EFFECTS OF PROFESSIONAL ETHICS ON RISK MANAGEMENT IN THE BANKING SECTOR IN KENYA

BY

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EFFECTS OF PROFESSIONAL ETHICS ON RISK MANAGEMENT IN THE BANKING SECTOR IN KENYA

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

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SUMMER 2017
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: ____________________  

Martin Kimemia Kagozi (ID 649979)

This research project 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 study sought to analyze effects of professional ethics on risk management in the banking sector in Kenya. The research was guided by the following objectives: To evaluate the effects of professional competence on risk management in banking sector, to determine how objectivity addresses risk management in banking sector, to examine the effects of confidentiality on risk management in banking sector and to investigate the effects of integrity on risk management in banking sector.

Descriptive research was used to answer the question of who, what, where, when or how much in determining the effects of professional ethics on risk management in the banking sector in Kenya. The study targeted 84 respondents of the internal audit function for all the 42 Commercial banks listed by the Central Bank of Kenya within Nairobi County. At a margin of error (e) of 5%, confidence level of 95% a sample size of 70 was arrived at. Only 52 responded, giving a 74% response rate. Statistical Package for Social Sciences (SPSS) and excel was used to analyze data. Quantitative technique was used to analyze results were presented in percentages, means, standard deviations and frequencies. Multiple regression analysis was applied to establish the relationship between the study variables to create a new single study variable.

The findings on the effects of professional competence on risk management revealed that to a higher extent professional qualification affect risk management, keeping abreast with emerging issues and technology, auditor’s preparation and giving effective presentations and reconcile the results affected risks, training needs must be identified and implemented. The findings on the effects of integrity on risk management revealed that to a very high extent auditor have demonstrated honesty and candidness, auditors treat everyone with courtesy, respect, fairness, and objectivity, auditors have had a positive attitude and were proactive, understanding and satisfy the real needs of the organization.

The findings on the effects of objectivity on risk management revealed that to a very high extent auditors enhance impartial and unbiased judgement, auditors carry out their work freely and objectively, economic status and inefficient reward systems affected risk management. Auditors were influenced by the independence of the activities that it audits, and by the engagement with threats i.e. familiarity, self-review, personal relationships, economic interest. The findings on the effects of confidentiality on risk management revealed that to a higher extent strengthening accountability affected risk management,
disclosure of information was also found to affect risk, protection of working papers by keeping them under wrap affected risk management, enhancing confidential relationship and trust influence risk management.

The study concluded that from the findings, auditors are qualified and keep up to date with emerging issues and technology, as well as preparation and giving effective presentation, creating a good image hence enabled banks to manage risk. Auditors have demonstrated that they possess qualities that enable timely, efficient, and effective manner hence being able to understand and satisfy the real needs of the organization. Moreover, professionals confer special benefits and/or give preferential treatment and auditors are corrupted by self-interest, financial or behavioral motives. It was also concluded that auditors enhance impartial and unbiased judgement, hence being able to carry out their work freely and objectively.

The study recommended that banks should ensure that auditors have subscribed with relevant accounting professional bodies. Through this, auditors will be able to get up to date information about the industry, attend seminars and training and network and share information hence being able to manage risk. It is recommended that banks should ensure that professionals follow code of conduct and adhere to standards and behavior. The code of ethical conduct will prevent professionals from giving special benefits or preferential treatment to certain clients and prevent professionals from being corrupted by self-interest, financial or behavioral motives and banks should ensure that auditors are able to connect with management. Use of code of ethics should be encouraged hence encouraging auditors to uphold to rules of conduct which describe the norms of behavior expected of internal auditors hence, protecting client information. It is recommended that other studies be done to determine other factors that affect risk management. The study should be conducted in other financial institutions like SMES.
ACKNOWLEDGEMENT

First and foremost I thank the Almighty Father in Heaven for seeing me through and providing me with the necessary perseverance while carrying out this research report. I wish to appreciate everybody who supported and offered me assistance as I carried out my research study. I would like to thank my research project supervisor Dr. Amos G. Njuguna for his guidance in carrying out the research and giving me a sense of direction on what I needed to incorporate and also to my family and friends for their understanding and patience with me as I did my project.
DEDICATION
I dedicate this research project to my mother the late Susan Wanja Muchiri for her relentless support all through my education both financially and mentally and her wish for me to complete my Master’s Degree program. May she continue Resting in Peace.
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# ABBREVIATIONS AND ACRONYMS

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<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
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<td>ACFE</td>
<td>Association of Certified Fraud Examiner</td>
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<tr>
<td>AIE</td>
<td>Authority to Incur Expenditure</td>
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<tr>
<td>CBOK</td>
<td>Central Bank of Kenya</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<tr>
<td>CIA</td>
<td>Certified Internal Auditors</td>
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<td>CISA</td>
<td>Certified Information Systems Auditor</td>
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<td>CPA</td>
<td>Certified Public Accountant</td>
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<td>FRC</td>
<td>Financial Reporting Council</td>
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<tr>
<td>IAF</td>
<td>Internal Audit Function</td>
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<td>IES</td>
<td>International Federation of Accountants, Education Committee</td>
</tr>
<tr>
<td>ICAEW</td>
<td>Institute Chartered Accountants in England and Wales</td>
</tr>
<tr>
<td>ICPAK</td>
<td>Institute of Certified Public Accountants of Kenya</td>
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<tr>
<td>IESBA</td>
<td>International Ethics Standards Board for Accountants</td>
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<td>IFAC</td>
<td>International Federation of Accounting Committee</td>
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<td>IIA</td>
<td>Institute of Internal Auditors</td>
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<td>IIARF</td>
<td>Institute of Internal Auditors Research Foundation</td>
</tr>
<tr>
<td>IPPF</td>
<td>International Professional Practices Framework</td>
</tr>
<tr>
<td>ISA</td>
<td>International Standards of Auditing</td>
</tr>
<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
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<tr>
<td>ISPPA</td>
<td>International standards for the professional practice of internal auditing</td>
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<tr>
<td>KBA</td>
<td>Kenya Bankers Association</td>
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<tr>
<td>KPMG</td>
<td>Klynveld Peat Marwick Goerdeler</td>
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<tr>
<td>PWC</td>
<td>Price Waterhouse Coopers</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>SAI</td>
<td>Statement of Additional Information</td>
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<tr>
<td>SAS</td>
<td>Statements of Auditing Standards</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<tr>
<td>SOX</td>
<td>Sarbanes Oxley Act</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Extant literature reveals that accounting students regard ethics education as not only important to them personally, but also as an important part of their overall business education (Adkins & Radtke, 2004; Graham, 2012). The principle of professional behavior imposes an obligation to all professional accountants to comply with relevant laws and regulations and avoid any action that the professional accountant knows or should know may discredit the profession. This includes actions that a reasonable and informed third party, weighing all the specific facts and circumstances available to the professional accountant at that time, would be likely to conclude adversely affects the good reputation of the profession (IESBA, 2013).

The IESBA’s primary document to assist in maintaining ethical standards among accountants is the official text Code of Ethics for Professional Accountants (IESBA, 2013). The professional ethics were designed by the IIA’s code of ethics which promotes an ethical culture in internal auditing (IIA, 2010). The code is unchanged in the New IPPF. 1) Principles that are relevant to the profession and practice of internal auditing; and 2) Rule of conduct that describes behavior norms expected of internal auditors (IPPF, 2015).

Internal Auditors are expected to apply and uphold the following principles in respect to professional ethics; Integrity is when internal auditors establishes trust and thus provides the basis for reliance on their judgement; Objectivity is when internal auditors’ exhibit highest level of professional objectivity in gathering, evaluating, and communicating information about the process being examined. They make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements; Confidentiality is when internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so and Competency is when internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services (IIA, 2010).
The high-profile ethical failures of professional accountants in recent decades have been met with increased regulation and oversight, as well as calls for greater attention to ethics education in accounting programs. As it is not yet clear whether these measures are sufficient to prevent further accounting crises, or even whether these measures are appropriately implemented (given no discernible increase in accounting ethics education from 2000 to 2012 in Australia, for example the examination of alternative perspectives on accounting ethics is both warranted and desirable (Dellaportas, 2014). The International Federation of Accountants (IFAC, 2014) contributes to the development, adoption and implementation of high-quality international ethics standards for accountants, primarily through its support of the International Ethics Standards Board for Accountants (IESBA, 2013).

The focus on risk assessment within entities, and specifically within the financial services, has also led to the development of “risk-based internal auditing” (Coetzee and Lubbe, 2013). Assessing the effectiveness of risk management is one of the basic tenets of the definition of the internal audit function (Hass et al., 2006). Goodwin and Kent (2006) documented a strong association between internal audit use and organizational commitment to manage risk. Internal audit can add value if it can understand issues of risk and assist the management to improve its risk management processes (Lindow and Race, 2002; Gramling and Myers, 2006). Internal audit supports the governance and strategic decision-making processes of an organization, by analyzing the different risk management systems in place and highlighting areas that could prove problematic to the organization (Coetzee and Lubbe, 2013).

Internal Audit has an overseeing and monitoring role in risk management compliance (PwC, 2014). Internal audit also has a role in the development of appropriate risk assessment tools and constantly monitors their reliability and usefulness. These skills are paramount in staying ahead of money laundering activity given the constantly evolving nature of new risks (Fernandez-Laviada, 2007). This is becoming increasingly important given that critics of the current Anti Money Laundering approach, such as Demetis and Angell (2007) suggests that regulators’ obsession of trying to control the money laundering risk situation through increased regulation has largely been ineffective. Multiple types of risks face organizations when conducting their business, and these risks need to be adequately managed (Pikeet, 2012).
Pikeet (2012) classifies these risks into externally driven risks and internally driven risks. Externally driven risks include financial risks (including risks related to accounting standards, interest rates, foreign exchange, and credit) and market place risks (including risks related to the economic environment, technology developments, competition, customer demand, and regulatory requirements). Internally driven risks include internal risks related to controls and the control environment, fraud, liquidity, investments, information technology systems, and human resources (Pikeet, 2012).

The IIA (2009a) illustrates many roles internal auditors might perform regarding risk management. It classifies these roles into core roles that internal auditors should perform, roles that internal auditors could perform under the presence of some conditions, and roles that they should not perform as the roles undermine their duties as internal auditors. Core roles relate to providing objective assurance on the appropriateness and effectiveness of risk management. Examples of the core roles include evaluating and giving assurance on the risk management processes and the accuracy of risk estimation. Permitted roles (in the presence of appropriate safeguards designed to ensure independence and objectivity) mainly include consulting management on matters related to risk management (IIA, 2009a).

Internal auditors must not undertake mainly relate to taking responsibility for decision making on risk management, such as setting the risk appetite, taking decisions on risk management processes and implementing them on management’s behalf, and being accountable for risk management (IIA, 2009a). The internal audit function must contribute to the improvement of risk management in banks and other organizations while retaining its independent assurance role (Pikett, 2011). ISPPIA insist that internal auditors be independent and objective. Such a freedom from bias has to exist to a degree that ensures sufficient distancing of the internal audit function from the operation it reviews (Pickett, 2011). There has been a global move from enterprise wide approach to risk management, with internal auditors playing a key significant roles in providing both assurance and consulting services with respect to management of risk within their organizations. Internal Auditors should assist in risk management responsibilities and oversight roles by examining, evaluating, recommending improvements on the adequacy and effectiveness of management’s risk processes (Laura de Zwaan, 2011).
Risk management is a very important process in banks and other entities. Recently, the involvement of internal auditors in the risk management process of banks and other organizations has significantly increased (Castanheira N., Lima Rodrigues., L. and Craig R., 2010). Although internal audit might be considered an integral part of banking governance, it was not actually until the 1940s that it began to become a professional discipline recognized within management (Castanheira N., Lima Rodrigues., L. and Craig R., 2009). Internal audit plays a key role in supporting the banking corporate governance model. Lenz (2013) suggested that IAF was there to support the quality of corporate governance. “We see IA effectiveness as a “risk-based concept that helps the organization to achieve its objectives by positively influencing the quality of corporate governance” (Lenz, and Sarens 2013, p. 257). That definition is not very specific though, and the challenge is increased further as outlined in another work by Lenz, and Sarens (2012).

Banks survive and prosper by accepting risk, which are their principal economic characteristic. Internal audit should be more involved in top management decision making, protecting its organization against risk and continually improving control systems (Castanheira N., Lima Rodrigues., L. and Craig R., 2010). The department should have the ability to add value to the bank by producing timely, accurate, comprehensive and unbiased audit report to the management on a regular basis and the ability to incorporate change in its functions, structures and approaches in order to meet changing need of the business (KPMG, 2007). The Kenya banking industry provided the context for this research as it constitutes the basic factor of Kenya’s economic growth and has important contribution in the overall balance of exterior transactions in an effort to achieve vision 2030.

The banking sector is a major contributor in Kenya’s economic growth since it facilitates all businesses in terms of monetary transactions. The Banking industry in Kenya is governed by the Companies Act, the Banking Act, and the Central Bank of Kenya Act and the various prudential guidelines issued by CBK (KBA, 2017). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Ministry of the National Treasury, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. There are 42 licensed Commercial banks in Kenya (CBK, 2017).
1.2 Statement of the Problem
Survey studies have established that codes of ethics are thought to be relevant and important to organizations and their employees (Martinov, 2004; Lamberton et al., 2005). Lamberton et al. (2005) found that USA firms are more ethically concerned. The impact of codes of ethics and experience were more likely to possess a code of ethics and 90 per cent of the surveyed managers believed codes of ethics to be an important factor in resisting unethical behavior. Prior research examining the ethical environment surrounding auditors is limited, with the majority of ethical auditing studies focusing on individual ethical development and reasoning, and only on the ethical dimension of auditors’ judgments (Jones et al., 2003).

