

**AN ASSESSMENT OF THE EFFECTIVENESS OF INTERNAL AUDIT SYSTEMS IN THE MANAGEMENT OF
DECENTRALIZED FUNDS IN KENYA: A STUDY OF LOCAL AUTHORITY TRANSFER FUND IN KISII
MUNICIPAL COUNCIL**

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Abstract

LATF was established in 1999 through the LATF Act No. 8 of 1998, with the objective of improving service delivery, financial management, and reducing outstanding debts of Local Authorities. Through LATF, the government transfers 5% of the income tax revenues to 175 LAs annually. Despite the huge sums of money they receive, 77% of the LAs are unable to meet their recurrent expenditures among other obligations. This questions the effectiveness of internal audit systems in the management of LATF. The general objective of this study was to assess the effectiveness of the internal audit systems in the management of LATF in Kisii Municipal Council. A descriptive study design was adopted in the study. The targeted population of the study was 124 upper and middle cadre employees and councilors, with sample size of 62 respondents. The data were collected using structured questionnaires. The data were analyzed using descriptive statistics such as frequency distributions, percentages, weighted averages, and results were presented using tables and graphs. The study established that the internal audit systems were averagely effective in the management of LATF funds. The study recommended that Kisii Municipal Council should establish an independent internal audit department. The study concluded that the internal audit systems need to be improved, following the recommendations of research. The findings of the research can be used by municipal councils, academicians, and researchers as a source of knowledge.

Key words: Local authority, local authority transfer fund

1 Introduction

The study concerns the assessment of the effectiveness of internal audit systems in the management of decentralized funds in Kenya. The study was focused on local authority transfer fund in Kisii Municipal Council. Literature review has been cited from secondary sources such as books, articles, and other publications. Also relevant internal auditing theories have been covered for the study.

1.1 Background to the Study

The Ministry of Local Government through the Kenya Local Government Reform programme (KLGRP) has instituted a number of reforms aimed at strengthening the Local Government Institutional Capacity to effectively manage their revenues and expenditures, improve service delivery, enhance economic governance, promote citizen participation and alleviate poverty in their jurisdictions. One such reform is the establishment of the Local Authority Transfer Fund (LATF). LATF was established in 1999 through the LATF Act No. 8 of 1998, with the objective of improving service delivery, improving financial management and reducing the outstanding debts of Local Authorities (LAs). LATF, which comprises 5% of the national income tax collection in any year, currently makes up approximately 24% of local authority revenues (Oyugi, 2005). At least 7% of the total fund is shared equally among the country's 175 LAs, 60% of the fund is disbursed according to the relative population size of the LAs. The balance is shared out based on the relative urban population densities. LATF monies are combined with LAs revenues to implement local priorities. An advisory committee comprising the private sector, the ministry of finance, the permanent secretary ministry of local government and the KLGRP's secretariat, guides LATF operations. 60% of LATF allocations (the Service Delivery Account) are released based on LAs meeting set requirements like, upon LAs submission of the annual budget which must allocate a maximum of 50% of total expenditures for personal costs and a minimum amount that is equivalent to 65% of the Service Delivery Account for capital expenditures. In addition, LAs must provide certified confirmation that the amounts due to statutory creditors for the current year have been paid. The remaining 40% (the Performance Account) is released upon sub-mission of a statement of actual revenues and expenditures, debtors and creditors, abstracts of accounts, participatory service delivery plan-Local Authority Service Delivery Plan (LASDAP) and a revenue enhancement plan. Submissions must be timely, complete, include all required forms and be accompanied by full council minutes (Office of the Deputy Prime Minister and Ministry of Local Government, 2010).

