

**DETERMINANTS OF THE PERFORMANCE OF INTERNAL AUDIT FUNCTION
IN METROPOLITAN NATIONAL SACCO, NAIROBI CITY COUNTY, IN KENYA**

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DECLARATION

This Research Project is my original work and has not been presented for award of a degree or for any similar purpose in any other institution.

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DEDICATION

I dedicate this Research Project to my parents, Mr. and Mrs. Njuki and to my siblings Sandra and Collins for their support, understanding and patience during the making of this project work.

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ABBREVIATIONS AND ACRONYMS

IA- Internal Audit

IAF- Internal Audit Function

IAs- Internal Auditors

ICPAK- Institute of Public Accountants of Kenya

ICS- Internal Control Systems

IIA- Institute of Internal Auditors

MNS- Metropolitan National Sacco

SACCO- Savings and Credit Co-operatives

SASRA- Sacco Societies Regulatory Authority

OPERATIONAL DEFINITION OF TERMS

Audit Committee- this is the board of directors whose responsibility is to assist the board with the oversight of the organization's financial statements, ensures compliance with legal and regulatory requirements, and ensures the qualifications of the internal auditor and the independence of auditors.

Audit – This is the independent examination of financial statements and expression of opinion on the financial statements of an organization.

Internal Audit – this is an independent activity that involves evaluating internal controls of an organization and enhance corporate governance.

Technical Competence – This refers to skills or area of knowledge used in the occupations of a specific industry.

ABSTRACT

Internal Audit is one of the major units in every organization since it seeks to add more value to an organization by ensuring and enhancing efficiency which results to good performance of the organization. In reference to Daniella& Tieanu (2014), the IAF offers assistance to the leadership of an organization in order for them (leaders) to manage better their activities. Its objective is to create added value. This study sought to assess the determinants of the performance of Internal Auditors in Saccos and focused on Metropolitan National Sacco. The study was focused on achieving the following objectives: to investigate whether Management Support in MNS is a determinant of the performance of internal auditors, it assessed how independence and objectivity of internal auditors determines their performance and how the level of professional and technical competence acts as a determinant of the performance of the Internal Auditors in MNS. The study adopted a descriptive research design with 30 respondents as the target population. The target population involved senior managers and the staff in the Internal Audit department of MNS. The researcher administered a questionnaire to the target population as a tool of collecting data. The study used both quantitative and qualitative methods of data analysis. SPSS was used as the tool for data analysis. Data was analysed using frequency distribution, mean and standard deviation. Multiple Linear Regression Analysis was used to illustrate the relationship between the research variables. The study concluded that management support, IA Independence and technical competence had significant relationships with performance of IAF. The study recommends that IAs be allowed more opportunities to upgrade their skills and IA processes should be fully automat

CHAPTER ONE: INTRODUCTION

1.0 INRODUCTION

Chapter one will discuss the following sub-topics: Background to the study, the problem statement, the purpose of the study, the conceptual framework, the objectives of the study, the research questions/hypotheses of the study, the significance of the study, scope of the study and limitations to the study.

1.1 BACKGROUND TO THE STUDY

Internal Audit has experienced various changes in the past few years and these changes have seen it expand in its area of involvement allowing it to add more value to an organization (Dellai, 2016). The traditional role of Internal Audit (IA) was focused on assurance of compliance, financial controls and safeguarding of Assets. However, these new changes have the Internal Audit add value and thus improving risk management efficiency, controls and systems of authority. The Institute of Internal Auditors (IAA) defines Internal Auditing 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 process.” The Internal Audit function has now become an essential part of corporate governance together with the external audit, audit committee and executive management.

According to Daniela& Tieanu (2014), the aim of Internal Audit is to create added value. IAA in a position paper outlines the role of the Internal Audit as “to provide assurance by assessing and reporting on the effectiveness of governance, risk management and control processes designed to help the organisation achieve strategic, operational, and financial and compliance objectives” (IAA, 2018).