The study of ethics continues to be an important topic of accounting research (Spalding and Oddo 2011; Hagel 2012; Anderson 2013; Davidson and Stevens 2013; Gerstein and Friedman 2013). Despite the accounting profession’s emphasis on adhering to the highest standards of ethical conduct, the rash of high-profile breaches of trust continues at an alarming rate, often perpetuated by the entrusted corporate accountants who work within the organization (Business Week 2002; Wall Street Journal 2007; New York Times 2007, 2009; New York Daily News 2009). Despite international agreements and guidelines, there have been a number of cases brought against some global banks, all stating that their compliance was weak and ineffective (Yeoh, 2014). The impact of weak internal controls and increased fines has also brought into the question the role of ethics and internal audit in protecting the bank from risk (Altamuro and Beatty, 2010).

“Recent high-profile corporate collapses, such as Enron and WorldCom, have brought into question the status and credibility of the accounting profession, especially auditors, with allegations of accountants’ violations of public trust” (Chan and Leung, 2006, p. 436). A research done on the role of internal auditing on risk management in the banking sector in Jordan was chosen as a setting for this study given that banks tend to be relatively larger institutions, public listed companies, have more complex processes and operations, deal with significantly large clientele, are under more public scrutiny than entities in other sectors and banks are likely to apply ISA (Modar Abdullatif and Shatha Kawuq, 2015). Hence the motivation studied on a similar research on the Effects of Professional Ethics on Risk Management in the Kenyan Banking context.
1.3 General Objective
The general objective of the study was to establish the effects of professional ethics on risk management in the banking sector in Kenya.

1.4 Specific Objectives
1.4.1 To evaluate the effects of professional competence on risk management in banking sector.
1.4.2 To investigate the effects of integrity on risk management in banking sector.
1.4.3 To determine how objectivity addresses risk management in banking sector.
1.4.4 To examine the effects of confidentiality on risk management in banking sector.

1.5 Significance of the Study
1.5.1 Scholars and Academicians
This research serves as an excellent reference material to person(s) who would like to carry research in this area and form a basis for future research on the effects of professional ethics on risk management in banking sector as this forms a foundation for further research on professional ethics. The study is significant to scholars and researchers as the study contributes to existing body of knowledge on the effects of professional ethics on risk management in the banking sector in Kenya.

1.5.2 Policy Makers
This study is of great importance to public policy makers in Kenya as it provides knowledge on the four professional ethics code of conduct of internal auditors that would enhance the effectiveness of internal auditors and improve their performance. The study finding provides a basis for policy development that would improve internal audit practices by upholding proper ethics code of conduct which in turn addresses effective and efficient risk management on the polices relied upon.

1.5.3 Practice
The banking sector is a major pillar in Kenya’s economic growth since it supports all business sectors by providing monetary transactions services. The Internal Audit function is an integral part of the banking financial management and an instrument for improving and adding value in the banking sector by minimizing potential risk threats across the
banks. The study will help the bank internal auditors apply and uphold the four professional code of ethics (integrity, objectivity, confidentiality and competency) which will in turn improve and addresses effective and efficient risk management processes across all banks.

The study is also important to the Government as it unearths the fundamental issues related to effects of professional ethics on risk management. Internal Auditors support the government in respect to public banks in realizing utmost fidelity and prudent use of public resources as well as bringing improvement in operations which cultivate trust among stakeholders.

1.6 Scope of the Study
The study sought to establish the effects of professional ethics on risk management in the Kenyan banking context. The study targeted all the 42 commercial banks in Nairobi County.

1.7 Definition of Terms
1.7.1 Code of Ethics
The Institute of Internal Auditors has developed ethical standards for the practice of internal auditors. The ethics provisions primarily address internal auditors’ obligations to their employers, but they also include provisions which prescribe honesty, objectivity, competence and morality in the practice of the internal auditing profession (IIA, 2013).

1.7.2 Corporate Governance
Involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004).

1.7.3 Ethical Culture
A culture in which it is impossible to question what one is doing is at odds with professional values for an auditor, because acting with professional skepticism and integrity lies at the heart of professional obligations (Shafer and Wang, 2010).

1.7.4 Internal Audit
“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish
its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (IIARF, 2013, p. 2).

1.7.5 Risk
Risk can be interpreted as exposure to a proposition of which the outcome is uncertain (Holton, 2004).

1.7.6 Risk Appetite
The amount and type of risk that an organization is willing to take in order to meet their strategic objectives. Organizations will have different risk appetites depending on their sector, culture and objectives. A range of appetites exist for different risks and these may change over time (Institute of Risk Management, 2016).

1.7.7 Risk Management
Refers to the coordination set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve objectives (ISO 31000, 2009).

1.8 Chapter Summary
The chapter details the methodology of study, the objectives (general and specific), described the significance of the study and explains the problem statement. It looks at the effects of professional ethics on risk management in the Kenyan banking sector. Chapter two of the research paper discusses the literature review of other research work that has been carried out on related topics. Chapter three presents the research design and methodology applied by the study in examining the effects of professional ethics on risk management in the Kenyan banking sector. Chapter four illustrates the results and findings of the study while Chapter five consists of the conclusion and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter reviews the existing literature on the effects of professional ethics on risk management in the banking sector in Kenya. In specific the chapter discusses the extent to which professional competence addresses risk management, the extent to which integrity affects risk management, the effects of objectivity on risk management and the extent to which confidentiality addresses risk management. The section also includes a chapter summary.

2.2 Professional Competence and Risk Management
2.2.1 Skills and Professional Competence
The pressures for change from both within and outside the Internal Audit profession are giving rise to the demand for a competent internal auditor. Respect to internal audit competence, Zain et al. (2006) identify the level of experience among internal auditors as being indicative of the quality of internal audit. In addition, Gramling and Hermanson (2009) argue that skilled and qualified internal auditors are indicative of internal audit quality, hence risk management effectiveness in an organization. The internal audit function staff both at audit committee level and actual staff should be qualified, competent and knowledgeable with current and emerging issues to enable them perform their duties effectively (DeZoort, 2012). Although IIA (2008) states "internal auditor should not have the expertise of a person whose primarily responsibility is to detect and to investigate fraud" (P.18).

International Federation of Accountants, Education Committee (2010) argues that competency studies are superior to CBOK studies, because competency studies provide that professional accountability to the public and employers who do not have accounting units and departments to provide further on-the-job training; Fitness for the occupational purpose; and the validity of pass-fail decision. Effective communication skills between auditors and management is vital for a successful audit and to the auditors’ career paths (IFAC, 2010). Verbal communication skills will help internal auditors in discussing issues like risk and internal control systems with management (IIA, 2012). Auditors must possess the verbal skills to express the potential risks and communicate recommendations for reducing the potential risk (IIA, 2012). Internal auditors have direct
communication with senior management and board of directors and are often referred to as “management’s right arm” which in return enhance risk management effectiveness. A major goal of professional competence is to report the results of the assessments used and reconcile the results in order to provide a standard skill set to measure auditing competence (IIA, 2012).

2.2.2 Outstanding Performance

Competency studies are typically composed of examining current professional practice; specifying responsibilities related to professional practice; and identifying knowledge and skills needed to meet professional responsibilities. They are more extensive than CBOK studies, which only consider knowledge. Competency studies are outcome-based in terms of the ability to perform professional responsibilities including knowledge and skills (CBK, 2010). The International Federation of Accountants (IFAC) Education Committee (2003) defines competency as the ability to perform the tasks and roles expected of a professional accountant, both newly qualified and experienced, to the standard expected by employers and the general public. The recent accounting pitfalls have driven the profession to re-examine fundamental competencies necessary to be successful. Under IFAC’s commission, the IES prescribes standards that are to be used as benchmarks for the preparation and continual development of professional accountants worldwide (IES, 2003).

The Kenya Accounting profession regulating body encourages accountants to subscribe with them and obtain a minimum of forty CPD (Continued Professional Development) monitored hours to keep them relevant and emerging accounting issues (ICPAK, 2017). Strengths and weaknesses, along with training needs must be identified. A team spirit, with staff understanding the aim of modern Internal Audit and embracing the ethics, should be build. As more demands for professionalization and taking of responsibility are placed on audit staff, the rewards and compensation structure must be revised (Gansberghe, 2005). Internal auditors must be able to prepare and give effective presentations. Internal auditors provide suggestions for improving internal control systems and minimizing unnecessary risk. Presentations are often utilized to inform management of audit results (IIA, 2012).
Internal auditors must possess the necessary communication skills to prepare oral presentations, with appropriate supervision, and answer related questions from management. Auditors must possess adequate communication skills to inform other interested parties of audit findings and the potential risks identified during an audit. Auditors must create an image of adding value to the organization and not just being investigators by reducing the organization’s risk to the acceptable level which will enhance efficient operations and procedures within (IIA, 2012). “Accounting scandals such as Enron, WorldCom, Tyco, and others outside of the United States have severely damaged public perceptions of accountants. In specific, various trust and competency issues have emerged in respect to auditors and accountants in general. In the name of public benefit, regulators across the globe have stepped up their scrutiny of the accounting profession and have released federal laws (most notably the Sarbanes-Oxley Act in the United States) and new auditing standards e.g. SAS 99” (Chan and Leung, 2006, p. 436).

2.2.3 Knowledge and Professional Competence

The Taiwan code calls for members to maintain their professional competence. It also requires appropriate supervision of any assistants. Similarly, the South Korean code requires members to observe the by-laws, audit law for corporations, and accompanying rules. Members should also observe audit standards and other related rules when audits are conducted and an opinion is expressed. Members of the Malaysian Association must carry out their professional work in accordance with the relevant technical and professional standards and in compliance with the relevant legislation. In particular, members must comply with the approved Accounting and Auditing Standards and other pronouncements issued by the Association (Jakubowski, 2002).

Personnel performing IT audit should have information systems knowledge commensurate with the scope and sophistication of the institution’s IT environment and possess sufficient analytical skills to determine and report the root causes of deficiencies (FFIEC, 2006.) Audit with responsibility for managing and directing audit teams, together with those internal auditors responsible for a particular activity such as computer and forensic auditing which require special skills or knowledge (Internal Audit Manual, 2005). Various
studies noted the importance of effective communication as a tool of professional competence (Endaya and Hanefah, 2013).

ISA 610 (2009) issued by IFAC requires external auditors to evaluate the effective communication when using the work of internal auditors. Mihret and Yismaw (2007) consider effective communication as part of the internal audit quality, which is considered one of the important variables that influence the effectiveness of risk management. Recently, the IES (2003) proposed a standard for assessing the professional competence of accountants. Specifically, the standard prescribes the requirement for a process of assessment of a candidate’s professional competence before admission to the profession. The new laws are primarily aimed at providing more guidance on auditing issues, but one cannot wonder if those performing internal and external audits will need to possess different skills, competencies, and responsibilities than their predecessors. In short, times have changed for both audit professionals and educators. Internal Auditors are responsible to continuing their education in order to maintain their proficiency. They should keep themselves informed about improvement and current development reporting competencies.

Various organizations have recently performed competency assessments/studies (Kristine N. Palmer Douglas E. Ziegenfuss Robert E. Pinsker, 2004). The current paper traces the history of these competency studies and identifies common and specialized competencies by comparing the studies’ results. Thus, this paper intends to develop a composite “competent” entry-level auditor that educators can use to develop curriculum. Practitioners can use this information to design hiring and evaluation criterion as well as training programs. The knowledge, skills, and abilities (KSAs) that were found to be important were: communication skills, interpersonal skills, general business knowledge, accounting knowledge, problem-solving skills, information technology, personal attitudes and capabilities, and computer skills (Kristine N. Palmer Douglas E. Ziegenfuss Robert E. Pinsker, 2004).

Although the proposed standard requires an assessment of professional competence, the exact assessment tool to be used is not specified. IFAC acknowledges that the assessment tool used is not its responsibility, but rather, the responsibility of its members. Thus, the potential for diverse types of assessments given internationally is real. Further, should
different assessment tools be used, disagreements regarding the quality, methodology, and results could cause confusion between IFAC members (Kristine N. Palmer Douglas E. Ziegenfuss Robert E. Pinsker, 2004).

### 2.2.4 Attributes and Professional Competence

To prove their seriousness in this matter, IFAC is requires all member bodies to comply with the new competence standard by January 2005, while encouraging early adoption (IES, 2003). Prior studies in judgment and decision-making have long recognized that individual personal characteristics play a crucial role in decision outcomes in addition to business organizations (Nelson and Tan 2005; Knechel, Rouse, and Schelleman 2009; Nelson 2009; Kachelmeier 2010). Accounting and finance studies have documented that social connections among economic agents, such as financial analysts, bank managers, board members, and corporate top managers, can influence financial reporting strategies and business decisions (Basioudis 2007; Hwang and Kim 2009; Cohen, Frazzini, and Malloy 2010; Ye, Carson, and Simnett 2011; Engelberg, Gao, and Parsons 2012, 2013; Nguyen 2012). However, the findings in the above-mentioned studies as well as those in concurrent research that document individual auditors’ effect and top managers’ effect on audit quality and financial reporting strategies (Bamber, Jiang, and Wang 2010; Chen, Sun, and Wu 2010; Francis 2011; Yang 2012; Gul, Wu, and Yang 2013).