All LAs revenues and expenditures, including LATF monies, must be managed, executed and monitored in accordance with the Local Government Act, CAP 265. Elected councilors and local government officials as well as other local community and stakeholders groups are also responsible for monitoring proper budget execution and accountability. In addition, the Kenya national audit office is responsible for audit of LAs accounts. LATF monies are provided as budget support to LAs to be spent in accordance with local budget priorities, which are identified in consultation with the citizens and approved by full council and the deputy prime minister and minister for local government. Eligible local budget expenditures include those on personnel, operations, maintenance, debt resolution and capital projects. LATF policy is under the responsibility of the ministry of finance, while the administration is done by the permanent secretary, office of the deputy prime minister and ministry of local government, who as the officer administering the fund, is responsible for ensuring that LATF monies are released and received in a timely and accountable manner by those LAs who comply with the LATF regulations (Office of the Deputy Prime Minister and Ministry of Local Government, 2010)

The Treasury circular No. 16/2005 states in part that: "In order to enhance oversight, governance, accountability and transparency in the public service, the government has decided to enforce the establishment and strengthen audit committees in all ministries, departments, state corporations and

local authorities. The audit committee will have the responsibility for independent in-depth review of the framework of internal control and of the internal audit process". The department of internal audit in the LAs has to employ qualified staff who meets the qualifications and requirement set out in the scheme of service applicable to local authority staff from time to time, and who will carry out internal audits evaluating the whole system of controls, financial and otherwise, established by the council in order to provide reasonable assurance of the local authority's operational effectiveness and efficiency, compliance with laws and regulations, the safeguarding of assets against unauthorized use or disposition and the maintenance of proper accounting records and reliability of financial information. The internal auditor conducts regular and continuous internal audits of the financial transactions of the local authority and reports any irregularities and /or inconsistencies to the audit committee, with copies to the clerk, the treasurer and the heads of departments. They also provide the necessary reports and support to Ministry of Local Government Inspectors, to the Controller and Auditor General and to any other outside auditors. They have unrestricted access to all establishments and financial records of the council and are entitled to require such explanations as he/she considers necessary to satisfy himself/herself of the correctness of any matter under examination. Effective internal auditing lead to better financial management (Office of the Deputy Prime Minister and Ministry of Local Government, 2008).

1.2 Statement of the Problem

LATF provides important resources and incentives to LAs to improve service delivery, improve financial management and help reduce debts. Through LATF, the government transfers 5% of the income tax revenues to 175 LAs annually (office of the Deputy Prime Minister and Ministry of Local Government, 2010). Despite the huge sums of money they receive, 77% of the LAs are not able to meet their recurrent expenditures among other obligations (Oyugi, 2005). For example, in the year 2007/2008, Mombasa council needed Ksh 50million to keep its books in order whereas Eldoret council required Ksh 29million to sort out its books of accounts(Gachiri, 2010). A recent study shows that over 30% of the LAs do not use the LATF funds for the intended purposes (KIPPRRA, 2007). A recent report released by the minister of LG shows that most councils' outstanding debts are on the increase every year. For example the City Council of Nairobi has a debt of Kshs. 2.4 billion in 2009/2010 up from Kshs. 1.6 billion in 2008/2009 (Office of Deputy Prime Minister and Ministry for Local Government, 2010). This brings into question the effectiveness of internal audit systems in the management of LATF. Little research has been done to establish whether internal auditing assist in the management of LATF. This study, therefore sought to assess the effectiveness of internal auditsystems in the management of LATF in Kisii Municipal Council.

1.3 Research Objectives

The overall objective of the study was to assess the effectiveness of internal audit systems in the management of LATF in Kisii Municipal Council. The specific objectives were to: determine whether the LATF disbursements were used in accordance with the objectives of LATF; establish the effectiveness of internal audit systems in the disbursement and use of LATF; come up with suggestions on how the internal audit department can improve the management of LATF.

2 Literature Review

2.1 The concept of Internal Auditing

There are several definitions of internal auditing some of which include: Internal auditing can be defined as 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 (IIA, 2004). The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud (Millichamp and Taylor, 2008).

According to Manasseh (2007), Internal Auditing is a constant independent appraisal of the Company's/Organization's activities in a bid to ensure that the company runs in an orderly manner and is managed better so as to ensure strong controls in such organizations. According to Maheshwari (2004), internal auditing is a review of various operations of the company and of its records by the staff specially appointed for this purpose. The elements of effective Internal Audit comprises; auditor independence, good working relationship, proper staffing and training, exercising due care, evaluation of internal control systems, proper reporting and follow-ups, among others (IIA, 2004).