The role of the Internal Auditor in an organization is usually guided by the chief audit executive who outlines the authority, independence and the scope of duty for the internal auditor. These guidelines are contained in a document known as charter which is approved by an organization’s audit committee and which acts as reference material for the top management.

According to the IAA, the expertise and objectivity of an internal auditor are of much significance to the organization’s Internal Audit department since it protects against any threats to control and ensures efficient management of resources. The internal audit function

is a big part of corporate governance in that it contributes to improving organization's productivity and performance.

Internal Audit can perform a variety of activities in an organization. First, it can provide assurance on the company's ICS that they are properly designed and are operating effectively. Second, it assists the external auditors and audit committee in monitoring the ICS. Thirdly, it works in conjunction with the management to improve on risk management. Fourth, it ensures that the organization's assets are safeguarded and that there is no misuse of resources, reduced fraud and ensures proper reporting.

For an auditor to carry on their duties well there is need to have a conducive working environment. Factors such as availability of resources and management support are some of the key influencers of internal audit performance (Kirima, 2016).

The primary purpose of this research was to determine and assess the determinants of the performance of the IAF in Saccos. Despite the increased emphasis on the role of IAF as a one of the key mechanisms of corporate governance, very few researches have been done on the determinants of IAF performance in the private sector. The researcher took key interest in the Sacco subsector since it is one of those areas that have been rapidly growing in the recent years.

1.2 PROBLEM STATEMENT

Saccos in Kenya are licensed and regulated by a regulatory body known as SASRA (Sacco Societies Regulatory Authority). Saccos just like any other institution require efficient and effective corporate governance. SASRA in conjunction with ICPAK requires every Sacco to have an effective Internal Auditor (SASRA& ICPAK, 2017).

Most Saccos in Kenya have a fully functional Internal Audit department which has been charged with the responsibilities of re-assuring that the ICS in the organization are adequate and effectively operating (Olando, Jogong and Mbewa, 2013). However, there is a continued trend of fraud and poor performances in the same Saccos. Despite the presence of an internal audit unit in Saccos, members/shareholders' savings have been left at risk of fraud and mismanagement (Olando, 2013). Olando (2013) assessed and concluded that Saccos in Kenya have reported cases of poor management, fraud and poor governance despite having Internal Audit Function.

Many studies have been done on the effectiveness of IAF in Saccos and its impact on the financial performance of Saccos. However, cases of poor management and fraud have been reported (Olando, 2013) and these could be caused by an IAF that is deprived of a conducive work environment (management support), the independence of the internal auditors could be threatened and also the technical competence of Internal auditors may be wanting. Therefore, this study sought to look at the determinants of the performance of the Internal Audit Function in MNS.

1.3 PURPOSE OF THE STUDY

The study sought to assess the determinants of the performance of the Internal Auditors in the private sector with a focus in Metropolitan National Sacco.