Prior research has documented that engagement auditors’ personal characteristics and experience can impact their risk preference, incentive, and cognitive style, and thereby affect audit judgment decision-making” (Nelson and Tan 2005; Nelson 2009). Gul, Wu, and Yang (2013) find that individual auditors’ personal characteristics can partially explain the variance in audit quality. Recently, many researchers pay attention to the effects of engagement auditor characteristics on audit quality. Gul, Wu, and Yang (2013) find that there is a significant variation in audit quality across individual auditors, and an individual auditor’s effect on audit quality can be partially explained by the auditor’s personal characteristics. Chin and Chi (2010) and Ittonen, Vähämäa, and Vähämäa (2013) based on their findings suggests that audit quality is higher for female audit partners relative to male audit partners.

When auditors are conducting fieldwork, they need to be perceived by auditees as helping not interrogating. Auditors, in some organizations, may just look for something wrong and someone to blame and possess the image of being the bad guys. Auditors are much
more than investigators. Auditors must be cognizant of how words and tone of voice impact auditees. The communication methodology utilized by auditors will make a difference in how auditees respond to enable them detect risky areas and mitigate the risks effectively within the client’s organization (IIA, 2012).

2.3 Integrity and Risk Management

2.3.1 Code of conduct and Integrity

Integrity is the core value of a Code of Ethics. Auditors have a duty to adhere to high standards of behavior (e.g. honesty and candidness) in the course of their work and in their relationships whether it be personal or with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach. This includes but is not limited to PSR 20 (Office of the Auditor General, 2014). Demonstrating the highest level of professional conduct and personal integrity in the performance of their duties and while serving the public; Treating everyone, including the public officers clients and members if the general public with courtesy, respect, fairness and objectivity; Displaying a positive attitude and being proactive in the exercise of their duties; Seeking to understand and satisfy the real needs of members of the public; and volunteering information and services as appropriate; In the exercise of their official duties, not conferring any special benefits and/or giving preferential treatment to anyone on the basis of any special relationship; and Rendering services in a timely, efficient and effective manner (Office of the Auditor General, 2014).

“Codes of conduct must be transformed into powers for good, not primarily toothless forms of chastisement. The codes must become active documents which aim to encourage the professional to accept that ‘not everything has a price’, that the professional’s actions should be founded on a strong premise” (Elizabeth Alexander – former CPA Australia national president, 2010). The financial crisis has placed audit quality, along with the interconnected issues of the integrity of financial reporting and corporate governance, at the top of the policy agenda once again (EC, 2010).

The present paper provides evidence on preparers’ and auditors’ perceptions of the factors affecting audit quality in the post-Sarbanes Oxley Act (SOX) (2002) environment. The views of chief financial officers (CFOs), audit committee chairs (ACCs) and audit partners (APs) are elicited and compared to place priority on the most effective risk
management strategies (Sarbanes Oxley Act, 2002). It was found out that the companies displaying a clear commitment on ethical conduct consistently outperform companies that do not display ethical conduct (Institutes of Business Ethics, 2003).

The accountancy profession recognizes the importance of ethical behavior in its codes of ethics and its training. These codes tend to focus on objectivity and independence and there is little discussion about integrity. FEE believes the concept is understood differently by different people, particularly in an international context, when it is thought about (Federation of European Accountant, 2009). The IFAC Code lists all the four principles separately. FEE believes that there is a case to argue that integrity is the core principle, as without integrity, no professional activity can be relied upon. Together the four fundamental principles form a framework for behaving with integrity in the professional and business sphere (Federation of European Accountant, 2009). Post the global financial crisis, the ethics of business people, including accountants, are being criticized. Hence, acting with integrity should be paramount at all times (Snyder, 2011).

Integrity is a fundamental principle for the Hong Kong Society. Members of the Society must always consider any factor that might reflect adversely on the member’s integrity. The code states that HKSA regulates the practice of accountancy and discourages dishonorable conduct and practices by professional accountants. An act of dishonorable conduct means an act of omission by a professional accountant that would be reasonably regarded as dishonorable by other professional accountants (Jakubowski, 2002). The rules are then expressions of the expected consequences of the principles in some anticipated situations, but the responsibility of the person to whom the code applies is to give effect to the principles. The focus on principles-based integrity, as discussed in reporting with integrity not just rules-based compliance, is therefore quite right and exposure to risk is at a minimum level (ICAEW, 2007).

2.3.2 Personal Character and Integrity

A good accountant, to add value to society, has to have a number of characteristics. He or she has to have integrity” (Glyn Barker, UK managing partner at PwC, 2012). “If you want to have good ethics in the company, the leader must set the example to staff, and one way of doing this is to follow the requirements of a professional body” (Li Dun, CFO
of Sinochem International, 2011). Professional accountants should not only behave with integrity but be seen to do so. That is, facts and circumstances should be avoided where a reasonable and informed third party would question the professional accountant’s integrity (Federation of European Accountant, 2009).

A professional accountant’s advice and job should be uncorrupted by self-interest or other financial or behavioral motives and should not be influenced by the interests of other parties. Organizational integrity is not the result of one action by one individual. The perception of organizational integrity is influenced by a cumulative effect of the integrity exhibited by the individuals within the entity, though weighted for their apparent level of influence. This creates an identifiable value. The integrity that others inside or outside the organization perceive as attributable to the firm. This is not a single direction process. The integrity that an organization is identified as having is not arrived at as a consequence of one decision (Federation of European Accountant, 2009).

Accountants in practice are also in business, so they too have that responsibility within their own organization. In addition they may be in an advisory role with respect to their clients and stressing the importance of embedding integrity will add value to that advice. Auditors are responsible for expressing an opinion on the financial statements of organizations, not on their ethical behavior. However, the extent to which an audit client exhibits integrity may have a direct effect on the extent to which financial information can be relied upon and auditors should consider performing risk assessment test on the extent to which audit clients have embedded ethical behavior within their organizations which will be useful to act as audit evidence (Federation of European Accountant, 2009).

2.3.3 Honesty and Integrity

A report by the Institute of Chartered Accountants in England and Wales has identified five related aspects to integrity: Moral values, such as honesty; Motives, such as desires, interests and ideals; Commitments in thought, word and deed; Qualities, such as perseverance and courage; and Standing fast even in the face of opposition. The achievements associated with behaving with integrity apply to both professional integrity and personal integrity. Indeed professional integrity could be considered to be a subset of personal integrity. However there is a key difference: personal integrity covers everything we do while professional behavioral requirements are generally restricted to professional
and business activities. Nevertheless, personal behavior may be so outrageous as to discredit the profession by association (ICAEW, 2009).

The IFAC Code imposes a requirement on professional accountants in business to “encourage an ethics-based culture in an employing organization that emphasizes the importance that senior management places on ethical behavior” The extent and nature of that encouragement will clearly vary with the role of the accountant. Senior staff can influence the organization’s tone and policies: junior staff may be able only to ensure that their own conduct sets an example. A fundamental principle of integrity, which generally refers to being straightforward and honest, is included in the IFAC Code and most member bodies’ codes of ethics. However, while discussion on the principle of integrity clearly includes moral values, the other aspects, as well as the pre-eminence of integrity are not always as evident (IFAC, 2015).

FEE requires that the behavioral characteristics expected of someone behaving with integrity in a professional context should be as follows. Be straightforward, honest, and truthful (including to oneself). This is an important ingredient of being seen to be credible and reliable; Deal fairly which means behaving in accordance with the norms expected by the profession, or personal values if higher which involves treating people without bias; Comply with the spirit as well as set rules of laws and regulations; Take into consideration on public interest; Show consistency; Be open-minded and flexible to consider new information and ideas; Take corrective action (Federation of European Accountant, 2009). Internal audit determines the reliability, reality, and integrity of financial and operational information that comes from different organizational units, on which appropriate business decisions at all levels of management are based. Successful implementation of internal audit tasks means that it must be independent, i.e., company management should in no way influenced by its work, information, conclusions and evaluations. In this way the internal audit report becomes a means of communication between internal audit and management, and an important guideline for the successful management of the company (Ljubisavljević & Jovanovi, 2011).

Integrity can be measured in terms of what is right and just. Integrity requires auditors to observe both the form and the spirit of auditing and ethical standards. Integrity also requires auditors to observe the principles of independence and objectivity, maintain irreproachable standards of professional conduct, make decisions with the public interest
in mind, and apply absolute honesty in carrying out their work and in handling the resources of the SAI. Observing the set standards protects organizations from potential risks (Office of the Auditor General, 2014).

2.3.4 Values

Integrity is built up over time (though can be more rapidly destroyed) and is affected by the behavior exhibited by all the individuals within the organization. Those with the greatest level of influence are likely to have the most impact, but everyone's behavior will have an effect. Most auditors and other professional accountants work in organizations of some kind. It follows that individual professional integrity and organizational integrity are linked and that the organizational culture is key to the achievement of integrity within the profession which enhances risk management control within an organization (Federation of European Accountant, 2009).

“It's not what we eat but what we digest that makes us strong; not what we gain but what we save that makes us rich; not what we read but what we remember that makes us learned; and not what we profess but what we practice that gives us integrity" (Francis Bacon, English philosopher and statesman, 1561 – 1626). The core message has not changed: integrity often refers to a quality of a person’s character but is always about ‘doing the right thing’. Integrity, therefore, is the cornerstone of professional behavior. Amongst other things it is essential that the profession, as a whole, retains its reputation for honesty, straightforwardness, fair dealing, and truthfulness without this, the profession will lose credibility (Federation of European Accountant, 2009).

Integrity is a difficult concept to define. It has to do with acting ethically, even when there is no personal advantage to doing so. A person of integrity will resist pressure to compromise their ethical standards and beliefs, whether that pressure comes from employers, clients, or anywhere else. When you are employed by an organization, to an extent you take on that organization’s values. But that doesn't mean you should stop questioning the ethics of your actions. Are there certain things that you would never do, even if refusing meant losing your job? Having personal integrity involves being clear about your own values, and having professional integrity means engaging with the values of your profession (The IET, 2017). You might also think that having integrity means you should ‘stand for something’, trying to change practices and attitudes that you think are
less than ethical. For some, having integrity involves trying to influence for the better the practices of your employer, your profession, or even society at large (The IET, 2017).

2.4 Objectivity and Risk Management

2.4.1 Independence and Objectivity

The IIA defines the Internal Audit independence in the following terms “Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgement essential to the proper conduct of audits. It is achieved through organizational status and objectivity” (IIA, 2006). Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgement and recommendations. Internal auditors should not have any operational responsibilities (Code of practice for internal audit in the local government in the UK, 2006).

Auditors are also less likely to issue going-concern opinions to report internal control weaknesses when social ties are present. There are two primary observable outcomes of the audit process: the audit report, which is directly under the engagement auditor’s control, and the client’s audited financial statements, which are the responsibility of CEOs/CFOs but are also affected by the audit process (Nelson, Elliott, and Tarpley 2002; Prawitt, Smith, and Wood 2009; Gibbins, McCracken, and Salterio 2010; Francis, 2011).

The IAF should be given the appropriate status to enable the function to exercise independence and internal auditors to act objectively. This is necessary because internal auditors are in a unique position as employees of an organization with responsibility to assess and monitor decisions made by management and also to advise management on the adequacy and effectiveness of risk management processes (Sarens and de Beelde, 2006a).

2.4.2 Long Term Relationships and Objectivity

A recent study suggests that the mechanisms that cause reduced audit quality acts and objective impairment due to close relationships with clients are the same (Svanberg & Öhman, 2015). Svanberg and Öhman (2015) refer to Cianci and Bierstaker (2009), who explained auditors’ biased judgment under time budget pressure with reference to motivated reasoning theory (Kunda, 1990, 1999). Svanberg and Öhman (2015) argue
that auditors who have overly close relationships with their clients tend to acquiesce to the client-preferred accounting position due to the same mechanism, that is, overestimation of the quality of the client’s internal controls.

Thus, if the ‘disease’ is a bias stemming from the overestimation of internal control quality that happens when auditors are stressed by time budget pressure or when auditors’ relationships with clients are too close, we propose that the same ‘medicine’ may be effective in both cases find that partners with longer tenure have a lower propensity to issue a going-concern report to their clients which is of high risk profile to the organization as the financial statements do not reflect a true and fair view position (Svanberg and Öhman, 2015).

Their results suggest that engagement auditors’ objectivity might become impaired by long-term relationships with clients (Carey and Simnett, 2006). Chen, Sun, and Wu (2010) suggest that the impact of client importance on audit decisions appears to be different at the individual auditor and office levels. However, Chen, B. Qi et al.Lin, and Lin (2008) find no relationship between partner tenure and audit quality using partner data in Taiwan. These mixing findings suggest the importance of investigating the effect of engagement auditor’s characteristics on audit quality. More recently, the debate on the role of audit and audit quality has intensified. The European Commission has issued a Green Paper on the role and governance of auditors (EC, 2010).

