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THE ROLE OF FINANCIAL AUDITING IN ENHANCING CORPORATE GOVERNANCE IN SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN NAKURU COUNTY, KENYA

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Abstract

The fundamental role played by Saving and Credit Cooperatives (SACCOs) 0728728259 in the socio-economic development of developing countries and more specifically in Kenya cannot be understated. Specifically, the study examined how risk-based audit, and audit quality affect corporate governance in SACCOs in Nakuru County, Kenya. The study adopted descriptive research design. The 167 employees of all SACCOs in Nakuru County constituted the target population. A sample of 63 respondents was drawn from the study population using simple random sampling method. A structured questionnaire was employed in data collection. Descriptive statistics involved frequencies, percentages, means and standard deviations while inferential analysis was in form of Pearson's correlation coefficient and regression analysis. The study findings indicated that risk-based auditing was vital in detecting risks, promoting transparency and accountability and enhancing quality financial reporting which was key in corporate governance. Further findings recommended that the internal audit department should conduct quality audits by complying with the audit standards set by Institute of Certified Public Accountants – Kenya (ICPAK).

Keywords: Audit Quality, Corporate Governance, Financial Auditing, Risk-Based Audit, SACCOs

INTRODUCTION

Labie and Mersland (2011) define Corporate Governance as a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives. Corporate governance describes the rules, laws, and/or processes by which organizations are operated, regulated, and controlled. Excellent leadership is one of the most fundamental and critical components of corporate excellence. Corporate governance, therefore, encompasses authority, accountability, stewardship, leadership, direction and control in organizations .According to Bhagat and Black (2002), good corporate governance acts as a shield for organizations against vulnerability occasioned by future financial distress. This concurs with Thomsen (2008) assertion that good governance can improve the performance of a Sacco and assure its long term survival.

Empirical evidence from the United States indicates that public auditors are supposed to reduce agency problems and as such enhance transparency (Schelher, 2008). The scholar further found out that performance audits tend to be beneficial and that elected auditors with a strong mandate to conduct performance audits seem to outperform other institutional arrangements. Also it's noted that auditors act as watchdogs for the executive and the bureaucracy to enhance transparency, fight misappropriation, fraud, corruption, wasteful usage of public funds, and indeed general inefficiencies in organizations. It is further posited that in spite of supreme auditing institutions such as the American Government Accountability Office (GAO), the German 'Bundesrechnungshof', and the European Court of Auditors (ECA) amongst others exist in virtually all democratic government systems, there is no proven academic economic literature on the influence of auditing institutions hitherto.

In South Africa for example Government report on SACCOs of 2011 states that , bad corporate governance negates not only negates the financial performance of cooperative movements but can also occasion macro-economic crises as was witnessed in East Asia in late 1990's . Brown and Caylor (2004) asserted that, the global economic crisis and relatively poor performance of the corporate sector in sub-Saharan Africa necessitated the debate on corporate governance in light of economic development. One of the main topics of corporate governance is establishing an audit committee board and the independence of the auditors. The foregoing ensures integrity of financial reporting (Corporate Governance Guidelines, 2002).

As at 2010 there were 5,122 registered SACCOs in Kenya according to the Ministry of Cooperative Development and Marketing (2010); All SACCOs operate either FOSA or BOSA and have managed to pull together more than Kshs.200 billion which translates to about a third of the entire national savings. Almost an equal amount of money constitutes the loan portfolio. The foregoing manifests the monumental role played by SACCOs in Kenya's financial sector.

Muturi (2011) opinioned that, a well-functioning corporate governance system enables SACCOs in Kenya to attract investors, and reinforce the basis for their performance. This agrees with the argument that good governance generates goodwill and confidence amongst investors (Claessens et al., 2002).