The main aim of internal audit is to provide independent and objective assurance to the accounting officer or equivalent officer, and the council, on the effectiveness of the risk management programs in the local authority. In respect of risk management, internal audit can either undertake assurance activities or consulting activities. An effective internal auditing activity should be able to provide independent and objective assurance on the effectiveness of risk management activities that help to ensure that key business risks are being managed appropriately. Internal Audit should: give assurance that risks are correctly identified, analyzed and evaluated; and, give assurance that risks are being managed and maintained within the council's and government guidelines. Internal audit may provide the following consulting services, provided that appropriate safeguards are in place: facilitating the identification and evaluation of risks by making available to the relevant officers the tools and techniques used by internal audit to analyze risks and controls, using internal audit's expertise in risk management and control, and overall knowledge of the local authority's operations and objectives to champion the established of a risk management framework, providing advice, facilitating workshops, and coaching accounting officers and other relevant officers on risk and control, and supporting the officers in identifying the best way to mitigate risk. The appropriate safeguards include: ensuring that it is confirmed in writing that the accounting officers retain overall responsibility for risk management, ensuring that accounting officers decide the most appropriate responses to risk; internal audit should provide advice and offer critique without assuming responsibility and ensuring that internal audit does not perform any roles that constitute risk management. (KLGRP, 2008).

Independence is established by the organizational and reporting structure. Objectivity is achieved by an appropriate mind-set. The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to: Effectiveness and efficiency of operations, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, regulations, and contracts. Based on the results of the risk assessment, the internal auditors evaluate the adequacy and effectiveness of how risks are identified and managed in the above areas. They also assess other aspects such as ethics and values within the organization, performance management, communication of risk and control information within the organization in order to facilitate good governance process. The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified. While management is responsible for internal controls, the internal audit activity provides assurance to management and the audit committee that internal controls are effective and working as intended. The internal audit activity is led by the chief audit executive (CAE). The CAE delineates the scope of activities, authority, and independence for internal auditing in a written charter that is approved by the audit committee. An effective internal audit activity is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture,

operations, and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders. As the primary body for the internal audit profession, the IIA maintains the International Standards for the Professional Practice of Internal Auditing and the profession's Code of Ethics. IIA members are required to adhere to the Standards and Code of Ethics (The IIA Research Foundation, 2004). Internal audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources (CCBA, 1990).

The key objectives of internal audit are stated as being: assisting accounting officers in ensuring prudent financial management, risk management, control and governance processes, providing an independent objective assurance and consulting services designed to add value and improve government operations by assisting accounting officers and audit committee in the effective discharge of their duties and responsibilities (IIA, 2004).

2.2 Internal Auditing Theories

Internal auditing theories can be borrowed from the theories for auditing. One of these theories is the agency theory. Agency is the name given to the practice by which productive resources owned by one person or group are managed by another person or group of persons. At its simplest agency theory is the recognition that the inclination of agents, in this case the directors or managers of the business, is to act rather more in their own interest than those of their employers and shareholders. The Institute of Chartered Accountants in England and Wales, in November 2006, put it this way: - In principle, the agency model assumes that no agents are trustworthy and if they can make themselves richer at the expense of their principals they will. The poor principal, so the argument goes, has no alternative but to compensate the agent well for their endeavors so that they will not be tempted to go into business for them using the principal's assets to do so. The origin of auditing goes back to times scarcely less remote than that of accounting. Whenever the advance of civilization brought about the necessity of one man being entrusted to some extent with the property of another the advisability of some kind of check upon the fidelity of the former would become apparent. The extent to which principals don't trust their agents will tend to determine the level of the monitoring mechanism created for the overview of agents' activities and the extent to which agents' compensation levels are determined to be acceptable. Upon this principle rests the foundation of auditing profession (Millichamp and Taylor, 2008). As mentioned in the agency theory, the problem which has always existed when managers report to owners is – can the owners believe the report?

The report may;- contain errors, not disclose fraud, be inadvertently misleading, be deliberately misleading, fail to disclose relevant information and fail to conform to regulations. The solution to this problem of credibility in reports and accounts lies in appointing independent professionals called auditors to investigate the report and report their findings (Millichamp and Taylor, 2008).

