corporate governance (Alqabas, 2007).
2.3.6. Monitor Choice of Accounting Principles.

According to IASB (2001), the audit committee is responsible in choosing the accounting principle for the organizations where they check whether the accounting principle are being up held. From 2005 it became policy that all publicly listed companies all over Europe have to ensure their financial reports are prepared according with the International Financial Reporting Standards (IFRS). The International Accounting Standards Board (IASB) is responsible in setting these standards. The objective of setting up the IFRS is the development of internationally acceptable quality financial reporting standards (Barth, Landsman and Lang 2007). This was a strategic attempt to bring about proper reporting mechanism in the financial reporting (Van Helleman, 2006).

By creating these internationally recognized set of standards the International Accounting Standards Board (IASB) have been able to make principle-based standards (Barth, Landsman & Lang 2008). The audit committee should ensure that these standard and accounting principles are followed. The principles are an important understanding which informs transaction economic events. The monitoring done by the audit committee helps the organization into using the best accounting principles hence ensuring that the financial reports are done according to best practice (Barth et al., 2008).

2.4 Enhancing Corporate Governance through Audit.

2.4.1. Prioritizing Risk Management.

It is asserted that risk-based auditing can improve the information which is contained in financial statements and reports by auditor (Beekes & Brown, 2006). An earlier study by Vafeas showed that risk-based audit helps mitigate the existence of risks through the enhancing of quality financial reporting thus increasing an organization’s financial performance (Vafeas, 1999). A study done by Mutua (2011) on the impact of risk-based audit on the financial performance in commercial bank in Kenya stated that financial performance of an organization needs to be risk-based audit practices and was able to deduce that risk-based audit done through risk management, risk assessment, internal auditing standards, annual risk based planning and internal auditing staffing needs to be improved. Risk prioritizing is aimed at enabling the firm in the detecting of risks and the promoting of both accountability and transparency (Buehler, Freeman, & Hulme 2008). The study recommended that the management in commercial banks have to adopt more
effective risk-based audit activities in so as to be able to promote effective and efficient financial management.

2.4.2. Setting and Enforcing Clear Lines of Responsibility.

Good corporate governance needs effective and appropriate regulatory, legal and institutional basis. A variety of elements which include the laws and regulatory framework, and financial accounting standards have an effect on the setting of clear lines of responsibility on auditing (Chiang, 2005). Effective enforcement of clear responsibility is thus necessary to identify who is responsible for auditing in the organization so as not to have ambiguities (Bozec & Dia, 2005). Ambiguities and gaps are required to be filled so as to identify who is responsible for certain responsibility of auditing in an organization (Balic, 2007). Corporate governance and its enforcement endeavors are intimately linked to the firms’ ability to commit to their stakeholders expectation and external investors (Evans, Evans & Loh, 2002). Where there is a weak enforcement environment it makes it harder for companies to be able to commit to honoring of financial contracts and being able to attract external financing (Balic, 2007). Commitment and enforcement highly influences control patterns and ownership plus the corporate governance functions (Bonn & Fisher 2005). By commitment instruments being weak or missing the corporate governance is compromised.

2.4.3. Ensuring Timely and Effective Information Policy

According to Enoch, Stella and Khemis (1997) and Rosengren (1998), the ensuring of effective information policy in the banking industry ensures timely disbursement of information to the respective stakeholders. Transparency and timely information policy is key to ensuring corporate governance in the banking sector. Information policy determines what will be information, will be disbursed and in what intervals to ensure that stakeholders are informed of the company’s performance and operations (Sandeep, Patel & Lilicare, 2002). This helps the stakeholder to be able to understand what the businesses are doing and their performance.

The information policy is guided by regulation from government on financial reporting. In Uganda bank failures were associated to the lack of information on their operations (Yunusu, 2001). Tadesse (2006), survey found out that banking crises were less likely in
countries which encouraged banks to have information policies. Having an information policy ensured that there was good corporate governance in the banks (Tadesse, 2006).

2.4.4. Promoting Appropriate Ethics and Values

Trevino et al (1999), study showed having specific characteristic of ethics in auditing had an impact on the corporate governance of companies. This study found that consistency in company’s action towards policy that led to action of ethics ensured that there was creation of financial statements that were truthful. Collins (2001), asserted that leaders are responsible for promoting a culture of ethics and values in the organization that are instrumental in ensuring information produced by the organization is truthful. Byrne (2002), stated that management identified that integrity, trust and fairness had an effect on the governance of organizations.

Corporate leaders and entrepreneurs in the past have forgotten that business is all about values and lack of the required values lead to a loss of investor confidence. Byrne (2002), stated that a large number of companies played very fast and loose with their accounting rules and ethical standards which led to production of fraudulent financial results. This was seen in post-Enron, post-bubble world, the realization where the company was found to be reporting wrongly on the financial position of that company (Byron, 2002).

2.4.5. Clarifying Board’s Role in Strategy

The effective execution of policy and strategy in an organization is necessary to fulfil the other roles necessary for achieving the organizational goals (Beasley, Chen, Nunez & Wright, 2006). Policies and strategy act as guides and help define the focus in which direction the organization is heading and differentiating the responsibilities between the board, the management, and the employees (Beasley & Frigo, 2010). Well written policies lead to a more efficient board functioning and clear purpose.

One of the roles of a board of directors are to create strategies for the organization. Boards are tasked with various decision making which revolve around the organization's mission, vision, and strategies. Boards make decisions about issues affecting the organization significant matters like how to ensure that financial reporting is done properly (Belobaba, 2009). Boards play oversight for important function such as audit and they know the importance of having good financial reporting because they are responsible
legally for financial reporting (Arnwine, 2002). The board has to ensure that financial reporting is among it strategies in ensuring proper corporate governance in organizations.

2.4.6. Enhance Information Transparency

Over the past 20 years, the business environment has become more competitive due to greater globalization, and rapid technological changes. In the new technology-driven information age, strong corporate governance is more than good business practice it is an indispensable component of market discipline (Levitt, 2000). Recent demands of investors and others for greater accountability from corporate boards and audit committees will likely further enhance the quality of managerial stewardship and eventually lead to more efficient capital markets (Cohen et al., 2002). Sound corporate governance practices have become critical to worldwide efforts to stabilize and strengthen global capital markets and protect investors they also help companies to improve their performance and attract investment (Levitt, 2000). IT technologies improve the transparency and governance structure of companies. Access to information improves transparency and governance and especially Management Information Systems reporting, company intranet websites, company websites, Internet, email, and business intelligence systems that enable people to query almost everything, makes hiding information almost impossible (Levitt, 2000).