It is posited that, in Kenya corporate governance in SACCOs has not been effectively regulated (Wasike, 2012). Kabaiya (2012) recommended that, SACCOs ought to uphold the standards and allowable levels and practices of disclosure within their ranks. In this perspective, SASRA and the Ministry of Cooperatives should always ensure the adherence of the requirements for publishing accounts, appointments of external auditors and the availing of information to the membership with the aim of safeguarding shareholders' interests and also to ensure the growth of SACCOs. Moreover, it is noted that, ICPAK has contributed towards promoting good corporate governance in SACCOs and other entities. The institutions demands that, its members report on corporate governance practices of the organizations that they audit (Kavulya, 2011). Against this backdrop, however, Wambua (2011) alleges that, most of the problems facing cooperative societies in Kenya are as a result of bad governance and poor economic mismanagement. Given the importance of corporate governance and auditing, and the socio-economic role played by SACCOs in Kenya, it was, needless to say, fundamental to establish the relationship between auditing and corporate governance in SACCOs.

Statement of the Problem

The fundamental role played by SACCOs in the socio-economic development of developing countries and more specifically in Kenya cannot be understated. The fact that approximately 30 per cent of savings in Kenya are handled by these financial institutions (Ministry of Co-operative development and marketing, 2010) underscores the importance of SACCOs to the Kenyan population. National economies have benefitted from well governed Co-operatives. The converse is true. Good corporate governance in SACCOs would lead to the realization of objectives of SACCO movement which is creation of wealth for sustained economic growth and development (Anyango, 2014).However despite the great potential of SACCOs as agents of national development in the country, they have performed poorly. The poor performance is attributed in a nutshell to poor auditing of the corporate governance processes of the bodies entrusted with the responsibility of governing the SACCOs .There is need to get the sector back to sustainable prosperity (Anyango, 2014).Auditing is said to play a vital role in corporate governance by monitoring decisions and processes. Corporate Governance guidelines (2002) recognizes the role played by the IAF and gives best practices financial institutions can adopt in regards to setting up an audit function. Corporate governance emphasize on establishing an

Audit committee board and the independence of the auditors. The foregoing ensures integrity of financial reporting (Corporate Governance Guidelines, 2002). SASRA on the other hand requires SACCOs to appoint an internal auditor qualified under Accountant Act, and also have an audit committee (SACCO Societies Act 2008). To this effect, it is presumed that auditing influences leadership and governance of entities such as SACCOs. Needless to say, it's fundamental to establish the role of financial auditing in enhancing corporate governance in SACCOs.

General Objective

To assess the role of financial auditing in enhancing corporate governance in SACCOs in Kenya

Specific Objectives

1. To evaluate the impact of risk-based audit in enhancing corporate governance in SACCOs in Nakuru County
2. To analyze the effect of audit quality on corporate governance in SACCOs in Nakuru County

Research Hypotheses

H_{01}: There is no significant relationship between risks based audit and corporate governance in SACCOs in Nakuru County.

H_{02}: There is no significant relationship between audit quality and corporate governance in SACCOs in Nakuru County.

THEORETICAL REVIEW

Agency Theory

Agency theory is also referred to as principal-agent theory since it comprehensively outlines the relationship between the agent and the principal in an organization (Keasey, Thompson & Wright, 1997). The main proponents of this theory are Jensen and Meckling (1976) and Fama (1983). The theory has dominated corporate governance arrangements in the economics and finance literature. It is founded on the assumption that owners of an organization (the principal) and those that are entrusted to manage it (the agent) are bound to have different interests. Needless to say, owners or organization's shareholders worry that managers are likely to act in their own self-interests at the expense of benefiting shareholders.

It is argued that though the agency theory stipulates that directors or managers are delegated to run the affairs of an organization by its shareholders, such agents could advance their personal interests (Clark, 2004). This is in spite of the shareholders' expectations that the managers or directors to act and make decisions to the interest of the organization. Padilla (2002) further reinforces this argument that the agent may fail to necessarily make decisions in the best interests of the principals. The agent may give in to self-interests, opportunistic behavior and failing short of congruence between the aspirations of the principal and the agent's pursuits.

Agency theory perceives corporate governance arrangements as a way of ensuring that the management (agent) acts in the best interests of the shareholders – principal (Keyse*et al*., 1997). It is averred that the board should monitor and control the management as part of corporate governance arrangements. In this light, therefore, the board members ought to be independent of the management in order for them to play an effective and unbiased oversight role. Agency theory with its emphasis on the conformance suggests that the monitoring role of the board, supported by such processes as external audit and reporting requirements, is likely to minimize problems of management pursuing their own interests or performing poorly. However, according to Cornforth and Chambers (2010), the application of agency theory could prove difficult in the public sector including the public universities due to the ambiguity over who the principals are.