2.3 Empirical Literature

Hayles and Ashton (1982) in their efforts to provide evidence on the effectiveness of the particular audit techniques in detecting errors that affect the financial statements and on the causes of such errors conducted a study of 281 errors requiring financial statements adjustments. The results of the study suggested that all of the intentional errors are concentrated in relatively few audit areas majority of such errors affect income but the direction of the effect may either be an understatement or

overstatement. Regarding signaling off an error, they found that a large portion of financial statement errors are initially signaled by less vigorous audit procedures such as analytical review and discussion with clients. Client personal problems such as inexperience, incompetence and insufficient knowledge and inadequate control, follow up or review were found instrumental in causing more errors.

Salih (1983) evaluated the internal controls of Ethiopian Airlines, Nairobi branch office and concluded that lack of segregation of accounting and custodian functions was the greatest weakness of the Branch office. He argued that there is need to centralize cash receipts, establish an internal audit, separate duties of purchase activities, establish perpetually inventory system for tickets.

In an attempt to define a client's control environment from the auditor's perception, Haskins (1987) identified 48 client control attributes and their perceived levels of importance in adequately describing a client's control environment thus serving to define more clearly audit planning concepts. Audit firms, firms' specialization and audit rank were found to be significant mediating contextual variables and that seniors had the largest share of the evaluation of internal control attributes responsibility.

Schneider and Wilners (1990), in their study examined the effectiveness of internal audit and external audit in determining financial reporting irregularities. They conducted an experimental study that examined the effects of manager's perception of internal and external auditing on the potential of financial irregularities. A total of 264 subjects, the majority of whom were experienced managers were required to make decisions on three cases involving materiality type of irregularity, perceived extent of Generally Accepted Accounting Standards (GAAP) violation and incentives for misstating income. The decisions were made in a situation where there was no auditing at all, only internal auditing or external auditing. The results clearly supported internal and external auditing as deterrents to financial reporting irregularities when all of the four factors were present. It was also found that internal auditing effects were similar to those of external auditing. The study, however, suffered from the inability to explain why the existence of audits was perceived as having deterrent effects (Schneider and Wilners, 1990).

Ismailjee (1993) evaluated the internal controls of the Nyayo Bus Service Corporation, Nairobi and concluded that the analysis conducted on the cash receipts as well as the cash disbursements and the purchase cycle areas bore fairly strong controls. He attributed this largely to the fact that the government accounting system was still in operation in those areas. He however found weakness in the organization chart, payroll and the stores accounting system.

Oyugi (2005), in her study on fiscal decentralization in Kenya (a case of Local Authority Transfer Fund) analyzed the administration of LATF and its performance. She identified various challenges constraining the implementation of the programme. The findings of the study revealed that: LATF has not met its objectives of improving service delivery, financial management and debt reduction; and that the performance of the programme has been constrained by a number of factors such as flawed regulations, politicizing of the programme, and lack of coherent monitoring and evaluation framework. The study recommended for the amendment of LATF regulations, and putting in place a coherent monitoring and evaluation framework among others. One of the monitoring units organizations have is the Internal Audit Department. This study therefore focused on the effectiveness role of Internal Audit as one of the monitoring units, in the management of LATF.

Rono (2006) studied on the effectiveness of the internal control system in the management of finances in public universities in Kenya. The study sought to determine whether there was a significant difference in the evaluation of the effectiveness of the internal control system in the financial management

between the academic and non-academic departments in Egerton University. It concluded that the evaluation of the effectiveness of the internal control systems in the university depended on the category of the departments. The research revealed that the internal control systems in Egerton university were effective due to the well established departments charged with the responsibility of implementing the internal controls as they carry out the financial processes for example, finance, supplies and personnel departments with their various sections like cash office, salaries, computer, debtors and creditors.

From the above, it is evident that a lot of research has been done on the evaluation and effectiveness of internal control systems in various organizations like Ethiopian Airlines and Nyayo Bus services; and institutions like public universities (a case of Egerton University). However, little research has been done on the effectiveness of internal audit systems in the management of finances in institutions and organizations. This study therefore focused on the effectiveness of internal audit systems in the management of LATF funds in Kisii Municipal Council.