In the UK, the House of Lords Economic Affairs Committee has made recommendations concerning the role of audit (House of Lords 2011). The FRC (2011a, 2012) is consulting on a 10-year audit tender requirement for FTSE 350 companies. In the USA, the PCAOB (2011) is considering mandatory audit firm rotation. Therefore the indication that strong ethical culture affects audit quality (Svanberg & Öhman, 2013; Sweeney et al., 2010) justifies our anticipation that a strong (weak) ethical culture will be associated with less (more) acquiescence to the client-preferred accounting position. Therefore the indication that strong ethical culture affects audit quality (Svanberg & Öhman, 2013; Sweeney et al., 2010) justifies our anticipation that a strong (weak) ethical culture will be associated with less (more) acquiescence to the client-preferred accounting position.
2.4.3 Non-Bias and Objectivity

Objectivity is a key element of internal audit effectiveness (Schneider, 2003). Internal auditors should have personal objectivity that permits the proper performance of their duties (IIA, 2004), and must have an impartial, unbiased attitude and avoid any conflict of interest (IIA, 2012, sec.1120). Internal Auditors role in achieving objectivity in the entity is largely affected by their economic status and inefficient reward systems. If management interferes with internal audit operations this would affect their objectivity hence unreliable reports which poses threat of risk within the organization (Schneider, 2014). Internal Auditors fail to achieve their set objectives due to lack management support, insufficient resources and failure to receive support from the audit committee which poses a risk threat within the organization (Warga, 2014).

Recent evidence in the accounting literature suggests that rotation is not a comprehensive way to enhance auditor objectivity because auditor objectivity may be constrained even if the relationship with the client is short in duration (Bauer, 2015). Consequently, research needs to consider other methods to counter objectivity threats purportedly caused by the auditor–client relationship. Our anticipation that ethical cultures in audit firms are relevant to auditor objectivity is justified by previous findings in the literature. There is evidence in the organization literature that organizational culture affects several types of ethical behavior (Casey, Davidson, & Schwartz, 2001) and that ethical culture positively affects ethical behavior (Kaptein, 2008, 2011).

The accounting literature has also found that auditors’ ethical decisions are influenced by the organizational culture (e.g. Douglas, Davidson, & Schwartz, 2001) and by the ethical culture (Sweeney, Arnold, & Pierce, 2010) of their audit firms. In addition, exercising constrained auditor judgment can be seen as unethical because maintaining objectivity is viewed as a cornerstone of auditing (Mautz&Sharaf, 1961). Judging issues that are of fundamental importance from both the professional objectivity and ethical perspectives should make auditors susceptible to influence from the audit firms’ ethical culture. Previous use of the Treviño et al. (1998) instrument found that the conformity pressure imposed by authorities who require that audit staff must simply ‘do as they are told’ negatively affects ethical behavior (Shafer & Wang, 2010; Svanberg & O’hman, 2013).
Recent studies have begun to investigate the impact of officer-auditor social ties on audit quality and audit fee hence comprising auditor’s objectivity, and provide some fairly convincing evidence (Iyer, Bamber, and Barefield 1997; Lennox and Park 2007; Ye, Carson, and Simnett, 2011). Menon and Williams (2004) show that earnings manipulation is more prevalent when officers are former partners of their concurrent audit firms. Lennox (2005) finds clients are less likely to receive going-concern audit opinions when their officers are affiliated with their concurrent audit firms. Bruynseels and Cardinaels (2014) found out that firms whose audit committees are connected with the CEO purchase few audit services and have higher anomalies.

2.4.4 Threats and Objectivity

The Code of ethics consists of a number of basic principles which internal auditors are expected to uphold, together with rules of conduct which describe the norms of behavior expected of internal auditors. The principle relating to objectivity requires internal auditors to “exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Furthermore, internal auditors are expected to make a balanced assessment of all the relevant circumstances and they should not be unduly influenced by their own or others’ interests when forming judgments. The rules of conduct specify that internal auditors should not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment; should not accept anything that may impair or be presumed to impair their professional judgment; and should not disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review (IIA, 2009b).

Although audit standards, such as the IESBA’s (2015) Code of Ethics for Professional Accountants, require auditors to be aware of objectivity threats and take action to avoid exposure to these threats, it appears that regulators possess a limited arsenal of countermeasures, that is, auditor rotation, against constrained auditor judgment caused by the auditor–client relationship (Tysiac, 2013). Engagement auditors input their labour during the audit process to gather the audit evidence that relates to audit outcome. Their effort, audit experience, risk preferences, and incentives, etc. may have a significant impact on audit quality. CEOs/CFOs have been documented as having the power and
incentives to influence corporate financial reporting decisions (Bertrand and Schoar 2003; Bamber, Jiang, and Wang 2010; Dyreng, Hanlon, and Maydew 2010; Ge, Matsumoto, and Zhang 2011). CEOs may set the tone from the top about the strategies in accounting choices (Feng et al. 2011), and CFOs are directly involved in accounting choices (Ge, Matsumoto, and Zhang 2011).

On an individual level, the framework discusses seven threats that may affect internal auditor’s objectivity. The threats are: Self-review, where the internal auditor reviews his/her own work. Social pressure, where the internal auditor is exposed to pressure from, say, the auditee, or others on the audit team. Economic interest, resulting, for example, from incentive payments or from auditing the work of someone who has the power to affect the internal auditor’s employment or salary. Personal relationship, where the internal auditor is a relative or friend of the auditee. Familiarity, resulting from a long-term relationship with the auditee including having worked in the unit being audited. Cultural, racial, and gender biases arising in multinational organizations when the auditor is biased or lacks an understanding of local culture and customs. Cognitive biases resulting from preconceived notions or the adoption of a particular psychological perspective when performing the audit (IIA, 2012).

2.5 Confidentiality and Risk Management

2.5.1 Non-Disclosure and Confidentiality

Audits serve a vital economic purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting. As such, audits help enhance economic prosperity, expanding the variety, number and value of transactions that people are prepared to enter into (ICAEW, 2005). Members in the U.S. are prohibited from disclosing confidential client information. The code does identify, however, a number of exceptions to this rule. These exceptions relate to members receiving a legally enforceable subpoena or inquiries made by recognized disciplinary boards and professional accounting societies (Jakubowski, 2002). In South Carolina State law protects all of our records and audit working papers as confidential and not subject to public disclosure. Only the final audit report is public (Andrea Derrick Truit, 2015).
“Under Texas law our working papers are not subject to disclosure while in our opinion, the papers have always been closed, the law was not clear until last session. We asked the Legislature to clarify it, and they did. The papers are closed. Since then, someone has had the all-too-bright idea of asking an agency under review for copies of data etc. that had been provided to us in support of a specific topic. This raises the question of whether an item is an open record if the agency kept a copy of what they provided to us. Interesting approach whose answer has not been determined yet” (Ken Levine, 2015). “In Texas State Auditor’s Office, audit working papers are one of the few exceptions to the Open Records Act. We are not required to disclose our audit working papers. However, this exception is often challenged and is vigorously protected. We believe that public access to our working papers could hinder the degree of cooperation we receive from agency personnel which in turn imposes high risk threat to the organization” (Craig Kinton, 2015).

For the first time in Utah Public Audit office’s history, they issued a report with redacted statements. This was a report for 2003-08 “A Performance Audit of the Utah Tax Commission’s Division of Taxpayer Services” (Darin Underwood, 2011). While the reasons for each individual redaction are complex and varied, the main reason they redacted was to ensure that the Tax Commission’s collections methodologies would not be publically disclosed because this would interfere with collections (Utah Code allows for such documents to be “Protected” as determined by the care taking agency.) The redactions in this report (and classification of corresponding “protected” work papers) were challenged by one of the local Salt Lake City newspapers, as allowed under the Government Records Access and Management Act (“GRAMA”). Subsequently, a hearing was held by the Legislative Records Committee to determine if the redactions and audit working papers would be made public. In the end, many of the redactions were made public because collections methodology had changed from the time the audit was released. But, almost all of the audit working papers remained protected (Darin Underwood, 2010).

The Hong Kong Code is very similar to other Codes with respect to confidentiality. It restricts professional accountants from disclosing any information regarding the client unless the client gives consent or law requires it. The code describes factors that the auditor should consider in deciding whether or not disclosure is justified (Jakubowski,
Members of the Ontario Institute are prohibited from disclosing or using any confidential information concerning the affairs of any client, former client, employer or former employer. However, the code describes a number of exceptions to this rule. These exceptions relate to members acting in the course of his or her duties, inquiries made by recognized disciplinary boards and professional accounting societies, or co-operating with a successor auditor (Jakubowski, 2002).

2.5.2 Trust and Confidentiality

In Arizona Statute makes all of our working papers confidential here at the Arizona Office of the Auditor General (Melanie Chesney, 2015). The Taiwan code states that members must not have ulterior motives for obtaining access to confidential client information (Jakubowski, 2002). It also states that member must not betray the trust of their clients. The South Korean code prohibits members from betraying any confidential relationship with the client. Confidential client information should not be used to benefit the member. The confidential relationship with the client does not preclude a member from following other rules of the code. Thus, the rule on confidentiality is subject to the other rules in the code. The code does not address situations where members are exempt from the rules relating to confidentiality. Members of the Malaysian Institute should respect the confidentiality of information acquired during the course of their professional work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional right or duty to disclose. Members must not use such information for their personal advantage or that of a third party (Jakubowski, 2002).

The code states that if a member becomes aware that the client has committed an unlawful act, there is no legal obligation for the member to disclose this information to any person or other than directors of the client. However, if the member believes the client has committed treason, he is bound to disclose all information to the proper authorities. Members are prohibited from disclosing information from the client unless consent has been obtained from the client or where there is a legal, professional or public duty to disclose. A member acquiring or receiving confidential information in the course of professional work should neither use nor appear to use that information for personal advantage or for the advantage of a third party. Under the purview of Indian Code,
members are deemed guilty of professional misconduct if they divulge client information, even after completion of the assignment. Members, however, may divulge information without permission of the client if required by law (Jakubowski, 2002).

2.5.3 Sensitivity and Confidentiality

Under Colorado law all of our working papers are strictly confidential, unless specifically approved for disclosure by a majority vote of the Legislative Audit Committee (the same committee that releases our audit reports to the public). If approved for release, only those working papers that the Legislative Audit Committee votes to disclose are made available. In such an event, any information that is otherwise held confidential under State or federal law would be excluded prior to release. The public release of our work papers is a rare event and it would take extraordinary circumstances for this to occur (Greg Fugate, 2015). The Australian code states that members must respect the confidentiality of information. A Cross-Country Comparison of Codes 119 acquired in the course of their work and must not disclose any such information to a third party without specific authority or unless there is a legal or professional duty to disclose it. When requested to sign confidentiality agreements, members must ensure that, other than in exceptional circumstances, the agreements do not preclude the member from disclosing information to the auditor or the audit committee or board of directors (Jakubowski, 2002).

“In Florida, our audit working papers are exempt from public record status by law, which essentially means that they are confidential with some loopholes they can be subpoenaed, and our auditing committee can direct their release. The confidential status of our working papers arose in part from the investigation tradition that our working papers would include unsubstantiated information and allegations that we find aren’t supported and thus aren’t put in our reports. This whole thing is pretty unusual in Florida, which is a big public records state. In fact, there was a bill to give the same confidential status to agency inspectors general this year and it failed” (Gary VanLandingham, 2013).

“In Nebraska, our working papers are not considered public documents (Neb. Rev. Stat. Sec. 50-1213). We’ve only had one request to review our working papers, and it was from a federal auditing authority. We were planning to ask our Committee to let us show him
everything related to our methodologies and data analyses, for two reasons. First, we shouldn’t have anything to hide in terms of how we approached our work, and second we ought to be willing to help other entities doing similar work. However, we asked the requester to provide a short written request that we could present to the committee. He agreed but never submitted a letter, so we didn't proceed” (Martha Carter, 2015).

2.5.4 Security and Confidentiality

In Mississippi, peer’s working papers are considered confidential for the following two reasons. 1) PEER Committee rule 5.10 states that all staff draft reports, files, documents, papers, transcripts, and all other material except official committee reports held or maintained by the Committee or its staff are confidential. 2) Mississippi’s open records laws specifically exempt records of the Legislature from public review. (As an aside, a federal judge in Mississippi some years ago quashed a subpoena for PEER’s working papers by declaring that the records were not discoverable.) State audit staff protects working papers at all costs. The release of working papers by a staff person could lead to immediate termination. “Our staff occasionally shares the contents of working papers with the Attorney General or State Auditor when either of those offices instigates an investigation stemming from a PEER report. But, the general rule is to keep working papers under wraps” (James Barber, 2012).

“In Minnesota, our audit working papers become public documents at the time we issue our final reports except for selected working papers that are classified as “not public.” For example, when we obtain data from an agency, we are obligated to protect from disclosure any of these data that were classified as nonpublic data in accordance with state law. For most of our audit reports, we received no requests to review working papers. But, for highly-visible or controversial reports, we sometimes have had reporters, attorneys, or others pouring over the working papers sometimes as soon as the report is released. For this reason, our office policy is to have our working papers completed by the time the report is issued. If we receive requests to review the working papers, we ensure that confidential files are removed from the working papers prior to the reviews or that individual items of confidential information have been redacted” (Joel Alter, 2014).
The Ontario code requires members to cooperate with individuals of the Institute who have been appointed to conduct practice inspections or other investigations (Jakubowski, 2002). The code also prohibits members taking any action, such as acquiring any interest, property or benefit, in connection with which he or she makes improper use of confidential knowledge of a client’s affairs obtained in the course of his or her duties. Members in Ontario are allowed to engage the services of others to assist in the performance of their professional services provided that they obtain written assurance from the provider of the service that client information will be kept confidential. As stated before, members have an obligation to report any breach of the rules of conduct on the part of members of the Institute (Jakubowski, 2002).