In addition, software technologies having governance controls improve the information quality and veracity. McIvor et al., (2002), showed that internet technologies have the potential to facilitate the achievement of transparency within public sector organisations. Further, the connectivity that automatically results from Internet technologies can exert a very powerful influence in encouraging a free flow of ideas around the organisation, permitting individuals and organisational units to converge and interconnect.

2.4.7. Engaging Stakeholders and Making Accountability Real.

According to Business Roundtable (2002), business has the responsibility to stakeholders such as the communities, employees, suppliers and government. This responsibilities are best seen as part of the paramount duties of optimizing stakeholder’s long-term value. Stakeholder’s value is improved when a business treats its shareholders, employees well, serves its customers well, maintains good relationships with suppliers, and ensuring legal compliance.
A corporation has the responsibility of communicating candidly and effectively with all stakeholders. The main goal of stakeholder’s communications is to help the stakeholders be able to understand the business financial condition, performance, risk profile, and operating and trends of the corporation (OECD, 2004). The Basic stakeholders’ rights in a business include the right to securing methods of ownership registration, conveying transfer shares, obtaining relevant and material information on the corporation performance on a timely basis, participating in voting on the general shareholder meetings, electing and removing members from the boards and sharing in the profits of the corporation (OECD, 2004). Stakeholders have the right for participating in, and being adequately informed on various decisions regarding important factors in corporate changes such as; amending to the statutes, or articles of incorporation or similar governing documents of the company; the authorization of more shares; and any extraordinary transactions, which include any transfer of all or considerable number of assets, that in effect will result in the sale of the company (OECD, 2004).

2.4.8. Promoting Good Values for the whole Organization and Demonstrating this Values

Good corporate governance assists in aligning the actions of board of directors and management with the various interests of shareholders (Jia, 2004). This helps the business be able to meet its objectives of getting returns for business owners. Proper reporting promotes corporate governance which is intertwined with the various decision made by management's formulated strategy and implemented tactics serve the best interests of the equity shareholders. Corporate governance ensures that audit rules are followed and the best practice is observed in reporting (Spiller, 2002). Business that have good reporting are able to attract investors easily therefore making it easy to gain funding. Corporate governance has also a well proven track record of ensuring changing behaviour because it demands certain ways of going about operations within the corporations (Harman, 2005).

2.5 Chapter Summary

The chapter looked at various areas of corporate governance such as role of Auditors, role of Audit Committee and Enhancing Corporate Governance through Audit. The chapter has gone through what other authors have written on matter relating the different roles of auditors and audit committee and enhancing corporate governance through audits. The next chapter describes the research methodology that were used for the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter looked into the research design, population and sampling, sampling design, sampling frame, sampling technique, sample size, data collection methods, research procedures and data analysis methods. It is the methods the researcher will use in the collection of data for the study. This study collected information from various members of commercial Banks that are based in Kenya and have been licensed by the Central Bank of Kenya in an effort to understanding how corporate governance can be enhanced through audit.

3.2 Research Design

A research design refers to a plan and structure of the investigation which a researcher will use to acquire responses to the research questions (Cooper & Schindler, 2003). Kombo and Tromp (2006), identify the research design as glue which puts together all the parts of research together. The study adopted a descriptive technique as it benefit the researcher because of its flexibility and can use both qualitative and quantitative data, enabling the researcher to get greater choice when selecting the research instruments to use for data collection (Nassiuma & Mwangi, 2006).

Creswell (2006) refers to the descriptive design method of research as being able to collect data of the subject by the way the researcher interacts freely with the respondents of the study without the undue influence; with an emphasis on describing instead of judging. The study used this method because of its appropriateness to collect first hand data from the participants of the study and ability to measure the variables. This assisted in the determination of the role of auditors in the enhancing corporate governance in Kenya.

3.3 Population and Sampling Design

3.3.1 Population

Sekeran (2003) refers to population as being the total collection of elements in which references are to be made. He continues to assert that they are all possible cases that interest a study. Mugenda and Mugenda (2003) refers the target population which a
researcher must narrow down an accessible population which is represents the view of the bigger group.

The population in the study comprised of 169 responded who are auditors, managers, board members, employees and the audit committees from the commercial banks.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A sampling frame refers to a list of items in which a representative sample is drawn from for the reason of conducting a study (Saunders, Lewis, & Thornhill, 2007). The research was conducted among five banks that are listed in the NSE and five banks that are not listed in the NSE all of which are licenced by the Central Bank of Kenya namely CFC Stanbic Bank Ltd., Diamond Trust Bank Kenya Ltd., Housing Finance Ltd, Equity Bank Ltd., Co-operative Bank of Kenya Ltd., Bank of Baroda (K) Ltd., Commercial Bank of Africa Ltd., Development bank of Kenya Ltd., Eco Bank Ltd. and I & M Bank Ltd.

3.3.2.2 Sampling Technique

The sampling techniques chosen by the researcher was purposive sampling technique. Purposive sampling is also known as judgement sampling and is used when the researcher uses their own judgement in choosing members of population to participate in the study (Saunders, Lewis & Thornhill, 2012). Purposive sampling concentrates on particular characteristics of a population that are of importance to the researcher. The researcher considered purposive technique because the study aimed at comparing the banks listed in the NSE and banks that are not listed in the NSE.

3.3.2.3 Sample Size

Sample size denotes the exact number of participants who will be physically approached by the researcher to answer certain question using research collection instruments (Webster, 2007). According to Welman & Krugler (2007), random sampling guarantees that a sample size has been represented appropriately and probability has been considered in the sampling strategy. Sample size is inversely proportional to the margin of error the researcher proposes and directly proportional to the confidence level of the researcher.