It is exemplified that the principals may range from the government, taxpayers, and recipients of services being offered by the institution to the general public. It is, therefore, not clear to who the agents are supposed to be accountable. The role of auditors comes into focus when examining the agency relationship between the directors and managers of Saccos on one hand and the shareholders on the other hand. Auditing activity strives to ensure smooth agency-principal relationship in Saccos.

Stakeholders' Theory

The proponent of this theory was Freeman (1984). A stakeholder according to this theorist is referred to as any group or individual who can be affected or is affected by the achievement of the organization's objectives. Unlike in the case of agency theory whose primary attention is on the shareholders, the stakeholders' theory considers a wider group of constituents. Stakeholders of Saccos are individuals and/or organizations who actively participate in one way or another in the running of the Sacco or whose interests are likely to be affected by the execution of the Sacco strategies. Therefore, auditing is anticipated to go a long way in enhancing good corporate governance in the Saccos for the benefit of all pertinent stakeholders.

In addition, Chinyio and Olomolaiye (2010) stated that stakeholders could affect an organization's functioning, goals, development, and even survival. In particular, the scholars noted that stakeholders could be beneficial when they facilitate the realization of the firm's goals. On the other hand, they may be antagonistic when they oppose the firm's mission. It is further asserted that stakeholders are crucial to Saccos in advancing good corporate governance given their roles. In particular, auditors play a crucial part in Saccos by ensuring that auditing standards are adhered to which in turn promotes good corporate governance.

EMPIRICAL REVIEW

Risk-Based Auditing

The governance guidelines that bring on board corporate governance and risk management issues are best accredited to the Basel Committee of Banking Supervision (2006). It is asserted that these guidelines may provide different levels of focus on risk-based audit and governance. Against this backdrop, however, the guidelines fall short of illustrating the extent to which various degrees of focus affect directly or indirectly on a firm's risk management and internal control practices (Sarens & De Beelde, 2006). Beekes and Brown (2006) conducted a study on how Australian firms are governed. The authors noted that there have been increased concerns in corporate accountability amongst developed nations around the world. These concerns have necessitated firms to adopt risk-based audit practices which include risk management and internal control systems.

It is posited that risk-based auditing can enhance the precision of information contained in financial statements and reports by issuing qualified opinions to organizations with unreliable statements. The role of auditing comes into focus whereby auditors are able to screen out such firms (Beekes & Brown, 2006). An earlier study had revealed that indeed risk-based audit mitigates the occurrence of risks by enhancing quality financial reporting and improving organization's financial performance (Vafeas, 1999),

A study was conducted on the impact of risk-based audit on financial performance in commercial banks in Kenya (Mutua, 2012). The study noted that financial performance of an organization requires risk-based audit practices. The study deduced that risk-based auditing through risk assessment, risk management, annual risk based planning, internal auditing standards and internal auditing staffing ought to be enhanced. The foregoing is aimed to enable the firm in question to detect risks on time and also promote accountability and transparency. In light of this, the study recommended the management of commercial banks should adopt effective risk-based audit practices in order to promote effective and efficient financial performance.

Ademba (2013) examined the challenges facing Sacco regulations in Africa. One of the suggested ways forward in dealing with these challenges was adoption of a risk-based supervision for a resource-constrained regulator. Kibara (2007) had surveyed internal auditors risk management practices in the Kenya's banking industry. The survey revealed that, majority of commercial banks in Kenya was in the process of developing the Early Rate Mode (ERM) process and strategies.

Audit Quality

Carcello, Hermanson and Raghuna (2005) analyzed factors associated with public companies' investment in internal auditing in the United States. The scholars observed that the demand-based perspective indicates that independent directors seek differentially higher audit quality. They further asserted that such kind of assurance provided by the external auditor requires more audit work which translates to higher audit fees. Other studies indicated that internal audit quality is determined by the internal audit department's capability to provide essential findings and suggestions. Internal audit quality is also said to be important to the effectiveness of audit activity. In the same light, it is asserted that internal audit besides proving its value to a firm and as such earns the necessary reputation, it ought to evaluate its performance and continually improve its service to the organization.