Auditors have the right to decide whether they should give access to their working papers or not and also on what terms access should be given. Their decision has to be made on consideration of the various interests represented. This will give them a framework for alleviating the risk if they decide to allow access to their working papers (ICAEW, 2003). As per the Kenyan profession code guided by ISA 230, documentation provides that the auditor’s should adopt appropriate procedures for maintaining the confidentiality and safe custody of the working papers and for retaining them for a period sufficient to meet the needs of the practice and in accordance with legal and professional requirements of record keeping. Disclosure of working papers is exempt, if any information is required to be disclosed as part of fulfilment of profession or legal obligation in forming an opinion on the presentation of financial statements (ICPAK, 2017).

2.6 Chapter Summary

This chapter explores the literature of review by various writers based on the research objectives. The main objective was to establish the effects of professional ethics on risk management in the banking sector in Kenya. Precisely, literature review has covered the extent to which professional competence affects risk management, effects of integrity on risk management, how objectivity addresses risk management and effects of confidentiality on risk management. The next chapter discusses on the research methodology, it focusses on the population, describes the data collection instruments and methods used. It also gives details of the research procedures and the data presentation method used.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology used to conduct out the study. It describes the research design, the population and sampling design of the study, data collection methods as well as the research procedures and data analysis methods used in the research study.

3.2 Research Design

Research design is the blueprint for the collection, measurement and analysis of data, but warns that it is a wide-ranging concept (Cooper and Schindler, 2014). The study adopted descriptive research method of study. Descriptive research helped the researcher to answer the question of who, what, where, when or how much in determining the effects of professional ethics on risk management in the banking sector in Kenya (Cooper and Schindler, 2014).

3.3 Population and Sampling Design

3.3.1 Population

A researcher has to have a specific population as their research population target upon which they use to make all inferences regarding validity of their research topic (Kothari C.R, 2004). Mugenda and Mugenda (2003) refers to population frame as a comprehensive itemized list of all subjects, which comprise the study population, from which a sample was taken. The study targeted all 84 respondents of the internal audit function for all the 42 Commercial banks listed by the Central Bank of Kenya within Nairobi County.

3.3.2 Sampling Design and Sample Size

3.3.2.1 Sampling Frame

A sampling frame is the list of elements from which a sample is drawn. In essence, this is a complete and correct list of population members only (Cooper and Schindler, 2014). The sampling frame for this study was 42 Commercial banks listed by the Central Bank of Kenya within Nairobi County.
3.3.2.2 Sampling Technique
Sampling is the process of selecting a number of individuals for a study (Kothari, 2004). The researcher employed simple random technique in selection of sampled banks. Simple random is a probability sample in which each element has a known an equal chance to be selected (Cooper and Schindler, 2014). The researcher used this method since it is an unbiased surveying method.

Purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study. It is useful in situations when you need to reach a targeted sample quickly, and where sampling for proportionality is not the main concern (Crossman, 2017). The researcher employed purposive sampling in selecting two respondents in each sampled bank. Questionnaires were distributed to one senior audit staff and one junior audit staff in the selected banks.

3.3.2.3 Sampling Size
A 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). Sample size should neither be too large or small but realistic enough to give a confidence interval of desired width (Kothari & Garg, 2014). At a margin of error (e) of 5%, confidence level of 95% and a population (N) of 84 the sample size (n) was determined using the equation below.

\[ n = \frac{N}{1 + N(e)^2} \]

\[ n = \frac{84}{1 + 84(0.05)^2} \]

\[ n = 69.42 \]

Using the above formulae to calculate sample size, sample size was used for data collection is 70 respondents from 35 sampled banks.
3.4 Data Collection
Mugenda and Mugenda (2008) defined data collection as instruments used to collect the necessary information needed to serve or prove some facts. In this study data was collected from both the primary and secondary sources. Primary data was collected by the use of structured questionnaires for both qualitative and quantitative information. The questionnaire was developed by the researcher based on the research objectives and literature review. Section A sought to establish the respondent demographic information, Section B consists of research objectives in which Part one sought to determine internal auditors’ professional competence on risk management, Part two sought to examine internal auditors’ integrity on risk management, Part three sought to establish internal auditors’ objectivity on risk management, Part four sought to evaluate internal auditors’ confidentiality on risk management and Part five sought to establish factors affecting risk management.

The questionnaires was structured based on a 5 Likert scale questions which was close ended to give the respondents limited and pre-determined responses to choose from. Secondary data was gathered from USIU library from manuals, text write up and other reference materials including: electronic journals, magazines and internet sites. Each of the sampled banks got 2 questionnaires. The questionnaires were administered through drop and pick method to reduce disruptions on the respondents’ routines. The questions were designed to be answered by one senior audit staff and one audit junior staff in the 35 sampled banks hence a target of 70 questionnaires to be collected.

3.5 Research Procedures
The questionnaires were designed by the researcher based on the research questions which was pre-tested to ascertain the suitability of research tool. According to Cooper and Schindler (2014), the reason for pilot testing was to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. The pilot study was conducted to 10 respondents in 5 sampled banks which were included in the actual study. This enabled the researcher to fine tune the questionnaire for effectiveness and efficiency of the process to ensure simplicity and clarity on each question which will enhance the speedy acceptance of respondents.

The researcher obtained an introductory letter from the university to enhance obtaining permission from both the university and bank which sped up the data collection process.
The questionnaires had a cover letter introducing the researcher and the research topic study attached to it. The questionnaires were circulated using a drop and pick later method to the targeted respondents followed up by calls to remind the respondents to fill and return the questionnaires. In addition, unstructured interviews was conducted to provide more generalized information.

3.6 Data Analysis Methods

Data analysis refers to all the statistical methods that simultaneously analyze multiple measurements on each individual or object under investigation (Straub and Gefen 2005). This study used both quantitative and qualitative method of data analysis. The data collected from the questionnaires was checked to ascertain completeness and accuracy. The questionnaires were coded according to each variable of the study to ensure the margin of error was minimized and assure accuracy during analysis. The coded data was then be analyzed using quantitative and qualitative techniques.

Quantitative techniques to be used is descriptive statistics which consisted of the mean, frequency, percentages and standard deviations while Qualitative techniques to be used was content analysis. Data was analyzed using Statistical Package for Social Sciences (SPSS).

Multiple regression analysis was applied to establish the relationship between the study variables to create a new single study variable.

The multiple regression equation to be used by the researcher is as shown below:

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

Where:
- \( Y \) is the dependent variable (professional ethics on risk management);
- \( \beta_0 \) is the regression constant;
- \( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are the coefficients of independent variables;
- \( X_1 \) is Internal Auditor’s professional competence on risk management;
- \( X_2 \) is Internal Auditor’s integrity on risk management;
- \( X_3 \) is Internal Auditor’s objectivity on risk management;
- \( X_4 \) is Internal Auditor’s confidentiality on risk management; and
- \( \epsilon \) is the error term.
3.7 Chapter Summary
This chapter covers the research design, population and sampling design, data collection, research procedures and data analysis to be applied to study the effects of professional ethics on risk management in the banking sector in Kenya. The research was based on simple random on selecting the banks. A sample frame was identified from internal auditors for the selected banks using purposive sampling technique where a structured questionnaire was used for data collection. The analysis of the data was done using the SPSS data analysis tool. Chapter four presents the research findings and results in relation to the research objectives.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter is set to present the results and findings achieved for the data analysis done. It presents the specific findings from the demographic data as well as those from each of the research objectives.

4.1.1 Response Rate

This is a representation of the total elements who gave a response in terms of the questionnaires distributed. For this study specifically, a total of 70 questionnaires were distributed and out of which only 52 responded, this gives a 74% response rate which was deemed sufficient for the study as indicated in Table 4.1

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Filled and returned</td>
<td>52</td>
</tr>
<tr>
<td>Not returned</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
</tr>
</tbody>
</table>

4.2 Demography

4.2.1 Professional Experience

To analyze the years of professional experience, those with 6-10 years’ experience were the majority and represented 52% of the respondents, closely was those with 1-5 years’ experience who were 37%, and those of 11-15 years were the least at 12% as indicated in figure 4.1 This result indicate that the respondents had the necessary experience to be able to effectively answer the research questions.
4.2.2 Years Worked

As shown in figure 4.2 majority of the auditors have worked for the organization for between 1-5 years and this represent 50% of the respondents, those who have worked for 6-10 years followed closely at 46%, while the least were those who have worked for 11-15 years at 4%. This result indicate that there is a constant change of jobs, or high turnover in the banking sector.

4.2.3 Professional Bodies

To understand the professional bodies the respondents have subscribed to, the findings show that majority were ICPAK members at 58%, ACCA members were 19% while CFA and IIA members were 6% respectively. This indicate the commitment of the auditors to be fully qualified, and for this study, it indicated the high level of responses achieved.
4.4.4 Position Held

To analyze the position held the findings as indicated in figure 4.4 indicated that senior internal auditors formed the majority at 73% while the head of internal audit were 15%, junior internal auditors were 12%.

Figure 4.4: Position Held

4.3 Professional Competence on Risk Management

The first objective sought to establish the impact of professional competence on risk management. To establish this objective respondent were given a set of questions where they were supposed to respond to what extent professional competence expected from auditors enhance risk management, on a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.
4.3.1 Descriptive of Professional Competence on Risk Management

The findings revealed that professional qualifications affect risk management to a high extent 54%, while 31% believed that it was to a very high extent, while 15% believed it was to a middle extent. It was also revealed that keeping abreast with emerging issues and technology to a high extent (50%) influenced risk management and 38% believed it did to a very high extent. On the other hand, 46%, believed that to a very high extent auditor’s preparation and giving effective presentations/reconcile the results affected risks.

With regard to training the findings revealed that to a high extent (69%) training needs must be identified and implemented. It was also noted that to a middle extent (44%) auditors subscribe with relevant accounting professional bodies. It was also established that auditors create an image of adding value to a high extent (37%). And to a very high extent (71%) they observe IFRS and Auditing standards. Finally, to a high extent (63%) they have acquired specific skills/knowledge to perform particular activities such as IT and forensic auditing.

An analysis of the means revealed that most of the means range from 1.40-2.37 and therefore implies that most of the response indicated very high and a high scale as shown in table 4.2
Table 4.2: Descriptive of Professional Competence on Risk Management

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtain appropriate professional qualifications</td>
<td>VH</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td>VL</td>
<td></td>
</tr>
<tr>
<td>Keep abreast with emerging issues and technology</td>
<td>31</td>
<td>54</td>
<td>15</td>
<td>0</td>
<td>0</td>
<td>1.85</td>
</tr>
<tr>
<td>Prepare and give effective presentations/reconcile the results</td>
<td>38</td>
<td>50</td>
<td>12</td>
<td>0</td>
<td>0</td>
<td>1.73</td>
</tr>
<tr>
<td>Training needs must be identified and implemented</td>
<td>46</td>
<td>19</td>
<td>29</td>
<td>6</td>
<td>0</td>
<td>1.94</td>
</tr>
<tr>
<td>Subscribe with relevant accounting professional bodies</td>
<td>13</td>
<td>69</td>
<td>12</td>
<td>6</td>
<td>0</td>
<td>2.10</td>
</tr>
<tr>
<td>Create an image of adding value</td>
<td>19</td>
<td>31</td>
<td>44</td>
<td>6</td>
<td>0</td>
<td>2.37</td>
</tr>
<tr>
<td>Observe IFRS and Auditing standards</td>
<td>27</td>
<td>37</td>
<td>25</td>
<td>12</td>
<td>0</td>
<td>2.21</td>
</tr>
<tr>
<td>Acquire special skills/knowledge to perform particular activities such as IT and forensic auditing</td>
<td>71</td>
<td>17</td>
<td>12</td>
<td>0</td>
<td>0</td>
<td>1.40</td>
</tr>
<tr>
<td>Acquire special skills/knowledge to perform particular activities such as IT and forensic auditing</td>
<td>19</td>
<td>63</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>1.98</td>
</tr>
</tbody>
</table>

4.4 Integrity on Risk Management

The second objective sought to establish the impact of professional integrity on risk management. To establish this objective respondent were given a set of questions where they were supposed to respond to what extent integrity expected from auditors enhance risk management On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.

4.4.1 Descriptive on Integrity on Risk Management

The findings revealed that to a very high extent (88%) auditors have demonstrated honesty and candidness. It was also note that to a very great extent (44%) auditors treat...
everyone with courtesy, respect, fairness, and objectivity. The findings also revealed that the majority of respondents said that to a high extent (44%) the auditors had a positive attitude and were proactive, only 6% felt they did so to a low extent.

The findings also revealed that to a very high extent (44%) the auditors understand and satisfy the real needs of the organization, only 12% felt that they did so to a very low extent. The findings also show that 63% felt that to a high extent provision of services was offered a timely, efficient, and effective manner.