3 Research Methodology

3.1 Research Design

A descriptive study (survey) design was adopted in conducting this study. Descriptive research is a process of collecting data in order to test hypotheses or to answer questions concerning the current status of the subjects in the study. Descriptive research determines and reports the way things are. This design proved useful as respondents were given time to respond without any interference and manipulation hence information was generally obtained much faster.

3.2 Area of Study

The study was carried out in Kisii Central District within the Jurisdiction of Kisii Municipal Council. This municipality covers 29 square kilometers and it serves such markets as Bobaracho, Mwembe, Menyinkwa, Daraja Mbili, Getare and Kisii Municipal Market.

3.3 Target Population

The research targeted a total population of 124 upper and middle cadre employees and councilors consisting of 3 top managers of the council, 100 departmental employees, 5 heads of departments and 16 councilors of the Kisii Municipal Council.

3.4 Sample and Sampling Techniques

The sample size of the study was 62 respondents consisting of 2 top managers, 5 heads of department, 5 councilors and 50 departmental employees. This was 50% of the target population which was appropriate because according to Nwadiuto Nkpa (1997), where a target population runs into hundreds, a sample population of 50% is recommended or adequate and where the target population runs into thousands the sample population should be 15% - 20%. The target population for this study was 124. The research used stratified, random and purposive sampling techniques because the target population was classified into three subgroups namely; Top managers, councilors and departmental employees. Stratified, random and purposive sampling enabled the research to achieve desired representation from the various sub-groups in the population. Purposively, the research selected 2 in the top management, 5 councilors who are chairmen of the various departments in the council and all the 5 heads of departments into the sample.

3.5 Data Collection Instruments

Structured questionnaires were administered by the research to collect quantitative data. To ascertain the effectiveness of the questionnaire, a validation process was carried out. The supervisors examined the contents of the questionnaires and gave recommendations. Necessary adjustments were made to accommodate the recommendations of the supervisors hence improving the validity of the instrument. A pilot study was used to test for the validity of the questionnaire before it was administered.

3.6 Data Analysis and Presentation

Quantitative data were analyzed using descriptive statistics that is frequency, distributions, percentages and weighted averages, and the results were presented using tables.

4 Data Analysis, Results and Discussions

4.1 Use of the LATF Disbursements to Achieve the Objectives of LATF

The first objective of the study was to determine whether LATF disbursements were used in accordance with the objectives of LATF. Below are descriptive findings on this objective.

Table 1: Use of LATF disbursements to achieve LATF objectives

	Most dissatisfied 1	Dissatisfied 2	Moderately satisfied 3	Satisfied 4	Most satisfied 5	Σ	Σ	$\frac{\Sigma}{\Sigma}$
Improve service delivery	0	0	0	30	26	56	250	4.464
Improve financial management	0	2	0	46	8	56	228	4.071
Reduce debts	0	0	0	30	26	56	250	4.464

Source: Field data, 2011

On whether LATF was being used to improve service delivery, responses as indicated by the huge weighted average of 4.464 shows that it does. This implies that LATF disbursements are used by Kisii Municipal Council in improving its service delivery. This finding is in contradiction with Oyugi (2005) finding that LATF funds have not met the objective of improving service delivery and the establishment by KIPPRA (2007) that LATF is not used for the intended purposes by LAs.

On whether LATF disbursements were being used to improve financial management, responses as indicated by the huge weighted average of 4.071 show that it does. The results show that LATF disbursements are used in improving the financial management. However, the finding is at variance with the finding by Oyugi (2005) which indicated that LATF disbursement has not met the objective of financial management and the establishment by KIPPRA (2007) that LATF is not used for the intended purposes by LAs. The variance could have been as a result of Oyugi and KIPPRA covering a wider region as compared to this research.

On whether LATF disbursements were being used to reduce debts, responses as indicated by the weighted average of 4.464 shows that LATF funds have achieved this objective. This finding contradicts a finding by Oyugi (2005) which indicated that LATF has not met the objective of reducing debts and the establishment by KIPPRA (2007) that LATF is not used for the intended purposes by LAs.

4.2 Release of LATF Funds

Respondents were asked to indicate whether LATF funds were released on time. Their responses were as indicated in the Table 2.