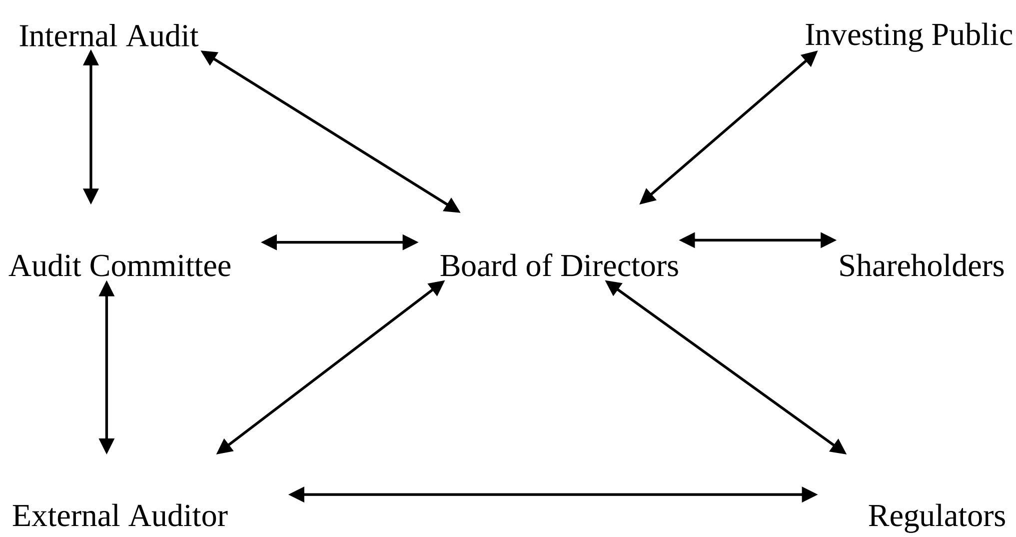
The International Auditing and Assurance Standards Board (IAASB, 2014) developed a framework for audit quality. This was in line with the IAASB's objective of serving the public interest by setting high quality auditing, assurance, and other related standards by ensuring that both the international and national auditing and assurance standards tally. The foregoing enhances the quality and consistency of auditing practices throughout the world. The framework outlined the major elements that create an environment for audit quality in an organization. the elements revolves around the framework encouraging national audit firms, international networks of audit firms and professional accountancy organizations to reflect on how to enhance audit quality and more effectively communicate information about audit quality. Secondly, the framework sought to raise awareness and understanding amongst stakeholders of the audit quality. Thirdly, the framework sought to enable stakeholders to recognize the factors that probably deserve to be prioritized so as to promote audit quality.

It is quipped that audit quality is indeed a function of the level of expertise amongst auditors. It also encapsulates the scope of services provided and the extent to which audits are properly planned, implemented and communicated to the necessary stakeholders (Ziegenfus, 2000). Mutua (2012) when examining the impact of risk-based audit on financial performance in commercial banks in Kenya concurred with the foregoing assertion by noting that audit activity requires professional staff who will essentially uphold the quality of the audit work.

Corporate Governance

Corporate governance is described as a mechanism that addresses agency problems within an organization and also controls risks (OECD, 2010). It is further asserted that effective corporate governance enhances corporate performance since there is improved ownership, managerial control and governance of the organizations. The importance of corporate governance in a firm is underscored by 2002 survey on corporate governance-related issues conducted by the Kuala Lumpur Stock Exchange alongside Price Water House Coopers (PWC). The study established that a majority of investors in Malaysia were prepared to part with 20 per cent premium for firms with superior corporate governance practices. The foregoing concurs with the assertion that investors can pay as much as 28 per cent premium for the shares of well governed firms in emerging markets (Mark, 2000). Broadley (2006) outlined how audit fit in corporate governance as shown in Figure 1

Figure 1: How auditor fit in corporate governance (Broadley, 2006)



In line with Figure 1, the primary role of an auditor is to check whether the financial information given to investors is reliable. In the same respect, corporate governance requires that all participants to accountable and transparent (Broadley, 2006).