To establish if the professionals confer special benefits and/or give preferential treatment, 48% felt that they were affected to a very low extent, 27% were affected to a low extent while 17% were highly affected and only 8% were very highly influenced. The study also show that 63% were very lowly corrupted by self-interest, financial or behavioral motives, on the contrary 19% were very highly influenced while 12% were highly influenced as indicated in table 4.3.

It was also established that an analysis of the mean revealed that the range of responses were between 1.12-3.90 On average respondents believed that demonstrating honesty and candidness, treat everyone with courtesy, respect, fairness and objectivity’ have a positive attitude and being proactive, and understand and satisfy the real needs of the organization very highly influenced risk management. It was also noted that providing services in a timely, efficient, and effective manner highly influenced risk management. In addition, conferring special benefits and/or give preferential treatment and corrupted by self-interest, financial or behavioral motives to a medium extent influenced risk management.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstrate honesty and candidness</td>
<td>88</td>
<td>12</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.12</td>
</tr>
<tr>
<td>Treat everyone with courtesy, respect, fairness and objectivity</td>
<td>44</td>
<td>31</td>
<td>25</td>
<td>0</td>
<td>0</td>
<td>1.81</td>
</tr>
<tr>
<td>Positive attitude and being proactive</td>
<td>33</td>
<td>44</td>
<td>17</td>
<td>6</td>
<td>0</td>
<td>1.96</td>
</tr>
<tr>
<td>Understand and satisfy the real needs of the organization</td>
<td>44</td>
<td>31</td>
<td>13</td>
<td>12</td>
<td>0</td>
<td>1.92</td>
</tr>
<tr>
<td>Provision of services in a timely, efficient and effective manner</td>
<td>19</td>
<td>63</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>2.15</td>
</tr>
<tr>
<td>Confer special benefits and/or give preferential treatment</td>
<td>8</td>
<td>17</td>
<td>0</td>
<td>27</td>
<td>48</td>
<td>3.90</td>
</tr>
<tr>
<td>Corrupted by self-interest, financial or behavioral motives</td>
<td>19</td>
<td>12</td>
<td>0</td>
<td>6</td>
<td>63</td>
<td>3.83</td>
</tr>
</tbody>
</table>

### 4.5 Objectivity on Risk Management

The Third objective sought to establish the impact of objectivity expected from auditors enhance risk. To establish this objective respondent were given a set of questions where they were supposed to respond to what extent objectivity expected from auditors enhance risk management On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.

#### 4.5.1 Descriptive on Objectivity on Risk Management

The findings revealed that to a very high extent (69%) auditors enhance impartial and unbiased judgement, 31% were influenced to a high extent. It was also established that to a very high extent (58%) of the auditors carry out their work freely and objectively, 37% were highly influenced. The results also show that 42% of the respondents were highly influenced by being given appropriate status, 33% were highly influenced, and only 12% were lowly influenced. The study also ascertained that 69% were very highly influenced.
by the independence of the activities that it audits while only 25% were highly influenced.

It was also noted that 44% were very highly influenced by the engagement with threats i.e. familiarity, self-review, personal relationships, economic interest, 25% were highly influenced while 19% had medium influence and only 12% were lowly influenced. It was also revealed that 33% had a medium extent to high connection of management with audit committees, 27% has very high extent to the connection while 23% had a low extent to the connection. To establish the extent that economic status and inefficient reward systems affected risk management, 39% felt it was very high while 29% felt it was low, those who felt it was very high were only 8%. It was also revealed that 33% believed that management interference with internal audit operations to a very high extent affected risk management, while 25% believe it affected risk management to a low and very low extent respectively.

On average enhancing impartial and unbiased judgement, carrying out work freely and objectively and independence of the activities audited to a very high extent affect risk management. On the other hand, being given appropriate status, high connection of management with audit committees and economic status and inefficient reward systems highly affect risk management. Management interference with internal audit operations has a medium influence on risk management as indicated in table 4.4
Table 4.4: Descriptive on Objectivity on Risk Management

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution (%)</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hold impartial and unbiased judgement</td>
<td>VH H M L VL Mean</td>
<td></td>
</tr>
<tr>
<td>Enhance impartial and unbiased judgement</td>
<td>69 31 0 0 0 1.31</td>
<td></td>
</tr>
<tr>
<td>Carry out their work freely and objectively</td>
<td>58 37 6 0 0 1.48</td>
<td></td>
</tr>
<tr>
<td>Given appropriate status</td>
<td>33 42 14 12 0 2.04</td>
<td></td>
</tr>
<tr>
<td>Independent of the activities that it audits</td>
<td>69 25 6 0 0 1.37</td>
<td></td>
</tr>
<tr>
<td>Engagement with threats i.e. familiarity, self-review, personal relationships, economic interest</td>
<td>44 25 19 12 0 1.98</td>
<td></td>
</tr>
<tr>
<td>High connection of management with audit committees</td>
<td>27 17 33 23 0 2.75</td>
<td></td>
</tr>
<tr>
<td>Economic status and inefficient reward systems</td>
<td>8 39 14 29 12 2.98</td>
<td></td>
</tr>
<tr>
<td>Management interference with internal audit operations</td>
<td>33 6 12 25 25 3.04</td>
<td></td>
</tr>
</tbody>
</table>

4.6 Confidentiality on Risk Management
The fourth objective sought to establish the impact of confidentiality expected from auditors enhance risk. To establish this objective respondent were given a set of questions where they were supposed to respond to what extent confidentiality expected from auditors enhance risk management. On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.
4.6.1 Descriptive of Confidentiality on Risk Management

As indicated in table 4.5 the findings show that strengthening accountability affected risk management to a high extent (37%), while 35% believe it affected it to a very high extent, while 12% believe it was to a medium extent. Access to confidential information for ulterior motives to a very low extent affected risk management, while 6% indicate it was to a very high extent. Disclosure of information was also found to affect risk to a high extent (42%), and 40% indicated that it affected risk to a very low extent.

It was also established that 39% indicated that protection of working papers by keeping them under wrap to a high extent affected risk management and only 6% believed it did affect risk management to a low extent. On the other hand 56% agreed that enhancing confidential relationship and trust to a very high extent influenced risk management, similarly 52% indicated that having appropriate procedures for safe custody of working papers did the same.

It was also established that holding working papers for a sufficient period had a medium influence on the risk management, while having signed agreements precludes disclosing information to the audit committee or board of directors to a very low extent had an impact on risk management.
Table 4.5: Descriptive of Confidentiality on Risk Management

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution (%)</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>VH</td>
<td>H</td>
<td>M</td>
<td>L</td>
<td>VL</td>
<td></td>
</tr>
<tr>
<td>Strengthens accountability</td>
<td>35</td>
<td>37</td>
<td>12</td>
<td>17</td>
<td>0</td>
<td>2.12</td>
</tr>
<tr>
<td>Access to confidential information for ulterior motives</td>
<td>6</td>
<td>14</td>
<td>23</td>
<td>8</td>
<td>50</td>
<td>3.83</td>
</tr>
<tr>
<td>Disclosure of information</td>
<td>12</td>
<td>42</td>
<td>0</td>
<td>6</td>
<td>40</td>
<td>3.21</td>
</tr>
<tr>
<td>Protect working papers by keeping them under wrap</td>
<td>39</td>
<td>35</td>
<td>14</td>
<td>8</td>
<td>6</td>
<td>2.08</td>
</tr>
<tr>
<td>Enhance confidential relationship and trust</td>
<td>56</td>
<td>37</td>
<td>8</td>
<td>0</td>
<td>0</td>
<td>1.52</td>
</tr>
<tr>
<td>Appropriate procedures for safe custody of working papers</td>
<td>52</td>
<td>31</td>
<td>12</td>
<td>6</td>
<td>0</td>
<td>1.71</td>
</tr>
<tr>
<td>Hold working papers for a sufficient period</td>
<td>25</td>
<td>35</td>
<td>29</td>
<td>6</td>
<td>6</td>
<td>2.33</td>
</tr>
<tr>
<td>Signed agreements excludes disclosing information to the audit committee or board of directors</td>
<td>35</td>
<td>14</td>
<td>8</td>
<td>0</td>
<td>44</td>
<td>3.06</td>
</tr>
</tbody>
</table>

4.7 Risk Management

Lastly, the study sought to establish the extent risk management to the organization. To establish this objective respondent were given a set of questions where they were supposed to respond to what extent risk management influenced the firms operations. On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low

4.7.1 Descriptive on Risk Management

As indicated in table 4.6 majority were highly aware of risk management practices in the organization (50%), only 8% had medium awareness. Also 56% were very highly aware that policies and procedures influences achievement of results, 29% were highly aware. In
addition 82% were very highly aware that corporate culture enhances goals achievement, only 10% had medium awareness. It was also noted that best practices and continuous improvement facilitates achievement of risk management objectives.

Table 4.6: Descriptive on Risk Management

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution (%)</th>
<th>Variable</th>
<th>Distribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am aware of risk management in the organization</td>
<td>VH</td>
<td>H</td>
<td>M</td>
</tr>
<tr>
<td>Policies and Procedures influences achievement of results</td>
<td>42</td>
<td>50</td>
<td>8</td>
</tr>
<tr>
<td>Corporate culture enhances goals achievement</td>
<td>56</td>
<td>29</td>
<td>15</td>
</tr>
<tr>
<td>Best practices and continuous improvement facilitates achievement of risk management objectives</td>
<td>82</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>85</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

4.8 Inferential statistics

The research aimed at establishing the relationship between professional competence, integrity, objectivity and confidentiality on risk management in banking sector. To establish this a correlation and regression analysis was undertaken for the study.

4.8.1 Correlation Analysis

A correlation analysis was done between the dependent variable (risk management) against the independent variables (professional competence, integrity, objectivity and confidentiality). The findings revealed that there was a positive relationship between risk management and integrity (rho =0.350, P<0.05); Competence (rho=0.739, P< 0.05); and confidentiality (rho=0.50, P=0.724). There was however a negative relationship between risk management and objectivity (rho=0.50, P=0.724). This findings indicate that with every increase in integrity and competence, there is a significant increase in risk management (P< 0.05) as indicated in table 4.7
Table 4.7: Correlation Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Risk</th>
<th>Integrity</th>
<th>Competence</th>
<th>Objectivity</th>
<th>Confidentiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integrity</td>
<td>.350*</td>
<td>1</td>
<td>.011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competence</td>
<td>.739**</td>
<td>.441**</td>
<td>.000</td>
<td>.001</td>
<td></td>
</tr>
<tr>
<td>Objectivity</td>
<td>-.006</td>
<td>.511**</td>
<td>.099</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Confidentiality</td>
<td>.050</td>
<td>.531**</td>
<td>.041</td>
<td>-.003</td>
<td>1</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

4.8.2 Regression Analysis

The results of the regression analysis is useful when making inference about relationship between the variables under study. The research aimed at establishing the relationship between professional competence, integrity, objectivity, and confidentiality on risk management in banking sector. In this regard, a regression model was fitted to make inferential analysis. The model used stated that \( Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_i \). From the model summary displayed in Table 4.8, R and Adjusted R Square were 0.561 and 0.523 respectively. This implies that there was a positive relationship between professional ethics and risk management in the banking sector in Kenya. Professional ethics being the independent variable determines 52.3% of banking sector risk management as shown in Table 4.8.

Table 4.8: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>R Square Change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.749*</td>
<td>.561</td>
<td>.523</td>
<td>.21387</td>
<td>.561</td>
<td>15.000</td>
<td>4</td>
<td>47</td>
<td>.000</td>
</tr>
</tbody>
</table>

* a. Predictors: (Constant), confidentiality, objectivity, competence, integrity

Table 4.9 shows that the findings of the Analysis of Variance (ANOVA) for the regression model that was established. ANOVA showed an F-statistics of 15.000 and p-
value 0.000. Since the p-value is less than 0.05, this implies that relationship between professional ethics and risk management was significant.

**Table 4.9: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2.744</td>
<td>4</td>
<td>.686</td>
<td>15.000</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>2.150</td>
<td>47</td>
<td>.046</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.894</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: risk
b. Predictors: (Constant), confidentiality, objectivity, competence, integrity

Multiple regression analysis was applied to establish the relationship between the study variables to create a new single study variable.

The multiple regression equation to be used by the researcher is as shown below:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Where:
Y is the dependent variable (professional ethics on risk management);
\( \beta_0 \) is the regression constant;
\( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are the coefficients of independent variables;
X1 is Internal Auditor’s professional competence on risk management;
X2 is Internal Auditor’s integrity on risk management;
X3 is Internal Auditor’s objectivity on risk management;
X4 is Internal Auditor’s confidentiality on risk management; and
\( \varepsilon \) is the error term.

As indicated in table 4.10 Regression coefficients shows that there was a positive relationship between competence and risk management (\( \beta = 0.689 \)) however it was significant (p<0.000). This implies that a unit change in competence increases risk management by 0.501 units while holding confidentiality, objectivity, and integrity constant.

Secondly, there was a positive but non-significant relationship between integrity and risk management (\( \beta = 0.161 \), p value >0.05). This implies that a unit change in integrity
increases risk management by 0.119 units while holding confidentiality, objectivity, and competence constant.

Thirdly, there was a negative relationship between objectivity and risk management. \((\beta = -0.157 \text{ p value } >0.05)\). This implies that a unit change in objectivity reduces risk management by 0.084 units while holding confidentiality, integrity, and competence constant.