At a margin of error (e) of 5%, a confidence level of 95% and a population (N) of 169 the sample size (n) can be obtained by use of the formulae:

\[
\text{Sample Size (n) = } \frac{Z^2 \cdot \sigma^2}{e^2}
\]

where

- \(Z\) is the standard score corresponding to the desired confidence level (for 95% confidence level, \(Z = 1.96\)),
- \(\sigma\) is the population standard deviation (in absence, use estimated standard deviation from pilot study),
- \(e\) is the margin of error.

\[
\text{Sample Size (n) = } \frac{(1.96)^2 \cdot \sigma^2}{0.05^2}
\]
Using the above formulae to calculate sample size, data was collected from a sample size of 119 respondents.

### 3.4 Data Collection Methods

A questionnaire was made which captures the study variables being investigated. The information to address the dependent and independent variables in the study were captured. A questionnaire refers to a research instrument which gathers information in a big sample and is objective in translating the research objectives into specific questions, and answers for each question provide the data for hypotheses testing (Mugenda & Mugenda, 2003). The benefit of using a questionnaire over any other research instruments is that data can be gathered from big samples with no chance for bias since the respondent fills it in private and has no interference. The research questionnaire was divided into two sections; section one captures the respondents’ background information while part two asked the respondents to provide information concerning the major areas of the study. The questionnaire contained both closed and open ended questions. The closed ended questions aimed at giving precise information which minimized information bias and facilitated data analysis, while the open ended questions gave respondents freedom to express themselves.

### 3.5 Research Procedures

A pilot questionnaire was prepared and circulated to ten banks to be filled in by the head of audits of each respective bank. A pilot questionnaire is used as a test run in preparing for the key questionnaire (Polit, Beck & Hungler, 2001). The pilot questionnaire aim was to test how the respondents understood the questionnaire and their input on areas to be improved or clarified. The questionnaire was circulated through emails and personal delivery to get better feedback from the pilot respondents which took a period of one month. With the feedback obtained from the pilot questionnaire final improved copy with the changes suggested from the pilot was circulated through email to members of staff of
the banks with a cover letter introducing the researcher and the purpose of the study attached to the questionnaire. The respondents filled the questionnaire within five minutes of receiving the email. All duly completed questionnaires were selected for the study.

3.6 Data Analysis Methods

The study used both qualitative and quantitative analytical techniques for data analysis. The data was first edited, classified, and tabulated. According to Koul (1984), data processing is a systematic process of organizing the mass of raw data in a manner that facilitate analysis. Editing checked the raw data for accuracy, usefulness and completeness. The tabulation of the data involved recording of data in quantifiable terms using descriptive statistics. The purpose of this is to enable the researcher to meaningfully describe a distribution of scores (Neuman, 1997). Editing was done to ensure accuracy and uniformity, check inconsistencies, and blank missing responses that could be disregarded. The study utilized Statistical Program for Social Sciences (SPSS) for data analysis to ensure speed and accuracy. This program was also convenient and user friendly. The background information was summarized and the responses interpreted through descriptive statistics by use of tables, pie charts, and percentages. Inferential statistics was also used to determine the relationship between the dependent and independent variables by use of correlation analysis. This was achieved by combine the multiple variables under each research questions to create a new single variable.

3.7 Chapter Summary

This chapter covered the research design, the population and sampling design, data collection and research procedures and data analysis that were used in the research. The next chapter discusses research findings and results in relation to the research questions.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the findings and discussions of the study. The findings and discussion are presented according to the research objectives. The researcher conducted an analysis of the descriptive statistics of the research variables and presented the findings. The findings from the research study are presented in table form and figures.

4.2 General Information

The study sought to establish general information of the identified respondents in the study where the study sought to know the classification of the bank, education level, professional certifications, number of years in the institution, working segment, years of professional experience as an auditor and types of audit conducted.

4.2.1 Classification of Bank

The study sought to find out whether the banks were listed or not listed in the Nairobi stock exchange. Among the respondents who responded to the questionnaire 55% of them were from banks that are listed in the Nairobi Stock Exchange while 45% of them were from banks that are not listed.

![Figure 4.1 Classification of Bank](image_url)
4.2.2  Education Level

The study sought to determine the academic qualification of the respondents of the study. From the finding presented in the figure 4.2 below show that 24% had a college diploma, 46% had an undergraduate degree, 29% had a master’s degree and 8% had a doctoral degree.

![Education Level Diagram](image)

*Figure 4.2 Education level*

4.2.3  Professional Certifications

The study went further to determine the professional certification and the study were able to find the following responses as displayed in the figure 4.3. The figure shows that a majority 29% had CFA certification, 28% had CPA certification and 26% had ICCA certification.
4.2.4 Number of Years in the Institution

The study went further to investigate how many years had the respondent worked in the respective banks. From the findings as displayed in the figure 4.4 above show that 26% had worked for Less than 5 years, 32% had worked for 5 to 10 years, 27% had worked for 11 to 15 years, 13% had worked for 16 to 20 years, 2% had worked for 21 to 25 years and 1% had worked for Over 25 years.

Figure 4.4 Number of Years in the institution
4.2.5 Position of the Respondent

The study sought to determine the respondent’s role in the banks and which position they played in the audit function of the banks. From the finding shown in the figure 4.5 shows that 20% were external auditors, 29% were internal auditors, 23% were management and 28% were audit committee members.

![Figure 4.5 Position of the Respondent](image)

4.2.5 Years of Professional Experience as an Auditor

The study sought to find out how many years the respondents had knowledge on auditing. From the results shown in the figure 4.6 above, 23% of the respondents had less than 5 years, 18% had 5 to 10 years, 14% had 11 to 15 years, 21% had 16 to 20 years, 16% had 21 to 25 years and finally 8% had over 25 years.

![Figure 4.6 Years as Professional Audit Experience](image)
4.3 Role of Auditors

4.3.1 Evaluating Risks

The researcher sought to find out to what extent evaluating risk as a role of auditors enhances corporate governance. The findings indicate that of the 119 respondents 38.7% of the respondents strongly agree, 43.7% agreed, 10.9% are neutral and 6.7% disagreed with the statement. Table 4.1 shows the results of the respondents.