1.4 CONCEPTUAL FRAMEWORK

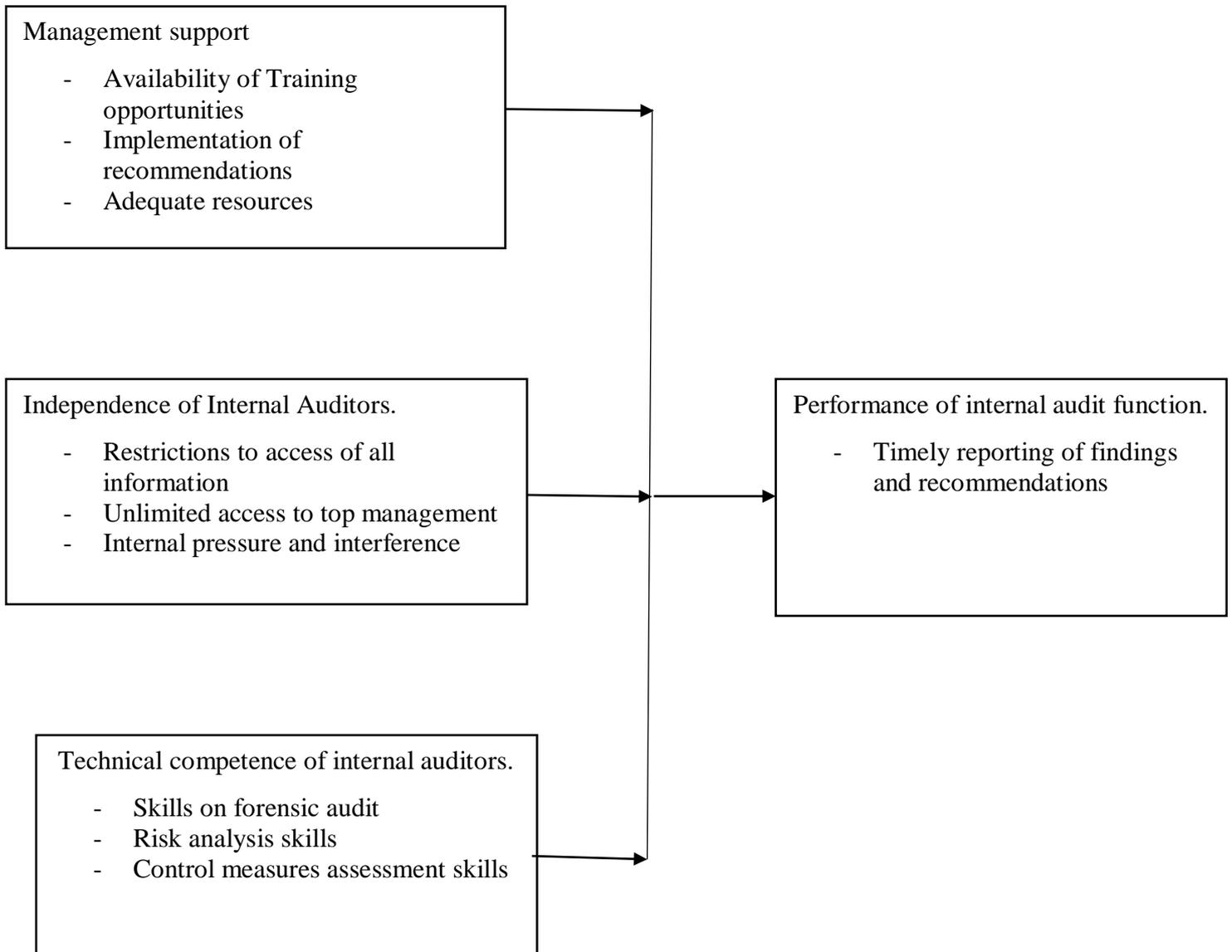
A conceptual framework is a set of variables that the researcher uses to achieve the set objectives. The independent variable is what the researcher manipulates so as to determine its influence on another variable. The dependent variable shows the overall influence that comes about from the manipulation of independent variable. In this study, the independent variables were management support, internal auditors' independence and their technical competence while the dependent variable was Performance of the Internal Audit Function.

This study conceptualized how management support, level of independence internal auditors and their level of technical competence can determine the performance of the Internal Audit Function Metropolitan National Sacco.

Figure 1.1: Conceptual Framework

Independent Variables

Dependent Variable



1.5 RESEARCH OBJECTIVES

1.5.1 General Objective

The general objective of this study was to establish and assess the determinants of the performance of the Internal Audit Function in Metropolitan National Sacco.

1.5.2 Specific Objectives

- i. To assess how management support determines the performance of internal auditors in MNS.
- ii. To determine how the level of independence and objectivity of internal auditors affects their performance.
- iii. To determine how the level of profession and technical competence impacts on the performance of internal auditors in MNS.