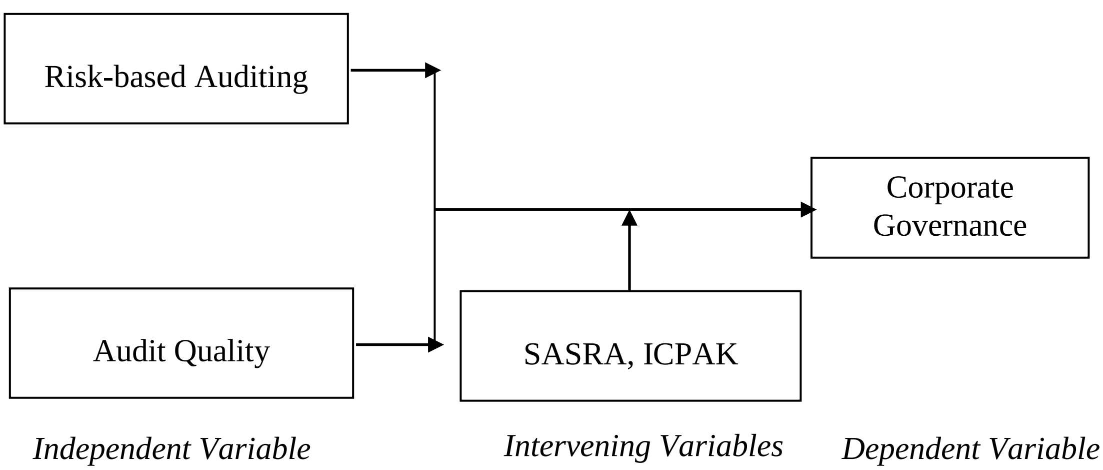
Mac Rae and Gils (2010) conducted a global assessment based on the IIA's global internal audit survey. The survey involved a total of 2,824 respondents drawn from the public sector from around the world. The survey looked into ethics policy and corporate governance code. The survey's respondents were found to be almost twice as likely to have an ethical code at 69% as they were to have a corporate governance code (38%). Asia and Pacific regions led the pack on embracing corporate governance code at 50 per cent followed closely by Western Europe at 48 per cent. Africa had the second least at 32 per cent while Europe and Central Asia tailed the pack on issues touching on corporate governance.

Mutula (2012) when studying issues touching on audit noted that developing countries such as Kenya should enhance corporate governance and accountability with the aim of attracting capital investments and also mitigate corruption among other vices in the financial management of organizations. Wasike (2012) analyzed corporate governance practices and performance at Elimu Sacco in Kenya. The author acknowledged that corporate governance in Kenyan Saccos was yet to be effectively regulated and supervised. In addition, the study noted that good corporate governance in Saccos in the country is imperative if the same were to play a fundamental role in the overall national development.

Conceptual Framework

A conceptual framework is a diagrammatic representation of study variables. In other words, the framework outlines how the variables interact. Figure 2 illustrates the conceptual framework for this study.

Figure 2: Conceptual Framework



The conceptual framework indicates that there were two independent variables which included risk-based auditing and audit quality. On the other hand, there was only one dependent variable which was corporate governance (in SACCOS). The regulations of SACCOs by SASRA and

ICPAK constituted the intervening variables. Interpretatively, the aforesaid independent variables were presumed to affect the corporate governance in SACCOS and that SASRA's regulations, and ICPAK's standards intervened this influence.

RESEARCH METHODOLOGY

Research Design

It is asserted that a good research design should minimize bias and at the same time maximize the reliability of the data collected and analyzed. The choice of a research design is informed by the nature of the research problem (Kothari, 2004). In this respect, therefore, this study adopted descriptive research design. This is due to the fact that the study sought to have an accurate description of the study variables and also study the relationship between the aforesaid variables.

Target Population

Target population, otherwise referred to as study population, describes the population to which the study findings will be generalized. Therefore, the members of the target population ought to exhibit similar characteristics. In this regard, the employees of all SACCOs in Nakuru County constituted the target population. There were 167 employees working with SACCOs in this County by the time the study was carried out. The aforementioned persons are similar in that they work for organizations whose structure, regulations, goals and objectives are closely related.

Sample and Sampling Technique

A sample is a subset of the target population. It is further stated that a good sample should be optimum and an appropriate representative of the study population. An optimum sample according to Kothari (2004) fulfills the requirements of efficiency, representatives, reliability and flexibility. Nassiuma's (2000) formula was employed to calculate the size of the sample given the target population.