Table 4.1 Evaluating risk

<table>
<thead>
<tr>
<th>Evaluating risks</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>Strongly disagree</td>
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</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>

4.3.2 Evaluating Controls and Operations.

The researcher sought to find out to what extent evaluating controls and operations as a role of auditors enhances corporate governance. The findings indicate that of the 119 respondents 32.8% of the respondents strongly agree, 52.1% agreed, 8.4% are neutral and 6.7% disagreed with the statement. Table 4.2 shows the results of the respondents.
Table 4.2 Evaluating controls and operation

<table>
<thead>
<tr>
<th>Evaluating controls and operations</th>
<th>Distribution</th>
</tr>
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<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>

4.3.3 Advising Managers.

The researcher sought to find out to what extent advising managers as a role of auditors enhances corporate governance. The findings indicate that of the 119 respondents 26.9% of the respondents strongly agree, 63.0% agreed and 10.0% are neutral with the statement. Table 4.3 shows the results of the respondents.

Table 4.3 Advising managers

<table>
<thead>
<tr>
<th>Advising managers.</th>
<th>Distribution</th>
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<td>Strongly disagree</td>
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</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>
4.3.4 Assessing Compliance with Policies and Procedures.

The researcher sought to find out to what extent assessing compliance with policies and procedures as a role of auditors enhances corporate governance. The findings indicate that of the 119 respondents 22.7% of the respondents strongly agree, 58.8% agreed, 12.6% are neutral and 5.6% disagreed with the statement. Figure 4.7 shows the results of the respondents.

![Figure 4.7 Assessing compliance with policies and procedures](image)

4.3.5 Verifying the Existence of Assets.

The researcher sought to find out to what extent verifying the existence of assets as a role of auditors enhances corporate governance. The findings indicate that of the 119 respondents 26.1% of the respondents strongly agree, 63.0% agreed, 6.7% are neutral and 4.2% disagreed with the statement. Figure 4.8 shows the results of the respondents.
Figure 4.8 Verifying the existence of assets

4.3.6 Providing Opinions on Financial Statements.

The researcher sought to find out to what extent providing opinions on financial statements as a role of auditors enhances corporate governance. The findings indicate that of the 119 respondents 41.2% of the respondents strongly agree, 47.1% agreed, 10.9% are neutral and 0.8% disagreed with the statement. Table 4.4 shows the results of the respondents.

Table 4.4 Providing opinions on financial statements

<table>
<thead>
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<th>Providing opinions on financial statements.</th>
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<td>Total</td>
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</tr>
</tbody>
</table>
4.4. Role of Audit Committee

4.4.1 Review Internal Audit Plans, Report and Significant Figures.

The researcher sought to find out to what extent review of internal audit plans, report and significant figures as a role of audit committee enhances corporate governance. The findings indicate that of the 119 respondents 21.9% of the respondents strongly agree, 68.9% agreed, 8.4% are neutral and 0.8% disagreed with the statement. Figure 4.9 shows the results of the respondents.

![Figure 4.9 Review internal audit plan, report and significant figures](image)

4.4.2 Monitor Choice of Accounting Principles.

The researcher sought to find out to what extent monitoring choice of accounting principles as a role of audit committee enhances corporate governance. The findings indicate that of the 119 respondents 39.5% of the respondents strongly agree, 50.4% agreed, 6.7% are neutral and 3.4% disagreed with the statement. Table 4.5 shows the results of the respondents.
Table 4.5 Monitor choice of accounting principles

<table>
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<th>Monitor choice of accounting principles.</th>
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<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>

4.4.3 Ensuring Risk Management Process is Comprehensive and Ongoing.

The researcher sought to find out to what extent ensuring risk management process is comprehensive and ongoing as a role of audit committee enhances corporate governance. The findings indicate that of the 119 respondents 42.9% of the respondents strongly agree, 47.1% agreed and 10.1% are neutral with the statement. Figure 4.10 shows the results of the respondents.

Figure 4.10 Ensuring risk management process is comprehensive and ongoing
4.4.4 Establishing a Direct Reporting Relationship with the External Auditors.

The researcher sought to find out to what extent establishing a direct reporting relationship with the external auditors as a role of audit committee enhances corporate governance. The findings indicate that of the 119 respondents 26.9% of the respondents strongly agree, 62.2% agreed, 6.7% are neutral and 4.2% disagreed with the statement. Table 4.7 shows the results of the respondents.

Table 4.6 establishing a direct reporting relationship with the external auditors.

<table>
<thead>
<tr>
<th>Establishing a direct reporting relationship with the external auditors.</th>
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</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>

4.4.5 Oversee Financial Reporting and Disclosure.

The researcher sought to find out to what extent overseeing financial reporting and disclosure as a role of audit committee enhances corporate governance. The findings indicate that of the 119 respondents 42.9% of the respondents strongly agree, 50.4% agreed and 6.7% are neutral with the statement. Figure 4.11 shows the results of the respondents.
Figure 4. 11 Oversee financial reporting and disclosure

4.4.6 Ensuring that Financial Statements are Understandable, Transparent and Reliable.

The researcher sought to find out to what extent ensuring that financial statements are understandable, transparent and reliable as a role of audit committee enhances corporate governance. The findings indicate that of the 119 respondents 33.6% of the respondents strongly agree, 56.3% agreed, 6.7% are neutral and 3.4% disagreed with the statement. Table 4.8 shows the results of the respondents.
Table 4.7 Ensuring that financial statements are understandable, transparent and reliable

<table>
<thead>
<tr>
<th>Ensuring that financial statements are understandable, transparent and reliable.</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td><strong>Strongly Agree</strong></td>
<td>40</td>
</tr>
<tr>
<td><strong>Agree</strong></td>
<td>67</td>
</tr>
<tr>
<td><strong>Neutral</strong></td>
<td>8</td>
</tr>
<tr>
<td><strong>Disagree</strong></td>
<td>4</td>
</tr>
<tr>
<td><strong>Strongly disagree</strong></td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>119</td>
</tr>
</tbody>
</table>

4.5 Enhancing Corporate Governance through Audit

4.5.1 Prioritizing Risk Management.

The researcher sought to find out to what extent prioritizing risk management enhances corporate governance through audits. The findings indicate that of the 119 respondents 30.3% of the respondents strongly agree, 60.5% agreed, 8.4% are neutral and 0.8% disagreed with the statement. Figure 4.12 shows the results of the respondents.

Figure 4.12 Prioritizing risk management
4.5.2 Setting and Enforcing Clear Lines of Responsibility.

The researcher sought to find out to what extent setting and enforcing clear lines of responsibility enhances corporate governance through audits. The findings indicate that of the 119 respondents 33.6% of the respondents strongly agree, 56.3% agreed, 5.9% are neutral and 4.2% disagreed with the statement. Table 4.9 shows the results of the respondents.