1.6 RESEARCH QUESTIONS

- i. How does support from management determine the performance of Internal Auditors in MNS?
- ii. How does the level of independence and objectivity of internal auditors determine their performance in MNS?
- iii. How does the level of professional and technical competence impact on the performance of the internal auditors in MNS?

1.7 SIGNIFICANCE OF THE STUDY

a) The members/shareholders

This study sought to determine and assess the level of internal auditors' independence and objectivity and limitations encountered in the exercise of such independence and gave suggestions on how to counter such challenges.

With full independence, the internal auditors are in a position to work efficiently and effectively without interference and hence able to reduce fraud, set up efficient and operating ICS. This in turn reduces the risk of loss of savings of the shareholders/members.

b) Sacco Management

This study sought to determine and assess how management support affects the performance of the internal audit unit. With this information, the management is in a position to provide a conducive environment for the IAF to thrive.

c) Regulatory Authorities such as SASRA

Information from this study is of help to agencies such as SASRA to put up policies and guidelines that will help enhance independence of the internal auditors.

d) Scholars and Researchers

This study is of importance to researchers and academicians who may want to get more literature in the field of internal audit. It is an additional contribution to the already existing knowledge on internal audit function.

1.8 SCOPE OF THE STUDY

The study sought to establish and assess the determinants of the performance of internal audit function in Saccos with key interest in Metropolitan National Sacco. It focused on establishing the extent to which the management support, internal auditor's independence and technical competence determines the performance of the internal audit function in MNS.

The study was carried out in a period of one and a half months and targeted senior managers, the staff of the internal audit department and Accounts/Finance departments in MNS. Collection of data was by use of questionnaires which were handed out to respondents and collected later.

1.9 LIMITATIONS OF THE STUDY

- i. Internal Audit being a sensitive area, the respondents were not willing to disclose information that proved to be important to this study.
To curb this challenge, the researcher assured the respondents confidentiality and anonymity of responses.
- ii. Getting hold of the senior officers was difficult since they are usually very busy.
To counter this, the researcher booked early appointments so as to explain the purpose and importance of the research and the significance of their involvement and also drop the questionnaires.
- iii. There were financial constraints as the researcher found it difficult to finance some activities during the collection of data.

To counter this, the researcher made sure to make minimal trips to the organization so as to save on travel and lunch expenses and rather made communication with the respondents via email.

- iv. Due to Covid-19 Pandemic, the organization accepted very few outsiders and hence a lot of time and resources were used in persuading and convincing the management on the need to allow access to visit the organization.

To counter this challenge, an arrangement was made between the researcher and the management on the times that the researcher was allowed to visit the organization.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

This section reviews the existing research literature on the determinants of the performance of internal audit function. Specifically, the chapter discusses literature on management support to internal auditors, the independence and objectivity of internal auditors and their technical competence. It focuses on the theoretical and empirical framework on which this research is centred.

2.2 MANAGEMENT SUPPORT TO IAF

According to Alzeban & Gwilliam (2014), there is a positive relationship between management support and performance of the internal audit function.

Internal audit function has a major role in supporting governance which is critical in any organization in enhancing accountability and transparency in financial management and reducing fraud and risk (Kirima, 2016). According to IIA (2012), it is important for internal auditors to be encouraged to work with truthfulness and access dependable information in order for them to work effectively and accomplish the targeted objectives.

Internal auditors are viewed as a means of improving efficacy in management of organization's resources. However, often is when the internal auditors work under poor working conditions and the management fails to allocate adequate resources to them (Kirima, 2016). When internal auditors receive insufficient attention from the top management, their performance is negatively affected (Mihret & Yismaw, 2011).

Cattrysse (2014), in a study on the role of internal auditors in organizations, determined that internal auditors maintain the structure of firms' internal activities. Cattrysse also noted that internal auditors were faced with a major problem of poor working conditions. Kamere (2013) in a study on challenges encountered in professionalizing the internal auditors' role in companies noted that failure to recognize and act on diminishing resources affects how internal auditors perform.