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Where, n = sample size;

N = population size;

C = coefficient of variation which is 50%

e = error margin which is 0.05.

Substituting these values in the equation, estimated sample size (n) will be:

$$n = \frac{167\,(0.5)^2}{0.5^2 + (167-1)0.05^2}$$

n = 62.78

n = 63 respondents

The 63 respondents were drawn from the study population using simple random sampling method. The choice of this method was advised by the fact that employees of SACCOs across the entire County exhibited similar characteristics. In addition, this method eliminated sampling bias since all members of the target population (SACCOs' employees) had an equal chance of being selected to participate in the study.

Research Instrument

A research instrument is a tool that is used to collect data from the respondents. There are various types of research instruments .However, in the context of this study, a structured questionnaire was employed in data collection. As Mugenda and Mugenda (2009) posit, questionnaires are suitable tools for collecting data from respondents who are geographically dispersed. This was the case in this study since SACCOs are widely spread out across the entire Nakuru County.

Reliability Test of the Research Instrument

Reliability is described as the ability of a data collection tool to return consistent results. A reliable instrument when administered on different populations with similar characteristics should enable collection of consistent data. The study employed the Cronbach alpha to test the instrument's reliability. Kimberlin and Winterstein (2008) argue that the Cronbach alpha is the most widely and recommended method of testing reliability of a research instrument. The alpha values range from 0 to 1 whereby the higher the alpha values the greater the reliability of the instrument and the reverse is true. The reliability threshold is advised to be alpha equal to or greater than 0.7. As indicated by Table 1, all the study variables were found to be reliable since they returned alpha values greater than 0.7.

Table 1: Reliability Results

Variable		No of tests	Alpha Value
i.	Risk –based audit	8	0.74
ii.	Audit quality	7	0.80
iii.	Corporate governance	5	0.77

Validity Test of the Research Instrument

Validity is the extent to which the interpretations of the results of a test are warranted, and also depends on the particular use the test is intended to serve (Kimberlin & Winterstein, 2008). This study determined content validity of the data collection tool which was achieved through consultation with the assigned University supervisor since the said validity could not statistically be determined. There were no revisions that were effected on the instrument after the foregoing consultation.

Data Processing and Analysis

The collected questionnaires were thoroughly perused to ensure that only the adequately and appropriately filled ones were considered for the study. The primary data was edited and coded before analysis. The coding and analysis were executed with the aid of the Statistical Package for Social Sciences (SPSS) version 21 software. Analysis was both descriptive and inferential. Descriptive analysis constituted frequencies, percentages, means and standard deviations. On the other hand, the study incorporated Pearson's correlation to conduct inferential analysis whose object was to determine the relationship between each of the independent variables and the dependent variable. The study findings were presented in form of statistical tables.

ANALYSIS AND FINDINGS

Response Rate

Table 2 outlines a summary of the response rate. As shown, it is clear that 63 questionnaires were issued while 49 were returned. This represented a response rate of 77% which was acceptable (Kothari2004).

Table 2: Response Rate

No. of Questionnaires Issued	No. of Questionnaires Returned	Response Rate
63	49	77%

Descriptive Statistics

This section presents the opinions of the respondents in respect to the study constructs which were risk based auditing, audit quality and corporate governance.

Risk-based Auditing

The study investigated the views of the respondents in regards to risk based auditing. The results in respect to the construct are presented in Table 3.

Table 3: Descriptive Statistics for Risk-Based Auditing

	n	Min	Max	Mean	Std. Dev
i. Auditing in our SACCO is risk-based	49	1	5	4.67	.801
ii. Auditing facilitates risk management in our SACCO	49	1	5	4.51	.820
iii. Risk-based auditing detects risks on time	49	1	5	4.37	.859
iv. Risk-based auditing promotes accountability and transparency in our SACCO	49	2	5	4.37	.636
v. Risk-based auditing includes internal control systems	49	4	5	4.43	.500
vi. Risk-based auditing facilitates issuing of qualified opinions to organizations with unreliable statements	49	2	5	4.33	.591
vii. Risk-based auditing enhances accuracy of information contained in financial statements	49	4	5	4.27	.446
viii. Risk-based audit mitigates the occurrence of risks by enhancing quality financial reporting	49	4	5	4.33	.474

Respondents strongly agreed (mean ≈ 5.00; std dev < 1.00) that auditing in their SACCOs was risk-based and it facilitated risk management in their SACCOs. In addition, they agreed (mean ≈ 4.00; std < 1.00) to the views that risk-based auditing detected risks on time, risk-based auditing promoted accountability and transparency in their SACCO, risk-based auditing included internal control systems, risk-based auditing facilitated issuing of qualified opinions to organizations with unreliable statements and that risk-based audit mitigated the occurrence of risks by enhancing quality financial reporting.