Table 4.8 Setting and enforcing clear lines of responsibility

<table>
<thead>
<tr>
<th>Setting and enforcing clear lines of responsibility.</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>40</td>
</tr>
<tr>
<td>Agree</td>
<td>67</td>
</tr>
<tr>
<td>Neutral</td>
<td>7</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>

4.5.3 Ensuring Timely and Effective Information Policy.

The researcher sought to find out to what extent ensuring timely and effective information policy enhances corporate governance through audits. The findings indicate that of the 119 respondents 42.9% of the respondents strongly agree, 48.7% agreed and 8.4% are neutral with the statement. Table 4.10 shows the results of the respondents.
Table 4.9 Ensuring timely and effective information policy

<table>
<thead>
<tr>
<th>Ensuring timely and effective information policy.</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>51</td>
</tr>
<tr>
<td>Agree</td>
<td>58</td>
</tr>
<tr>
<td>Neutral</td>
<td>10</td>
</tr>
<tr>
<td>Disagree</td>
<td>0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>

4.5.4 Promoting Appropriate Ethics and Values.

The researcher sought to find out to what extent promoting appropriate ethics and values enhances corporate governance through audits. The findings indicate that of the 119 respondents 24.4% of the respondents strongly agree, 65.6% agreed, 6.7% are neutral and 3.4% disagreed with the statement. Table 4.11 shows the results of the respondents.

Table 4.10 Promoting appropriate ethics and values

<table>
<thead>
<tr>
<th>Promoting appropriate ethics and values.</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>29</td>
</tr>
<tr>
<td>Agree</td>
<td>78</td>
</tr>
<tr>
<td>Neutral</td>
<td>8</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>
4.5.5 Clarifying Board’s Role in Strategy.

The researcher sought to find out to what extent clarifying board’s role in strategy enhances corporate governance through audits. The findings indicate that of the 119 respondents 21% of the respondents strongly agree, 67.2% agreed, 10.9% are neutral and 0.8% disagreed with the statement. Figure 4.13 shows the results of the respondents.

![Figure 4.13 Clarifying board’s role in strategy]

4.5.6 Enhance Information Transparency.

The researcher sought to find out to what extent enhancing information transparency enhances corporate governance through audits. The findings indicate that of the 119 respondents 33.6% of the respondents strongly agree, 48.7% agreed, 11.8% are neutral and 5.9% disagreed with the statement. Figure 4.14 shows the results of the respondents.
4.5.7 Engaging Stakeholders and Making Accountability Real.

The researcher sought to find out to what extent engaging stakeholders and making accountability real enhances corporate governance through audits. The findings indicate that of the 119 respondents 30.3% of the respondents strongly agree, 54.6% agreed and 15.1% are neutral with the statement. Figure 4.15 shows the results of the respondents.
4.5.8 Promoting Good Values for the whole Organization and Demonstrating this Values

The researcher sought to find out to what extent promoting good values for the whole organization and demonstrating this values enhances corporate governance through audits. The findings indicate that of the 119 respondents 30.3% of the respondents strongly agree, 63.0% agreed and 6.7% are neutral with the statement. Table 4.22 shows the results of the respondents.

Table 4.11 Promoting good values for the whole organization and demonstrating this values.

<table>
<thead>
<tr>
<th>Promoting good values for the whole organization and demonstrating this values.</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>36</td>
</tr>
<tr>
<td>Agree</td>
<td>75</td>
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<tr>
<td>Neutral</td>
<td>8</td>
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<tr>
<td>Disagree</td>
<td>0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>

4.5.9 Regression Model Summary of the Effect of Independent Variables on the Dependent Variable.

The table 4.12 shows a goodness of fit as indicated by the coefficient of determination $r^2$ with value of 0.69. This implies that the variables in this study explain 69% effect on the dependent variable. The remaining 31% is explained by other variable that this study did not capture. The p value is less than 0.05 which makes the relationship significant.
Table 4.12 Regression Model Summary of the Effect of Independent Variables on the Dependent Variable

<table>
<thead>
<tr>
<th>Model Summary</th>
<th></th>
<th></th>
<th></th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>R</td>
<td>R Square</td>
<td>Adjusted R Square</td>
<td>Std. Error of the Estimate</td>
<td>R Square Change</td>
</tr>
<tr>
<td>.831a</td>
<td>.690</td>
<td>.682</td>
<td>.41317</td>
<td>.690</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Corporate Governance through Audit, Auditor Role, Audit Committee

b. Dependent Variable: Corporate governance

Table 4.13 shows the analysis of variables (ANOVA). The value of the p-value is less than 0.05 which makes the relationship between the independent variable and dependent variable significant.

**Table 4.13 ANOVA**

<table>
<thead>
<tr>
<th>ANOVA</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>Sum of Squares</td>
<td>df</td>
<td>Mean Square</td>
<td>F</td>
</tr>
<tr>
<td>Regression</td>
<td>43.645</td>
<td>3</td>
<td>14.548</td>
<td>85.221</td>
</tr>
<tr>
<td>Residual</td>
<td>19.632</td>
<td>115</td>
<td>.171</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>63.277</td>
<td>118</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Corporate Governance through Audit, Auditor Role, Audit Committee

b. Dependent Variable: Corporate governance

The table 4.14 shows the regression coefficient of determination of the effect of independent variable on the dependent variable. From the table below it shows that all independent variables had a significant relationship with dependent variable. This is seen by the p-values being less than 0.05.
Table 4.14 Regression Coefficient of Determination of the Effect of Independent Variables on the Dependent Variable

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>Correlations</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.237</td>
<td>.193</td>
<td>6.414</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Auditor Role</td>
<td>.446</td>
<td>.089</td>
<td>5.014</td>
<td>.000</td>
<td>.801</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.424</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.260</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>.449</td>
<td>.077</td>
<td>5.815</td>
<td>.000</td>
<td>.739</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.053</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.029</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>through Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>.347</td>
<td>.091</td>
<td>3.825</td>
<td>.000</td>
<td>.775</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.336</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.199</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Corporate governance

4.6 Chapter Summary

This chapter presented the research finding by analyzing the data collected from the questionnaires. The data was analyzed and represented using different charts and tables and correlation of variables of the research questions. The next chapter will discuss the research questions and give conclusions and recommendation of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter is meant to summarize and discuss the research findings. It aims at giving of conclusions and recommendations that was used for improvement of the research problems that were identified in the course of the research. This solution was derived from the findings that were presented in the previous chapter.