In cases where the management fails to recognize the work and importance of internal audit function leads to incompetency under- performance by the IAF (Kamere, 2013). Ahlawat & Lowe (2014) noted that support from management to internal audit is a factor that influences the effectiveness of the IAF. When the management fails to act accordingly to findings and

recommendations of the internal audit, it affects negatively the attitude of the internal audit staff and lowers their morale and commitment (Kirima, 2016).

In a study in Singapore, Goodwin (2014) found that more than 50% of internal auditors are not allowed to make inquiries about the decisions made by top management and that any senior auditor who went to seek clarification from the top management was dismissed.

2.3 INDEPENDENCE OF INTERNAL AUDITORS

Independence and authority of internal audit are aspects which enable IAF to carry out its activities without intrusion and give real feedback to the management on how to develop, improve and promote control policies. Internal audit independence means the IAF is able to air its views without being influenced or pressured by management and/or parties related to the organization (Alzeban& Gwilliam, 2014).

Kadondi (2012) indicated that internal auditors' lack of independence limits their performance.

Kirima (2016) noted that the decisions of internal auditors were highly influenced by management which affects their performance and results in alteration of processes in the organization. The influence of management on internal auditors leads to poor performance by internal auditors.

2.4 TECHNICAL COMPETENCY OF INTERNAL AUDITORS

Organizations that have internal auditors with high competency level, it is evident that the performance is positive and this leads to more effective corporate governance. Internal auditors' performance is hindered by factors such as inexperience, knowledge and the necessary qualifications (Kirima, 2016). Kirima (2016) indicated that internal auditors who are inexperienced in auditing operations act as a major hindrance to achieving high performance. It is the duty of the chief auditor to select and recruit highly qualified and skilled internal auditors.

According to Mihret& Yismaw (2011), quality of audit is highly attainable only when the internal auditors are knowledgeable, competent and highly qualified. The internal auditors are required to have attained the minimum training qualifications and have a good professional standing in auditing. Jachi& Yona (2019) carried out a study on "impact of competence and staffing of internal audit function on transparency and accountability" and noted that there is need to uphold internal audit function competency by creating an enabling environment to

support internal audit functions and enhance their effectiveness in upholding corporate governance. Internal control quality is certainly linked to IAF competence, internal audit quality assurance level and reviewed internal audit program and results by the audit committee (Atef& Taktak, 2018). Competence of internal audit staff is one of the determinants of internal audit performance (Salehi, 2016).

2.4.1 Internal Audit and Consultation

In its definition of internal Auditing, the IIA stated that it is a self-governing objective and consulting activity that is designed to add value to an organization.

Internal audit is an activity which involves advising the organization on how better to attain their objectives through improved risk management and effectively operating ICS (Kirima, 2016). The internal audit unit analysis problems and processes of the organization and gives solutions and recommendations to counter the problems. The internal audit function unit is established in most organizations both private and public. It is a major managerial control device and is directly connected to the organizational structure.

2.4.2 Professional Competency

In organizations, the task of detecting fraud can be challenging. Internal auditors have a major role in uncovering fraud in organizations (KPMG, 2013). Ashton (2013) stated that “while experience and ability are undeniably important in the detection of fraud, certain individual characteristics may be predictive of the capacity to detect fraud.” The efficacy of internal auditors should be related to their personal traits.

Interviews conducted by Wells (2013) with fraud detectors concluded that there were common traits that were evident in the fraud detectors. The traits included perseverance, diligence and integrity.

2.5 THEORETICAL FRAMEWORK

2.5.1 Agency Theory

Agency relationship comes about when the principal (Sacco members) engage another party as their agent (management) to act on their behalf.

Kirima (2016) indicated that Agency theory puts focus between parties on management practices which has brought about the need for good governance and focuses on approaches on control mechanisms. Shareholders as the principal have an interest of achieving maximum outcome interests from the organization.