Audit Quality

The study further assessed the respondents' opinions in regard to audit quality in their organizations. The findings are presented in Table 4.

Table 4: Descriptive Statistics for Audit Quality

	n	Min	Max	Mean	Std. Dev
i. Our SACCO demands for higher audit quality	49	3	5	4.90	.368
ii. Our SACCO's internal audit department's capability promotes audit quality	49	1	5	4.71	.764
iii. Internal audit quality is important to the effectiveness of audit activity	49	4	5	4.86	.354
iv. Our internal auditors adhere to the auditing standards set by ICPAK	49	2	5	4.65	.723
v. ICPAK communicates information regarding audit quality to our SACCO	49	3	5	4.37	.727
vi. There is awareness and understanding in our SACCO of the audit quality	49	2	5	4.29	.707
vii. Experience and expertise of our internal auditors enhance audit quality	49	1	5	4.29	.816

The study found that respondents strongly concurred (mean ≈ 5.00; std dev < 1.00) with the opinion that SACCOs demanded for higher audit quality, SACCOs' internal audit department's capability promoted audit quality; internal audit quality was important to the effectiveness of audit activity and that their internal auditors adhered to the auditing standards set by ICPAK. The respondents further admitted (mean ≈ 4.00) to the argument that ICPAK communicated information regarding audit quality to their SACCO; there was awareness and understanding in their SACCO of the audit quality and that experience and expertise of their internal auditors enhanced audit quality.

Corporate Governance

Lastly, the study analyzed the respondents' views in respect to corporate governance in their organizations. The pertinent findings are presented in Table 5.

Table 5: Descriptive Statistics for Corporate Governance

	n	Min	Max	Mean	Std. Dev
i. Corporate governance addresses agency problems in our SACCO	49	1	5	4.55	.842
ii. Risk-based audit influences corporate governance in our SACCO	49	1	5	4.51	.845
iii. Audit quality is crucial in corporate governance in our SACCO	49	2	5	4.55	.709
iv. In order to promote corporate governance, in our SACCO has put in place an effective internal audit function	49	1	5	4.27	.811
v. Good corporate governance has attracted more shareholders to our SACCO.	49	1	5	4.16	.986

The study discovered that respondents strongly agreed (mean ≈ 5.00;std dev < 1.00) with the assertion that corporate governance addressed agency problems in their SACCO; risk-based audit influenced corporate governance in their SACCO and that audit quality was crucial in corporate governance in their SACCO. In addition, the respondents admitted (mean ≈ 4.00; std dev < 1.00) that their SACCO had put in place an effective internal audit function in order to promote corporate governance and that corporate governance had attracted more shareholders to their SACCO.

Inferential Statistics

The study sought to establish the strength and significance of the relationship between risk-based auditing, audit quality, independence of audit department on one hand, and corporate governance on the other hand. The relationships were examined using Pearson correlation analysis.

Relationship between Risk-based Auditing and Corporate Governance

The study investigated the relationship between the two study constructs. Table 6 outlines the results in relation to the relationship between the two variables.

Table 6: Relationship between Risk-based Auditing and Corporate Governance

		Corporate Governance
Risk Based Auditing	Pearson Correlation	.661**
	Sig. (2-tailed)	.000
	n	49

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

According to the results it was revealed that there existed a strong, positive and significant relationship between risk-based auditing and corporate governance ($r = 0.661; p < 0.01$). This was interpreted to mean that risk based auditing had a positive effect on corporate governance. It further implied that the more risk based auditing was embraced and improved by the organizations, then the more corporate governance would be enhanced. In addition, it was elucidated that corporate governance was enhanced as a result of the risk based-auditing method used by improving transparency and accountability and also ensuring quality financial reporting which are key in good corporate governance.