5.2 Summary

The purpose of the study is to identify ways of enhancing corporate governance through auditing. The research questions for the study were the role of auditors on Corporate Governance; the role of an audit committee on Corporate Governance; and how to enhance Corporate Governance through audits.

The target population for this study was made up of ten (10) Commercial Banks licenced by the Central Bank of Kenya of which five banks are listed in the NSE namely CFC Stanbic Bank Ltd., Diamond Trust Bank Kenya Ltd., Housing Finance Ltd, Equity Bank Ltd. and Co-operative Bank of Kenya Ltd. and five banks that are not listed in the NSE namely Bank of Baroda (K) Ltd., Commercial Bank of Africa Ltd., Development bank of Kenya Ltd., Eco Bank Ltd. and I & M Bank Ltd. The study targeted population was 169 respondents which constitute the members of the audit committee of the banks. The sample size was 119 respondents. The researcher distributed of 119 questionnaires to the identified groups of respondents through email and made sure that they were properly filled and collected.

Among the respondents, 55% were from banks listed in the NSE and 45% of the banks were from the banks that are not listed in the NSE. The findings show that majority of the respondents were male at 66% while female were at 34%. From the finding, 24% had a college diploma, 46% had an undergraduate degree, 29% had a master’s degree and 8% had a doctoral degree. From the findings, the respondents comprised of 20% external auditors, 29% internal auditors, 23% management and 28% audit committee members.

The study went further to investigate how many years had the respondent worked in the respective banks. From the findings 26% had worked for less than 5 years, 32% had
worked for 5 to 10 years, 27% had worked for 11 to 15 years, 13% had worked for 16 to 20 years, 2 or 2% had worked for 21 to 25 years and 1 or 1% had worked for over 25 years. The majority were from the group of 5 to 10 years who were 38 or 32%. The study went further to determine the professional certification and the study were able to find the following responses shows that a majority at 29% had CFA certification, 28% had CPA certification, 26% had ICCA certification. The study sough to understand how corporate governance can be enhanced using the audit practice.

With regards to the first research question on role of auditors, the respondents agreed that evaluating risks (43.7%), evaluating controls and operations (52%), advising managers (63%), assessing compliance with policies and procedures (58.8%), verifying the existence of assets (63%) and providing opinion on financial statements (47%) are roles of auditors that enhance corporate governance.

In relation to the role of audit committee, the respondents agreed that review internal audit plans, report and significant figures (68.9%), monitor choice of accounting principles (50.4%), ensuring risk management process is comprehensive and ongoing (47.1%), establishing a direct reporting relationship with the external auditors (62.2%), oversee financial reporting and disclosure (50.4%) and ensuring that financial statements are understandable, transparent and reliable (56.3%) are roles of audit committee that can enhance corporate governance.

With respect to enhancing corporate governance through audits, the respondents agreed that prioritizing risk management (60.5%), setting and enforcing clear lines of responsibility (56.3%), ensuring timely and effective information policy (48.7%), promoting appropriate ethics and values (65.6%), clarifying board’s role in strategy (67.2%), enhance information transparency (48.7%), engaging stakeholders and making accountability real (54.6%) and promoting good values for the whole organization and demonstrating this values (63%).

The coefficient of determination helped predict how the statistical model was likely to predict future outcomes. The coefficient of determination, R² is the square of the sample correlation coefficient between outcomes and predicted values. The R² value of the study is 69% which means that the study can predict future outcome.
5.3 Discussion of Results

5.3.1 Role of Auditors

According to the IIA (2005), it is the mandate of auditors to identify the risk facing the organization and how it impacts on the delivery of objectives. They are required to ascertain the threshold of risk for the organization and implement controls and procedures to safeguard and ensure the threshold is not exceeded. Evaluation of risk facilitates auditors to anticipate impending concerns and providing reassurance, guidance and perceptions when needed. Majority of the respondents agreed that evaluating risk is a role of auditors that can enhance corporate governance.

Evaluating controls and operations is an internal audit activity which entails evaluating the adequacy and effectiveness of controls in responding to risk within the company’s controls (IIA, 2011). Further, Ramos (2004) asserts that internal controls is a key element of controls that sets the attitude for an institution and influences the control awareness of people. Auditors assess the quality of risk management controls and evaluate and report the on the effectiveness and execution of this controls by management (IIA, 2015). Majority of the respondents agreed with the fact corporate governance can be enhanced by auditors through evaluation of controls and operations.

The respondents agree that auditors are tasked with the responsibility of advising managers. The auditors are tasked with the responsibility of advising managers on issues of financial reporting and accountability in the daily operation of a company (Ahmad and Taylor, 2009). Further, auditors also ensure to inform managers on new standards and regulatory requirements which may be misinterpreted without the input of auditors. Therefore, advising managers is a role of auditors that can enhance corporate governance in an organization.

According to Reuters (2015), auditors are tasked to help with the compliance function in an organization and are constantly assessing the organizations compliance with policies and procedures. Regulatory bodies insist on that organizations should have compliance functions in place to enforce corporate governance (Mitton, 2002). The findings of the study supported the fact that the role of auditors in assessing compliance with policies and procedures enhanced corporate governance.
Wangome (2003) ascertains that the act of verification of assets is performed by auditors within the organization. Verification is the process of scrutinizing ownership rights and existence of assets and authenticating the original cost of assets. The respondents to the study were able to affirm that auditors are supposed to verifying the existence of assets.

Auditors are tasked to closely work with managers in the company to review operations such as systems, processes and report finding of financial records (Malaysian Institute of Accountants, 2001). Once the auditors review financial record they providing opinions on financial statements. Auditors act like facilitators for improvement of organization operations and providing advice as an expert to the management on risk involved in operations (IIA, 2015). The respondents agrees with the fact that providing opinion of financial statement was a role of auditors that can enhance corporate governance.