Table 2: Release of LATF

Response	Sample	Percentage
Strongly Agree	10	17.9
Agree	22	39.3
Neutral (undecided)	6	10.7
Disagree	18	32.1
Strongly disagree	0	0
Total	56	100

Source: Field data, 2011

On the release of LATF funds, responses as illustrated above indicates that 57.2% agree that the disbursement were always delayed whereas 32.1%disagreed. The Research found that this will have a negative effect on the achievement of the objectives of LATF because these funds can not be used within the targeted time.

4.3 Internal Auditing of LATF

The second objective of the study was to determine the effectiveness of internal auditing systems in the disbursements and use of LATF. Respondents were asked to indicate whether LATF funds were audited internally. Responses were as shown in Table 3.

Table 3: Internal audit of LATF funds

Response	Sample	Percentage
Strongly Agree	14	25
Agree	42	75
Neutral (undecided)	0	0
Disagree	0	0
Strongly disagree	0	0
Total	56	100

Source: Field data, 2011

On whether LATF funds are audited internally, responses as illustrated above, indicate that all the respondents (100%) agree that the funds are audited internally. This implies that KMC has an operational internal audit system. This helps to ensure that the laid down controls are followed. This is in line with RONO (2006) who founded that there was an operational internal audit system in the management of finances in public institutions.

4.4 Involvement of Departmental Employees in the Discussion of the Recommendations in the Internal Audit Reports

Respondents were asked to indicate whether they are involved in the discussion of the recommendations in the internal audit report. Their responses were as shown in Table 4.

Table 4: Involvement in the discussion of the recommendations in the internal audit reports

Response	Sample	Percentage
Strongly Agree	10	17.9
Agree	36	64.3
Neutral (undecided)	2	3.6
Disagree	4	7.1
Strongly disagree	4	7.1
Total	56	100

Source: Field data, 2011

Responses as shown above indicate that 82.2% of the respondents agree that the employees in KMC are involved in the discussion of internal audit reports, 14.2% disagree whereas 3.6% neither agree nor disagree. This implies that officers in each department in KMC participate in the discussion of internal audit reports.

4.5 Reflection of the recommendations in the internal audit reports

The study sought to find out whether the recommendations in the internal audit reports reflect the true picture in the council. The responses were as shown in Table 5.

Table 5: Reflection of the recommendations in the internal audit reports

Response	Sample	Percentage
Strongly Agree	16	28.6
Agree	30	53.6
Neutral (undecided)	10	17.8
Disagree	0	0
Strongly disagree	0	0
Total	56	100

Source: Field data, 2011

Responses as shown in above indicate that, 82.2% of the respondents agree that they do, whereas 17.8% neither agree nor disagree.

4.6 Adherence of the recommendations in the internal audit reports by departments

The study sought to find out whether the departments adhere to the recommendations in the internal audit reports. The responses were as shown in table 6 below.

Table 6: Adherence of the recommendations in the internal audit reports by departments

Response	Sample	Percentage
Strongly Agree	16	28.5
Agree	38	67.9
Neutral (undecided)	2	3.6
Disagree	0	0
Strongly disagree	0	0
Total	56	100

Source: Field data, 2011

Responses as shown in table 6 above indicate that, 96.4% agree that the recommendations of the internal audit reports are adhered to, whereas 3.6% neither agree nor disagree. This implies that departments at KMC adhere to the recommendations of the internal audit reports. However, as established by Oyugi (2005), putting up a coherent evaluation and monitoring units will enhance follow-up activities hence further promote adherence to audit recommendations.

4.7 Assessment of the Effectiveness of Internal Audit Systems in the Management of LATF

The study sought to establish the effectiveness of internal audit systems in the disbursements and uses of LATF. The responses were as shown in table 7 below.

Table 7: Effectiveness of internal audit systems in the management of LATF

Response	Sample	Percentage
Very good	2	3.6
Good	20	35.7
Average	34	60.7
Poor	0	0
Very poor	0	0
Total	56	100

Source: Field data, 2011

Responses as shown above indicate that 39.3% of the respondents assessed the effectiveness of the internal audit system to be either good or very good, whereas 60.7% assess the effectiveness to be average. This implies that the internal audit systems of KMC are averagely effective. This, as established by Rono (2006), may be due to lack of well established departments charged with the responsibility of implementing internal controls. Also as established by Schneider and Wilners (1990), ineffective internal audit may result to financial reporting irregularities.