Lastly, there was a negative relationship between confidentiality and risk management. \((\beta = -0.064 \text{ p value } >0.05)\). This implies that a unit change in confidentiality reduces risk management by 0.029 units while holding objectivity, integrity, and competence constant.

**Table 4.10: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>.586</td>
<td>.201</td>
<td></td>
<td>2.911</td>
</tr>
<tr>
<td>Competence</td>
<td>.501</td>
<td>.085</td>
<td>.686</td>
<td>5.891</td>
</tr>
<tr>
<td>Integrity</td>
<td>.119</td>
<td>.126</td>
<td>.161</td>
<td>.939</td>
</tr>
<tr>
<td>Objectivity</td>
<td>-.084</td>
<td>.068</td>
<td>-.157</td>
<td>-1.236</td>
</tr>
<tr>
<td>Confidentiality</td>
<td>-.029</td>
<td>.060</td>
<td>-.064</td>
<td>-.486</td>
</tr>
</tbody>
</table>

Therefore: \(Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon\)

\[Y = 0.586 + 0.501X_1 + 0.119X_2 - 0.084X_3 - 0.029X_4 + 0.214\]

**4.9 Chapter Summary**

Chapter four has presented the results and findings as obtained from the analyzed data collected from the auditors in 35 banks in Kenya. Analysis on the background information, and extent which professional competence, integrity, objectivity, and confidentiality on risk management in banking sector was provided in this chapter. Findings from the correlation and regression analysis lead to the same deduction that Competence and Integrity affect risk management. The next chapter will entail the summary of the findings, discussion, conclusions and recommendation from the study as well as those for further studies.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction
This chapter discusses findings of the study. This was discussed based on previous literature. The chapter also gives conclusion and recommendation for improvements and further studies.

5.2 Summary of Findings
The study sought to analyze effects of professional ethics on risk management in the banking sector in Kenya. The research was guided by the following objectives: To evaluate the effects of professional competence on risk management in banking sector, to determine how objectivity addresses risk management in banking sector, to examine the effects of confidentiality on risk management in banking sector and to investigate the effects of integrity on risk management in banking sector. Descriptive research was used to answer the question of who, what, where, when or how much in determining the effects of professional ethics on risk management in the banking sector in Kenya. The study targeted 84 respondents of the internal audit function for all the 42 Commercial banks listed by the Central Bank of Kenya within Nairobi County. Statistical Package for Social Sciences (SPSS) and excel was used to analyze data. Quantitative technique was used to analyze results were presented in percentages, means, standard deviations and frequencies. Multiple regression analysis was applied to establish the relationship between the study variables to create a new single study variable.

The findings on the effects of professional competence integrity on risk management revealed that to a higher extent professional qualifications affect risk management, keeping abreast with emerging issues and technology, auditor’s preparation and giving effective presentations/reconcile the results affected risks, training needs must be identified and implemented, It was also established that auditors create an image of adding value, they observe IFRS and Auditing standards and they have acquired specific skills and knowledge to perform particular activities such as IT and forensic auditing. In addition respondents agreed that to a middle extent auditors subscribe with relevant accounting professional bodies.
The findings on the effects of integrity on risk management revealed that to a very high extent auditors have demonstrated honesty and candidness, auditors treat everyone with courtesy, respect, fairness, and objectivity, auditors had a positive attitude and were proactive, auditors understand and satisfy the real needs of the organization, provision of services was offered a timely, efficient, and effective manner. However, respondents agreed that to a lower extent professionals confer special benefits and/or give preferential treatment and were very lowly corrupted by self-interest, financial or behavioral motives.

The findings on the effects of objectivity on risk management revealed that to a very high extent auditors enhance impartial and unbiased judgement, auditors carry out their work freely and objectively, economic status and inefficient reward systems affected risk management, management interference with internal audit operations, auditors were highly influenced by being given appropriate status, auditors were influenced by the independence of the activities that it audits, and by the engagement with threats i.e. familiarity, self-review, personal relationships, economic interest However, to a medium extent respondents agreed that they have high connection of management with audit committees.

The findings on the effects of confidentiality on risk management revealed that to a higher extent strengthening accountability affected risk management, disclosure of information was also found to affect risk, protection of working papers by keeping them under wrap affected risk management, enhancing confidential relationship and trust influence risk management and having appropriate procedures for safe custody of working papers also influence risk management. However respondents agreed that to a very low extent access to confidential information for ulterior motives affected risk management.

5.3 Discussion

5.3.1 Effects of Professional Competence on Risk Management in Banking Sector

The findings established that to a higher extent professional qualifications affect risk management and training needs must be identified and implemented. According to Zain et al. (2006) identify the level of experience among internal auditors as being indicative of the quality of internal audit. In addition, Gramling and Hermanson (2009) argue that skilled and qualified internal auditors are indicative of internal audit quality, hence risk
management effectiveness in an organization. The internal audit function staff both at audit committee level and actual staff should be qualified, competent and knowledgeable with current and emerging issues to enable them perform their duties effectively (DeZoort, 2012).

International Federation of Accountants, Education Committee (2010) argues that competency studies are superior to CBOK studies, because competency studies provide that professional accountability to the public and employers who do not have Accountancy units and departments to provide further on-the-job training. Strengths and weaknesses, along with training needs must be identified. A team spirit, with staff understanding the aim of modern Internal Audit and embracing the ethics, should be build. As more demands for professionalization and taking of responsibility are placed on audit staff, the rewards and compensation structure must be revised (Gansberghe, 2005).

Findings established that to a higher extent auditors keep abreast with emerging issues and technology and they have acquired specific skills/knowledge to perform particular activities such as IT and forensic auditing. According to FFIEC (2006), personnel performing IT audit should have information systems knowledge commensurate with the scope and sophistication of the institution’s IT environment and possess sufficient analytical skills to determine and report the root causes of deficiencies. Audit with responsibility for managing and directing audit teams, together with those internal auditors responsible for a particular activity such as computer and forensic auditing which require special skills or knowledge (Internal Audit Manual, 2005).

Findings also revealed that to a higher extent auditor’s preparation and giving effective presentations/reconcile the results affected risks, auditors create an image of adding value and observe IFRS and Auditing standards. IIA (2012), internal auditors must be able to prepare and give effective presentations. Internal auditors provide suggestions for improving internal control systems and minimizing unnecessary risk. Presentations are often utilized to inform management of audit results. Internal auditors must possess the necessary communication skills to prepare oral presentations, with appropriate supervision, and answer related questions from management. Auditors must create an image of adding value to the organization and not just being investigators by reducing the organization’s risk to the acceptable level which will enhance efficient operations and procedures within (IIA, 2012).
The Taiwan code calls for members to maintain their professional competence. It also requires appropriate supervision of any assistants. Similarly, the South Korean code requires members to observe the by-laws, audit law for corporations, and accompanying rules. Members should also observe audit standards and other related rules when audits are conducted and an opinion is expressed. Members of the Malaysian Association must carry out their professional work in accordance with the relevant technical and professional standards and in compliance with the relevant legislation. In particular, members must comply with the approved Accounting and Auditing Standards and other pronouncements issued by the Association (Jakubowski, 2002).

It was revealed that to a middle extent auditors subscribe with relevant accounting professional bodies. The Kenya Accounting profession regulating body encourages accountants to subscribe with them and obtain a minimum of forty CPD (Continued Professional Development) monitored hours to keep them relevant and emerging accounting issues (ICPAK, 2017).

5.3.2 Effects of Integrity on Risk Management in Banking Sector

The findings established that to a higher extent auditors have demonstrated honesty and candidness, auditors treat everyone with courtesy, respect, fairness, and objectivity and auditors had a positive attitude and were proactive, auditors understand and satisfy the real needs of the organization and provision of services was offered in a timely, efficient, and effective manner. According to Office of the Auditor General (2014), integrity is the core value of a Code of Ethics. Auditors have a duty to adhere to high standards of behavior (e.g. honesty and candidness) in the course of their work and in their relationships whether it be personal or with the staff of audited entities. In order to sustain public confidence, the conduct of auditors should be above suspicion and reproach. This includes but is not limited to PSR 20 (Office of the Auditor General, 2014). Demonstrating the highest level of professional conduct and personal integrity in the performance of their duties and while serving the public; Treating everyone, including the public officers clients and members if the general public with courtesy, respect, fairness and objectivity; Displaying a positive attitude and being proactive in the exercise of their duties; Seeking to understand and satisfy the real needs of members of the public; and volunteering information and services as appropriate; In the exercise of their official
duties, not conferring any special benefits and/or giving preferential treatment to anyone on the basis of any special relationship; and Rendering services in a timely, efficient and effective manner.

Findings revealed that to a low extent professionals confer special benefits and/or give preferential treatment, auditors were very lowly corrupted by self-interest, financial or behavioral motives. According to Office of the Auditor General (2014), in the exercise of their official duties, not conferring any special benefits and/or giving preferential treatment to anyone on the basis of any special relationship.

“A good accountant, to add value to society, has to have a number of characteristics. He or she has to have integrity” (Glyn Barker, UK managing partner at PwC, 2012). “If you want to have good ethics in the company, the leader must set the example to staff, and one way of doing this is to follow the requirements of a professional body” (Li Dun, CFO of Sinochem International, 2011). Professional accountants should not only behave with integrity but be seen to do so. That is, facts and circumstances should be avoided where a reasonable and informed third party would question the professional accountant’s integrity (Federation of European Accountant, 2009).

A professional accountant’s advice and job should be uncorrupted by self-interest or other financial or behavioral motives and should not be influenced by the interests of other parties. Organizational integrity is not the result of one action by one individual. The perception of organizational integrity is influenced by a cumulative effect of the integrity exhibited by the individuals within the entity, though weighted for their apparent level of influence. This creates an identifiable value. The integrity that others inside or outside the organization perceive as attributable to the firm. This is not a single direction process. The integrity that an organization is identified as having is not arrived at as a consequence of one decision (Federation of European Accountant, 2009).

5.3.3 How Objectivity Addresses Risk Management in Banking Sector

The findings established that to a higher extent auditors enhance impartial and unbiased judgement, auditors were influenced by the independence of the activities that it audits and auditors carry out their work freely and objectively. IIA (2004) internal auditors should have personal objectivity that permits the proper performance of their duties and must have an impartial, unbiased attitude and avoid any conflict of interest.
IIA (2006) the IIA defines the Internal Audit independence in the following terms “Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgement essential to the proper conduct of audits. It is achieved through organizational status and objectivity”. Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgement and recommendations. Internal auditors should not have any operational responsibilities (Code of practice for internal audit in the local government in the UK, 2006).

The IAF should be given the appropriate status to enable the function to exercise independence and internal auditors to act objectively. This is necessary because internal auditors are in a unique position as employees of an organization with responsibility to assess and monitor decisions made by management and also to advice management on the adequacy and effectiveness of risk management processes (Sarens and de Beelde, 2006a).

Findings revealed that to a higher extent auditors were influenced by the engagement with threats i.e. familiarity, self-review, personal relationships, economic interest. IIA, (2012) internal auditor’s objectivity is affected by self-review, where the internal auditor reviews his/her own work. Social pressure, where the internal auditor is exposed to pressure from, say, the auditee, or others on the audit team, economic interest, resulting, for example, from incentive payments or from auditing the work of someone who has the power to affect the internal auditor’s employment or salary, personal relationship, where the internal auditor is a relative or friend of the auditee, familiarity, resulting from a long-term relationship with the auditee including having worked in the unit being audited, cultural, racial, and gender biases arising in multinational organizations when the auditor is biased or lacks an understanding of local culture and customs. Cognitive biases resulting from preconceived notions or the adoption of a particular psychological perspective when performing the audit (IIA, 2012).

Findings revealed to a higher extent economic status and inefficient reward systems affected risk management. According to Schneider (2003) objectivity is a key element of internal audit effectiveness. Internal auditors should have personal objectivity that permits the proper performance of their duties (IIA, 2004), and must have an impartial, unbiased attitude and avoid any conflict of interest (IIA, 2012, sec.1120). Internal Auditors role in
achieving objectivity in the entity is largely affected by their economic status and inefficient reward systems.

Engagement auditors input their labor during the audit process to gather the audit evidence that relates to audit outcome. Their effort, audit experience, risk preferences, and incentives, etc. may have a significant impact on audit quality. CEOs/CFOs have been documented as having the power and incentives to influence corporate financial reporting decisions (Bertrand and Schoar 2003; Bamber, Jiang, and Wang 2010; Dyreng, Hanlon, and Maydew 2010; Ge, Matsumoto, and Zhang 2011).

It was also revealed that to a medium extent high connection of management with audit committees and management interference with internal audit operations affected risk management. According to Schneider (2014), internal auditors role in achieving objectivity in the entity is largely affected by their economic status and inefficient reward systems. If management interferes with internal audit operations this would affect their objectivity hence unreliable reports which poses threat of risk within the organization. Internal Auditors fail to achieve their set objectives due to lack management support, insufficient resources and failure to receive support from the audit committee which poses a risk threat within the organization (Warga, 2014).