5.3.2 Role of Audit Committee

When monitoring the choice of accounting principles the audit committee is responsible for choosing the accounting principle for the organizations and checks whether the principles are being up held (IASB, 2001). The audit committee ensures that financial reports are prepared according to the accounting principles and best practices set out in the industry (Barth et. al., 2007). The study supported the fact that it is the duty of audit committee to monitor choice of accounting principle in an organization and this in turn can enhance corporate governance.

Alqabas (2007) states that the financial information presented in the financial statements is verified as accurate by the audit committee as a true position of the organization. Financial statements are prepared with an objective of showing the real financial position of an organization and it’s the duty of the audit committee to oversee the financial reporting (IASB, 2001). For the audit committee to understand whether processes and controls management has put in place are properly designed and effective they must be familiar with them (Deloitte, 2015). Therefore, audit committees can enhance corporate governance through overseeing financial reports and disclosures as supported by majority of the respondents of the study.

PricewaterhouseCoopers (2007) state that being proactive helps achieve organizational objective through continuous identification, assessments and management of the financial risk. This involves ensuring that risk management process is comprehensive and ongoing.
at all times. It is important that there be an ongoing process to evaluate all impending risk that are expected to face the organization (Henriksen et al., 2006). The findings from the study supported this fact with majority of the respondents agreeing that the role of audit committee of ensuring that risk management process is comprehensive and ongoing can enhance corporate governance.

According to Naciri (2010), the audit committee is mandated to review annual audit plans and ensure the implementation and maintenance of financial. External auditors modify audit plans in line with resources apportioned to them and the main risk facing the organization (CPA, 2014). However, audit committee can request for audit procedures to comply with set auditing standards. This is in line with the findings of the study where majority of the respondent agreed that audit committee should review internal audit plans, report and significant figures to enhance corporate governance.

Audit committee plays an essential role in making a conducive environment for quality auditing through establishing a direct reporting relationship with the external auditors overseeing financial reporting (Al-Mudhaki et al., 2004). Forming a direct relationship with external auditors guarantees that there is active communication and vigorous conversations on the finding and observations discussed in the annual report (IIA. 2011). This relationship helps the audit committee to enhance corporate governance as majority of that respondents agrees to this fact.

It is the audit committee's duty to build an environment which accommodates an open participation by individual to increase integrity and transparency of financial statements. (Puri et al., 2010). The study findings also support that ensuring that financial statements are understandable, transparent and reliable is a role of audit committee that can enhance corporate governance.

5.3.3 Enhancing Corporate Governance through Audit

The study findings supported that prioritizing risk management through can enhance corporate governance of Banks as majority if the respondents agreed to this fact. Buehler et al. (2008) and Beekes et al. (2006) argue that risk based audits improve information contained in financial statements and that prioritizing risk enables the organization to detect risk and promote transparency and accountability.
Bozec & Dia (2005) ascertain that it is necessary to identify who is responsible for auditing in order for effective enforcement of clear responsibilities and to avoid ambiguities. The respondents supported that setting and enforcing clear lines of responsibility during audits can enhance corporate governance in Banks.

Sandeep et. al. (2002) state that what will be informed to the stakeholders through financial statements is determined by the information policy of an organization. Information policy guides in what is to be disbursed and at what time and to whom. Majority of the respondents agrees that ensuring timely and effective information policy can enhance corporate governance for Bank.

In order to ensure that information produced by the organization is truthful, management are responsible of promoting and emulating a culture of ethics and values (Collins, 2001). This is supported by majority of the respondents of the study who agreed that promoting appropriate ethics and values can enhance corporate governance in Banks.

Majority of the respondents in the study supported the fact that clarifying board’s role in strategy can enhance corporate governance for banks. Beasley et al (2010), stated policies that are clearly prepared lead to more effective and efficient board functions as well as acting as a guide differentiating the responsibility and limits for the board, management and employees to bring focus and direction to the organization and in turn enhance corporate governance.

KPMG (2015) state that auditors are required to describe crucial areas of concern during audits to provide more information transparency with respect to financial statements. In addition, auditors are required to highlight giving illustrations on the audited reports on areas they focused on during audits and how they addressed the matters. Enhancing information transparency was supported by majority of the respondents of the study as a way of enhancing corporate governance.

Amaeshi & Crane (2006) argue that organizations have to engage stakeholders in one way or another through company interactions to enhance accountability and outcome. In turn this engagement gives a better appreciation of the stakeholders’ view on key matters and helps build stronger association that can help enhance corporate governance. Engaging stakeholders and making accountability real is supported by majority of the respondents in the study as a practice that can enhance corporate governance in banks.
According to the Committee of Public Life (2004), good Corporate Governance flows from systems and structures through shares ethos and culture. Further, they state that governing bodies should take a lead in forming and endorsing values for the organization and its employees hence these standards should be over and above legal requirements. This fact is supported by majority of the respondents who are of the opinion that promoting good values for the whole organization and demonstrating this values can enhance corporate governance.

5.4 Conclusions

5.4.1 Role of Auditors
The study conclude that the role of the auditor were evaluating risks, providing opinions on financial statements, verifying the existence of assets, assessing compliance with policies and procedure, advising managers, evaluating controls and operations and rectifying challenges faced by internal and external auditors. This was as identified by the various respondents who agreed with these roles.

5.4.2 Role of Audit Committee
The study was able to conclude that the following roles were played by the audit committee ensuring that financial statements are understandable, transparent and reliable, monitor choice of accounting principles, ensuring risk management process is comprehensive and ongoing, establishing a direct reporting relationship with the external auditors, overseeing financial reporting and disclosure and review internal audit plans, report and significant figures.

5.4.3 Enhancing Corporate Governance through Audit
The study was able to able to conclude that the banks use audit to enhance corporate governance in the banks by prioritizing risk management, setting and enforcing clear lines of responsibility, ensuring timely and effective information policy, promoting appropriate ethics and values, clarifying board’s role in strategy, enhance information transparency, engaging stakeholders and making accountability real and promoting good values for the whole organization and demonstrating this values.
5.5 Recommendations

5.5.1 Suggestions for Improvement

5.5.1.1 Role of Auditors

The study found that the role of an auditor does affect the corporate governance in the banks. Therefore the study recommends that the auditors be given more autonomy so that they can be able to produce quality financial statements. This will help in increasing stakeholders’ confidence and attract new potential investors.