4.8 Frequency of internal Auditing of Department

The study sought to find out how often the internal audit department carries out audit of other departments. The respondents were the employees of the internal audit department only.

The respondents were asked how often they audit the disbursement and use of LATF in the various departments of the council. The responses were as shown in the Table 8.

Table 8: How often internal Audit of departments is carried out

Response	sample	percentage
Every one month	3	100%
Every three months	0	0
Every six months	0	0
Every twelve months	0	0
Total	3	100

Source: field data, 2011

The table above show that 100% of the respondent indicated that they audit other departments every month. This implies that the internal audit system of KMC is in operation.

4.9 Time Taken to Release Audit Reports

The respondents of this question were the employees of the internal audit department only.

Respondents were asked to indicate how long it takes to release the Audit Reports. Results are indicated in the Table 9.

Table 9: Time taken to release Audit report

Responses	Sample	Percentage
One week	0	0
One month	0	0
Three months	3	100%
Six months	0	0
Others	0	0
Total	3	100

Source: Field data, 2011

The above table show that 100% of the respondents indicated that the Audit Reports are released every 3 months after various departments have been audited. This implies that the internal audit system of KMC is in operation.

4.10 Involvement of the Discussion of Audit Reports' recommendations, Adherence and follow-ups by the Internal Audit Departments

The respondents of this question were the employees of the internal audit department only.

The study sought to find out whether employees of internal audit department are involved in the discussions of their recommendations in the audit reports, whether their recommendations are adhered to and if follow-ups are made by the internal audit department. The results were as shown in the Table 10.

Table 10: Audit report recommendations, adherence and follow-ups by internal audit department

Responses	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Σ	Σ	$\frac{\Sigma}{\Sigma}$
Involvement in discussing audit report recommendations	0	0	0	1	1	2	9	4.500
Discussion of audit report recommendations	0	0	0	1	1	2	9	4.500
follow-up to ensure adherence to internal audit reports recommendations	0	0	0	1	1	2	9	4.500

Source: field data, 2011

The study indicated that the respondents agreed that they are always involved in the discussions of their recommendations, the departments adhere to the recommendations and that the follow-ups are always made. This is shown by the high weighted average of 4.500 in each case. This implies that the internal audit system of KMC is in operation.

4.11 Level of Satisfaction with the Adherence of the Recommendation on the Audit Reports by Departments in the Council

The respondents of this question were the employees of the internal audit department only. The study sought to find out the level at which the various departments adhere to the recommendations on the audit reports. The results were as shown in the Table 11.

Table 11: Level of adherence to audit department recommendations

Response	Sample	Percentage
Very dissatisfied	0	0
Dissatisfied	0	0
Undecided	0	0
Satisfied	3	100
Very satisfied	0	0
Total	3	100

Source: field data, 2011

It was established that the internal audit department is satisfied by the way other departments adhere to their recommendations as shown above. This implies that the internal audit system of KMC is in operation.

4.12 Evaluation on the Effectiveness of the Internal Audit Systems by the Internal Audit Department

The respondents of this question were the employees of the internal audit department only. The study sought to find out how effective the internal audit systems were in the department. The results were as shown in the Table 12.

Table 12: Evaluation on the effectiveness of the internal audit systems by the internal audit department

Response	Sample	Percentage
Very poor	0	0
Poor	0	0
Average	3	100
Good	0	0
Very good	0	0
Total	3	100

Source: field data, 2011

The results in the above table indicated that 100% of the respondents agreed that the internal auditing systems were averagely effective. This could be as a result of lack of segregation of duty and lack of enough trained personnel in the department as indicated in the findings in below.

4.13 Suggestions of What Can Assist the Internal Audit Department to Improve the Management of LATF Funds

The third objective of this study was to come up with suggestions on how the internal audit department can improve the management of LATF. The study sought the respondents' level of satisfaction with the use of the following suggestions in improving the management of LATF at KMC. A 5 point weighted average scale was used whereby 1= most dissatisfied, 2= dissatisfied, 3= moderately satisfied, 4= Satisfied and 5= most satisfied. The responses were as shown in Table 13.