5.3.4 Effects of Confidentiality on Risk Management in Banking Sector

Findings revealed that to a higher extent strengthening accountability, disclosure of information affected risk management and enhancing confidential relationship and trust. According to ICAEW (2005), audits serve a vital economic purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting. As such, audits help enhance economic prosperity, expanding the variety, number and value of transactions that people are prepared to enter into. Members in the U.S. are prohibited from disclosing confidential client information. The code does identify, however, a number of exceptions to this rule. These exceptions relate to members receiving a legally enforceable subpoena or inquiries made by recognized disciplinary boards and professional accounting societies (Jakubowski, 2002). In South Carolina State law protects all of our records and audit working papers as confidential and not subject to public disclosure. Only the final audit report is public (Andrea Derrick Truit, 2015).
Findings also revealed that to a higher extent protection of working papers by keeping them under wrap affected risk management and having appropriate procedures for safe custody of working papers also influence risk management.

Under Texas law our working papers are not subject to disclosure while in our opinion, the papers have always been closed, the law was not clear until last session. We asked the Legislature to clarify it, and they did. The papers are closed. Since then, someone has had the all-too-bright idea of asking an agency under review for copies of data etc. that had been provided to us in support of a specific topic.

In Texas State Auditor’s Office, audit working papers are one of the few exceptions to the Open Records Act. We are not required to disclose our audit working papers. However, this exception is often challenged and is vigorously protected. We believe that public access to our working papers could hinder the degree of cooperation we receive from agency personnel which in turn imposes high risk threat to the organization” (Craig Kinton, 2015).

Under Colorado law all of our working papers are strictly confidential, unless specifically approved for disclosure by a majority vote of the Legislative Audit Committee (the same committee that releases our audit reports to the public). If approved for release, only those working papers that the Legislative Audit Committee votes to disclose are made available. In such an event, any information that is otherwise held confidential under State or federal law would be excluded prior to release. The public release of our working papers is a rare event and it would take extraordinary circumstances for this to occur (Greg Fugate, 2015).

“In Florida, our audit working papers are exempt from public record status by law, which essentially means that they are confidential with some loopholes they can be subpoenaed, and our auditing committee can direct their release. The confidential status of our working papers arose in part from the investigation tradition that our working papers would include unsubstantiated information and allegations that we find aren’t supported and thus aren’t put in our reports. This whole thing is pretty unusual in Florida, which is a big public records state. In fact, there was a bill to give the same confidential status to agency inspectors general this year and it failed” (Gary VanLandingham, 2013).
However respondents agreed that to a very low extent access to confidential information for ulterior motives affected risk management. Jakubowski (2002) the Taiwan code states that members must not have ulterior motives for obtaining access to confidential client information (Jakubowski, 2002). It also states that member must not betray the trust of their clients. The South Korean code prohibits members from betraying any confidential relationship with the client. Confidential client information should not be used to benefit the member. The confidential relationship with the client does not preclude a member from following other rules of the code. Thus, the rule on confidentiality is subject to the other rules in the code. The code does not address situations where members are exempt from the rules relating to confidentiality. Members of the Malaysian Institute should respect the confidentiality of information acquired during the course of their professional work and should not disclose any such information to a third party without specific authority or unless there is a legal or professional right or duty to disclose. Members must not use such information for their personal advantage or that of a third party (Jakubowski, 2002).

5.4 Conclusion
5.4.1 Effects of Professional Competence on Risk Management in Banking Sector

From the findings, qualification of the professional, keeping up to date with emerging issues and technology, preparation and giving effective presentation, creating a good image, adhering to auditing standards and having knowledge/skills to perform activities has enabled banks to manage risk.

5.4.2 Effects of Integrity on Risk Management in Banking Sector

Auditors demonstrate honesty and candidness, treat everyone with courtesy, respect, fairness, and objectivity, have a positive attitude and are proactive, provision of services was offered a timely, efficient, and effective manner hence being able to understand and satisfy the real needs of the organization. Moreover, professionals confer special benefits and/or give preferential treatment and auditors are corrupted by self-interest, financial or behavioral motives.
5.4.3 Determine How Objectivity Addresses Risk Management in Banking Sector

Auditors enhance impartial and unbiased judgement, hence being able to carry out their work freely and objectively. In addition, auditors were highly influenced by being given appropriate status, by the engagement with threats i.e. familiarity, self-review, personal relationships, economic interest, independence of the activities that it audits, economic status and inefficient reward systems affected risk management, and that management interference with internal audit operations.

5.4.4 Determine How Objectivity Addresses Risk Management in Banking Sector

Risk management is influenced by strengthening accountability affected risk management, disclosure of information was also found to affect risk, protection of working papers by keeping them under wrap, enhancing confidential relationship and trust and having appropriate procedures for safe custody of working papers. However auditors reveal confidential information to competitors to benefit their own needs.

5.5 Recommendation

5.5.1 Recommendation for improvement

5.5.1.1 Effects of Professional Competence on Risk Management in Banking Sector

Banks should ensure that auditors have subscribed with relevant accounting professional bodies. Through this, auditors will be able to get up to date information about the industry, attend seminars and training and network and share information hence being able to manage risk.

5.5.1.2 Effects of Integrity on Risk Management in Banking Sector

It is recommended that banks should ensure that professionals follow code of conduct and adhere to standards and behavior. The code of ethical conduct will prevent professionals from giving special benefits or preferential treatment to certain clients and prevent professionals from being corrupted by self-interest, financial or behavioral motives.

5.5.1.3 Determine How Objectivity Addresses Risk Management in Banking Sector

Banks should ensure that auditors are able to connect with management hence being able to assess and monitor decisions made by management and also to advice management on the adequacy and effectiveness of risk management.
5.5.1.4 Determine How Objectivity Addresses Risk Management in Banking Sector

Use of code of ethics should be encouraged hence encouraging auditors to uphold to rules of conduct which describe the norms of behavior expected of internal auditors hence, protecting client information.

5.5.2 Recommendation for Further Studies

The study only focused on professional ethics on risk management it is recommended that other studies be done to determine other factors that affect risk management. The study should be conducted in other organizations.
REFERENCE


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APPENDICES

APPENDIX I: SAMPLE FRAME

Licensed Commercial Banks in Kenya

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CfC Stanbic Bank Limited
7. Charterhouse Bank Limited
8. Chase Bank (K) Limited
9. Citibank N.A Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
13. Credit Bank Limited
15. Diamond Trust Bank Kenya Limited
16. Ecobank Kenya Limited
17. Spire Bank Ltd
18. Equity Bank Kenya Limited
19. Family Bank Limited
20. Fidelity Commercial Bank Limited
21. First Community Bank Limited
22. Guaranty Trust Bank (K) Ltd
23. Giro Commercial Bank Limited
24. Guardian Bank Limited
25. Gulf African Bank Limited
26. Habib Bank A.G Zurich
27. Habib Bank Limited
28. Imperial Bank Limited
29. I & M Bank Limited
30. Jamii Bora Bank Limited
31. KCB Bank Kenya Limited
32. Middle East Bank (K) Limited
33. National Bank of Kenya Limited
34. NIC Bank Limited
35. M-Oriental Bank Limited
36. Paramount Bank Limited
37. Prime Bank Limited
38. Sidian Bank Limited
39. Standard Chartered Bank Kenya Limited
40. Trans-National Bank Limited
41. UBA Kenya Bank Limited
42. Victoria Commercial Bank Limited (*Source: Central bank of Kenya*)
APPENDIX II: INTRODUCTORY LETTER

Martin Kimemia Kagozi
P.O BOX 14634 - 00800
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 on the Effects of Professional Ethics on Risk Management in the Banking Sector in Kenya. In this regard, you have been selected to participate in this study and your participation will be highly appreciated.

The research project is targeting internal auditors who are involved in the internal 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,

Martin Kimemia
APPENDIX III: QUESTIONNAIRE

Research topic
Effects of Professional Ethics on Risk Management in the Banking Sector in Kenya.

SECTION A
PART ONE: GENERAL INFORMATION.

Instructions: (in case of a box please tick (✓) as appropriate and if a space fill.)

1. Years of professional experience as an internal auditor?

<table>
<thead>
<tr>
<th>1-5 years</th>
<th>6-10 years</th>
<th>11-15 years</th>
<th>16-20 years</th>
<th>Over 20 years</th>
</tr>
</thead>
<tbody>
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</table>

2. How long have you worked for this organization as an internal auditor?

<table>
<thead>
<tr>
<th>1 - 5 years</th>
<th>6- 10 years</th>
<th>11 - 15 years</th>
<th>16 - 20 years</th>
<th>Over 20 years</th>
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</tbody>
</table>

3. In which Accounting Professional Membership bodies have you subscribed to?
   a.) ICPAK
   b.) ACCA
   c.) ISACA
   d.) CIA
   e.) ACFE
   f.) IIA
   g.) CFA
   h.) CIMA
   g.) NONE
   h.) Any other …………………………………………………

4. Current position held

   Head of Internal Audit
   Senior Internal Auditor
   Junior Internal Auditor
PART ONE: PROFESSIONAL COMPETENCE ON RISK MANAGEMENT

To what extent do the following elements of professional competence expected from auditors enhance risk management? On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.

<table>
<thead>
<tr>
<th>To what extent do the following elements of professional competence expected from auditors enhance risk management?</th>
<th>VH</th>
<th>H</th>
<th>M</th>
<th>L</th>
<th>VL</th>
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</thead>
<tbody>
<tr>
<td>Obtain appropriate professional qualifications</td>
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<td>Keep abreast with emerging issues and technology</td>
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<tr>
<td>Prepare and give effective presentations/reconcile the results</td>
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<tr>
<td>Training needs must be identified and implemented</td>
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<tr>
<td>Subscribe with relevant accounting professional bodies</td>
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<tr>
<td>Create an image of adding value</td>
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<tr>
<td>Observe IFRS and Auditing standards</td>
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<tr>
<td>Acquire special skills/knowledge to perform particular activities such as IT and forensic auditing</td>
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</table>

Additional comments: .................................................................
PART TWO: INTEGRITY ON RISK MANAGEMENT

To what extent do the following elements of integrity expected from auditors enhance risk management? On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.

<table>
<thead>
<tr>
<th>To what extent do the following elements of integrity expected from auditors enhance risk management?</th>
<th>VH</th>
<th>H</th>
<th>M</th>
<th>L</th>
<th>VL</th>
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<tbody>
<tr>
<td>Demonstrate honesty and candidness</td>
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<td>Treat everyone with courtesy, respect, fairness and objectivity</td>
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<td>Positive attitude and being proactive</td>
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<tr>
<td>Understand and satisfy the real needs of the organization</td>
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<tr>
<td>Provision of services in a timely, efficient and effective manner</td>
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<tr>
<td>Confer special benefits and/or give preferential treatment</td>
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<tr>
<td>Corrupted by self-interest, financial or behavioral motives</td>
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Additional comments: ……………………………………………………………………………………………..
**PART THREE: OBJECTIVITY ON RISK MANAGEMENT**

To what extent do the following elements of objectivity expected from auditors enhance risk management? On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.

<table>
<thead>
<tr>
<th>To what extent do the following elements of objectivity expected from auditors enhance risk management?</th>
<th>VH</th>
<th>H</th>
<th>M</th>
<th>L</th>
<th>VL</th>
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</thead>
<tbody>
<tr>
<td>Enhance impartial and unbiased judgement</td>
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<tr>
<td>Carry out their work freely and objectively</td>
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<tr>
<td>Given appropriate status</td>
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<tr>
<td>Independent of the activities that it audits</td>
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<tr>
<td>Engagement with threats i.e. familiarity, self-review, personal relationships, economic interest</td>
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<tr>
<td>High connection of management with audit committees</td>
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<td>Economic status and inefficient reward systems</td>
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<tr>
<td>Management interference with internal audit operations</td>
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</table>

Additional comments: ……………………………………………………………………………………………
PART FOUR: CONFIDENTIALITY ON RISK MANAGEMENT

To what extent do the following elements of confidentiality expected from auditors enhance risk management? On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.

<table>
<thead>
<tr>
<th>To what extent do the following elements of confidentiality expected from auditors enhance risk management?</th>
<th>VH</th>
<th>H</th>
<th>M</th>
<th>L</th>
<th>VL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthens accountability</td>
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<td>Access to confidential information for ulterior motives</td>
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<tr>
<td>Disclosure of information</td>
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<tr>
<td>Protect working papers by keeping them under wrap</td>
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<tr>
<td>Enhance confidential relationship and trust</td>
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<tr>
<td>Appropriate procedures for safe custody of working papers</td>
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<td>Hold working papers for a sufficient period</td>
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<tr>
<td>Signed agreements excludes disclosing information to the audit committee or board of directors</td>
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Additional comments: ...........................................................................................................
PART FIVE: RISK MANAGEMENT

To what extent do the following elements of risk management. On a scale of 1 – 5 where VH= Very High, H= High, M= Medium, L= Low, VL= Very Low.

<table>
<thead>
<tr>
<th>To what extent do you agree with the following elements of risk management?</th>
<th>VH</th>
<th>H</th>
<th>M</th>
<th>L</th>
<th>VL</th>
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</thead>
<tbody>
<tr>
<td>I am aware of risk management in the organization</td>
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<tr>
<td>Policies and Procedures influences achievement of results</td>
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<td>Corporate culture enhances goals achievement</td>
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<tr>
<td>Best practices and continuous improvement facilitates achievement of risk management objectives</td>
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</tbody>
</table>

Thank you for sparing your time to share your views in this research questionnaire