5.5.1.2 Role of Audit Committee

The study identified that the existence of an audit committee assists in the making of quality financial records which enhance corporate governance in the banks. The study recommends that the audit committee be given the authority to initiate an audit. This will help the audit committee to be able to do audits when there seems to be a problem rather than when the audit is set.

5.5.1.3 Enhancing Corporate Governance through Audit

The study identifies that the use of audit assist in the enhancement of corporate governance and so the study recommends more support to the audit function in preparation of proper financial records. This will help more consistent and better records for the banks.

5.5.2 Suggestions for Further Studies

The study recommends more studies to be done in the other banks that have not been featured in this study as it mainly concentrated on selected banks. The respondents in the study was focused on auditors in banks and hence the study can be extended to feature respondents that work purely in audit firms that act as external auditors. The study further recommends studies on other institution such as microfinance banks and investment companies which can use auditing to enhance corporate governance.
REFERENCE


KPMG (2004). *Shaping the Audit Committee Agenda*. KPMG LLP. Montvale, NI.


APPENDICES

APPENDIX I: INTRODUCTORY LETTER

Domitilla Wanjiku Kiragu
P.O BOX 4368 - 00100
Nairobi

Dear Respondent,

RE: REQUEST FOR YOUR PARTICIPATION IN MY ACADEMIC RESEARCH PROJECT

I am a student currently pursuing a course towards conferment of Master of Business Administration (MBA) from United States International University – Africa.

In partial fulfilment of the requirements of the award of the degree, I am conducting a research project to determine how corporate governance can be enhanced through audits. In this regard, you have been selected to participate in this study and your participation will be highly appreciated.

The research project is targeting head of auditor senior managers who are involved in the audit functions within the organization. Kindly complete all sections of the questionnaire to enable me complete my research project.

Please note that the information you provide will be treated as confidential, and will only be used for the purpose of this research.

Yours Sincerely,

Domitilla Kiragu
APPENDIX II: QUESTIONNAIRE

Instructions:

Please read each question carefully and follow the instructions. Kindly answer all the questions by ticking or filling in the spaces provided. All responses given will be treated with a lot of confidentiality.

PLEASE READ THE FOLLOWING INSTRUCTIONS CAREFULLY BEFORE YOU START FILLING THE QUESTIONNAIRE

1. Please read each question carefully.

2. For questions requiring you to choose the extent of agreement or importance indicate only one appropriate choice on scale of 1-5

3. Fill in answers to all questions with blank spaces.

4. Do not indicate your name on the questionnaire

SECTION A

PART ONE: GENERAL INFORMATION

1. CLASSIFICATION OF BANK: Listed in the NSE: [ ]
   Unlisted in the NSE: [ ]

2. EDUCATION LEVEL: Graduate: [ ]
   Masters: [ ]
   PhD: [ ]
   Doctorate: [ ]

   Others: .................................................................

64
3. PROFESSIONAL CERTIFICATION:  CPA:  
                  ACCA: 
                  CFA: 
                  CIA: 
                  CISA:  
                  Others: ........................................

4. NO. OF YEARS IN THE INSITUTION:  
                  Less than 5 years:  
                  5 - 10 years:  
                  11 - 15 years:  
                  16 - 20 years  
                  21 – 25 years  
                  Over 25 years  

5. POSITION OF RESPONDENT:  
                  Consulting  
                  Management  
                  Internal Auditor  
                  External auditor  
                  Audit committee  
                  Other ____________________
6. YEARS OF PROFESSIONAL EXPERIENCE AS AN AUDITOR:
   
   1-5 years: ☐
   6-10 years: ☐
   11-15 years: ☐
   16-20 years: ☐
   Over 20 years: ☐

PART TWO:

Research topic: The Role of Auditors in Enhancing Corporate Governance.

Research Question 1: Role of Auditors

State the extent to which you agree with the following statement regarding the Role of Auditors in Enhancing Corporate Governance. On a scale of 1 – 5 where 1 represents strongly agree and 5 strongly disagree. Please indicate your response by putting an X to each item using the scale of strongly agree to strongly disagree.

<table>
<thead>
<tr>
<th></th>
<th>To what extent do the following roles of auditors enhance corporate governance?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Evaluating risks.</td>
</tr>
<tr>
<td>2</td>
<td>Evaluating controls and operations.</td>
</tr>
<tr>
<td>3</td>
<td>Advising managers.</td>
</tr>
<tr>
<td>4</td>
<td>Assessing compliance with policies and procedures.</td>
</tr>
<tr>
<td>5</td>
<td>Verifying the existence of assets.</td>
</tr>
<tr>
<td>6</td>
<td>Providing opinions on financial statements.</td>
</tr>
</tbody>
</table>
Any other comment: …………………………………………………………………………………

**Research Question 2: Role of Audit Committee**

State the extent to which you agree with the following statement regarding the role of audit committee in Enhancing Corporate Governance a scale of 1 – 5 where 1 represents strongly agree and 5 strongly disagree. Please indicate your response by putting an X to each item using the scale of strongly agree to strongly disagree.

<table>
<thead>
<tr>
<th></th>
<th>To what extent do the following roles of audit committee enhance corporate governance?</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Review internal audit plans, report and significant figures.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Monitor choice of accounting principles.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Ensuring risk management process is comprehensive and ongoing.</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>5</td>
<td>Establishing a direct reporting relationship with the external auditors.</td>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>6</td>
<td>Oversee financial reporting and disclosure.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Ensuring that financial statements are understandable, transparent and reliable.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Any other comment: …………………………………………………………………………………

**Research Question 3: Enhancing Corporate Governance through Audit**

State the extent to which you agree with the following statement regarding the Enhancing of Corporate Governance through audit on a scale of 1 – 5 where 1 represents strongly
agree and 5 strongly disagree. Please indicate your response by putting an X to each item using the scale of strongly agree to strongly disagree.

<table>
<thead>
<tr>
<th></th>
<th>To what extent do the following roles enhance corporate governance through audits?</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Prioritizing risk management.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Setting and enforcing clear lines of responsibility.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Ensuring timely and effective information policy.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4</td>
<td>Promoting appropriate ethics and values.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Clarifying board’s role in strategy.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Enhance information transparency.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Engaging stakeholders and making accountability real.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>8</td>
<td>Promoting good values for the whole organization and demonstrating this values.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Any other comment: ........................................................................................................................................

Thank you for completing the survey