Table 13: Suggestions on how the internal audit department can improve the management of LATF

	Most dissatisfied 1	Dissatisfied 2	Moderately satisfied 3	Satisfied 4	Most satisfied 5	Σ	Σ	$\frac{\Sigma}{\Sigma}$
The department should be fully independent	2	5	8	36	5	56	205	3.661
Posting more trained personnel	3	11	16	18	8	56	185	3.304
Segregation of duties	6	15	17	16	2	56	161	2.875
Close supervision of projects	0	1	1	19	35	56	256	4.571

Source: Field data, 2011

Responses as shown above indicate that the respondents were most satisfied with the use of close supervision of project by the audit department as a way of improving the management of LATF as indicated by its large weighted average of 4.571. They were satisfied with the suggestion that the audit department be made fully independent (3.661), they were moderately satisfied with the posting of more trained personnel and segregation of duties as ways of assisting the audit department improve the management of LATF. This is in agreement with Salih (1983) who found that lack of segregation of accounting and custodian functions was the greatest weakness with the internal controls.

5 Summary of Findings, Conclusions and Recommendations

5.1 Summary of Findings

The first objective of the study was to determine whether LATF disbursements were used in accordance with the objectives of LATF. The objectives of LATF include: to improve service delivery, to improve financial management and to help reduce debts of LAs. The study established that disbursements of LATF were being used according to the objectives of LATF that is, they are used to improve service delivery, financial management and help reduce debts. However, it was established that the release of the LATF funds were always delayed and this contributed towards the slow achievement of the objectives of LATF.

The second objective of the study was to establish the effectiveness of internal audit system in the disbursement and use of LATF. The study found out that the internal audit systems were averagely effective. The third objective of the study was to come up with suggestions that would improve the management of LATF. The study came up with some of the following suggestions that could be used to improve the management of LATF. They included: the internal audit department should be fully independent, posting more trained personnel to the department, segregation of duties in the department and there should be close supervision of projects.

5.2 Conclusions

The purpose of the study was to assess the effectiveness of internal audit system in the management of LATF in KMC. Based on the study findings, it can be concluded that disbursements are used according to the objectives of LATF except that their release is always delayed. The delay in the release of LATF disbursement may negatively affect the achievement of the objectives of LATF. It was noted that the internal audit systems were averagely effective. This was said to be so due to lack of enough trained personnel in the department, the department not being fully independent, lack of division of duties and lack of close supervision of projects. This implies that the effectiveness and efficiency of internal audit systems of KMC need to be improved.

5.3 Recommendations

The following recommendations important for policy and practice are made. Since the study established that the internal audit systems are averagely effective, the Kisii Municipal Council should organize for the internal audit department to be fully independent, that is, it should not be a section of another department. This will enable the department to execute its duties well and with ease.

The council should also ensure that the department is well staffed with enough and trained personnel. This will enable division of duties and proper and close supervision of projects which will eventually lead into improved efficiency and hence making the department more effective. The managers of the council should organize for frequent meetings with the internal audit department senior employees to formulate modalities of improving the effectiveness of the audit department.

Since the study established that LATF disbursements are always delayed, the Ministry of Local Government together with the central government should ensure that the LATF disbursements are

released in time as stipulated. This will positively contribute towards the achievements of the objectives of LATF.

Following the establishment that LATF disbursement are used as per to the objectives, the Ministry of Local Government should increase LATF allocations to LAs to enable them better their performance.

5.4 Suggestions for Further Study

Further study can be done across industries to uncover the similarities and differences when using the internal audit systems in the management of finances. Further research can be done using other research instrument like the interview schedule or open ended questionnaire as this may give more information on this field of study.

The present study focused on only one unit of the LAs which was Kisii Municipal Council. It was selected to represent the rest of the LAs in the Local Government. The results obtained from the LA may not be applicable to all LAs in the Ministry of Local Government. This is because different LAs are located in different geographical areas and are under different management. Further research incorporating more than one LA should be conducted so as to establish comparative findings on the effectiveness of internal audit systems in the management of LATF. A replication of this study should be made after some time to determine whether there is any notable change.

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