Relationship between Audit Quality and Corporate Governance

The study further examined the relationship between audit quality and corporate governance in SACCOs. The pertinent findings are illustrated in Table 7.

Table 7: Relationship between Audit Quality and Corporate Governance

		Corporate Governance
Audit Quality	Pearson Correlation	.759**
	Sig. (2-tailed)	.000
	n	49

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

It was revealed that audit quality and corporate governance had a strong, positive and significant relationship ($r =0.759; p < 0.01$). This meant that audit quality largely and positively influenced corporate governance. This further implied that the quality of audit was crucial to enhancing corporate governance in SACCOs in Nakuru County. This was associated with the internal department capability to enhance quality of audit coupled with its adherence to quality auditing standards set by ICPAK. Audit quality was of invaluable essence to enhancing corporate governance in SACCOs.

SUMMARY

It was absolutely agreed that auditing in their SACCO was risk-based and it facilitated risk management. In addition, the respondents were in agreement that risk-based auditing included internal control systems, detected risks on time and promoted accountability and transparency. It was further noted that risk-based auditing facilitated issuing of qualified opinions to organizations with unreliable statements and helped mitigate the occurrence of risks by enhancing quality financial reporting. Further analysis indicated that sa strong, positive and significant relationship ($r = 0.661$; $p < 0.01$) existed between risk based auditing and corporate governance. This implied that the more risk based auditing was embraced and improved by the organizations, then the more corporate governance would be enhanced.

Respondents strongly concurred their SACCO demanded for higher audit quality and that their SACCO's internal audit department's capability promoted audit quality. The respondents further absolutely admitted that internal audit quality was important to the effectiveness of audit activity and that their internal auditors adhered to the auditing standards set by ICPAK. Moreover, it was agreed that ICPAK communicated information regarding audit quality to their SACCO and there was awareness and understanding in their SACCO of the audit quality. It was also noted that experience and expertise of their internal auditors enhanced audit quality. Correlation analysis revealed that audit quality and corporate governance had a strong, positive and significant relationship ($r =0.759$; $p < 0.01$). Audit quality was therefore critical in enhancement of corporate governance.

It was absolutely concurred that corporate governance addressed agency problems in their SACCO. Risk-based audit influenced corporate governance in their SACCO and that audit quality was crucial in corporate governance in their SACCO. In addition, the respondents admitted that their SACCO had put in place an effective internal audit function in order to promote corporate governance and that corporate governance had attracted more shareholders to their SACCO.

CONCLUSIONS

The study concluded that risk-based was used in the SACCOs and it facilitated risk management. It was further inferred that risk-based auditing detected risks on time and promoted accountability and transparency due to the existence of the internal control systems in place. In addition, it facilitated issuing of qualified opinions to organizations with unreliable statements and helped mitigate the occurrence of risks by enhancing quality financial reporting. Therefore, risk based auditing was concluded as a reliable technique in not only detecting risks in financial statements but also enhancing corporate governance.

It was inferred that higher audit quality was imperative for SACCOs. In addition it was concluded that the internal audit department existence in the SACCOs was aware of the audit quality and the departments' capability promoted it. This was because audit quality was important to the effectiveness of audit activity. The study further inferred that ICPAK communicated information regarding audit quality and that the SACCOs' internal auditors adhered to the auditing standards set by ICPAK. In addition, it was inferred that the experience and expertise of the internal auditors enhanced audit quality.

RECOMMENDATIONS

Risk-based auditing was vital in detecting risks, promoting transparency and accountability and enhancing quality financial reporting which was key in corporate governance. The study therefore recommends that risk-based auditing should be upheld and underscored by management. It is recommended that the internal audit department should conduct quality audits in their organizations by complying with the audit standards set by ICPAK. Further the internal auditors should frequently report to the management on any issue of concern that would otherwise portray the organizations in bad light.

SUGGESTIONS FOR FURTHER STUDIES

The study suggests areas that should be further researched in respect to financial auditing and corporate governance in Kenya. These include:

1. The effect of audit quality on corporate governance in middle tier banks
2. The effect of corporate governance on auditor independence in listed agricultural companies.

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