In organizations, conflicts arise as the separation of ownership from management results in the inability of the owners to monitor actions of the agents (management) and results in the need to employ a certain source of information systems and control measures to reduce agency costs. Such control measures are enhanced by adopting an internal audit function in the organization which is responsible for promoting efficiency in financial management and effectively monitors the operational performance of the individual departments. Reward to management is based on agreed performance and is usually to provide incentive to management to increase wealth of the shareholders and to select, recruit and retain the most competent and qualified staff (Kirima, 2016).

Mbuti (2014) indicated that one way to deal with agency conflicts is through auditing. The Agency Theory in this study was used to explain how independence of internal auditors is able to control the agency conflicts between management and Sacco members. Influence on internal auditors by the management, means that the resulting performance is poor and this fuels the agency conflicts.

2.5.2 Institutional Theory

According to Schneider (2014), institutional theory originates from the view that an organization is structured to achieve social outcome. This theory stipulates that organizations have structured operations to ensure social accountability.

According to Kirima (2016), the roles of the internal auditors are focused on improving corporate governance in an institutionalized context which acts as the basis for the adoption of the institutional theory. Internal audit function is now very essential as a control within organizations and is key to effective risk management.

The internal audit function has contributed to organization's processes and sharing their recommendations with the management. The preferred qualities for good governance are effectiveness, transparency, responsiveness and accountability (Kirima, 2016). Internal audit is dependable in enhancing performance in any organization both public and private. Internal auditors are charged with the responsibilities of providing an effective ground for achieving corporate governance and reducing loss of members' savings.

This theory was used to show the extent to which management support affects the performance of the internal auditors in their work to enhance good corporate governance and carrying out their roles in the organization.

2.5.3 Regulatory Capture Theory

This theory was brought about by George Stigler, a Nobel Laureate Economist. Capture theory is concerned with how regulatory agencies are dominated by the very industries they are supposed to regulate. Regulatory capture occurs when regulatory agencies, formed to act in the interest of members, eventually act in ways that benefit the industry they are charged to regulate rather than benefiting the members (Mbuti, 2014).

Regulatory capture theory was used in this study to show how internal audit which is formed to regulate the management, eventually acts in ways that benefit the management instead of the members. This shows how performance of the internal audit function is affected by lack of independence, authority and objectivity.

2.6 SUMMARY OF LITERATURE REVIEW

In reference to the literature review, a number of researchers seem to agree that management support, independence and auditors' level of technical competency are determinants of the performance of the Internal Audit Function. However, very few studies have gone in depth to assess the measure and to what extent these factors determine the performance of the Internal Audit Function and this study sought to bridge that gap.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 INTRODUCTION

The main purpose of this section is to describe the methods that were used to attain the research objectives. This chapter covers the following: Research Design used in the study, the Study area, the Population of the study, Sampling techniques, Sample size, Measurement of variables, Research instruments used, Pre-testing techniques, validity and reliability of research instrument used, Data collection techniques, Data analysis used in the study and logical and ethical considerations used in the study.

3.1 RESEARCH DESIGN

The study employed a Descriptive research design. According to McCombes (2019), descriptive research answers the what, when, where and how questions. Descriptive research is usually carried out to answer research questions or test hypotheses (Mbuti, 2014). This study was biased to one organization which is the Metropolitan National Sacco and aimed at assessing the determinants of the performance of the internal audit function in MNS. Specifically, the study sought to assess how management support, independence of internal auditors and the level of technical competence of internal auditors determines the performance of IAF in MNS.

3.2 STUDY AREA

The study was restricted to one organization, that is, Metropolitan National Sacco. It was based in the main branch (headquarters) in Nairobi. The researcher chose MNS as the area of study since it is one of the oldest and largest Sacco in Kenya and hence it has a well-established internal audit unit. The researcher carried out the study in Metropolitan National Sacco- Nairobi because of the ease of accessibility and convenience of getting senior managers.

3.3 TARGET POPULATION

Target population is the total group of individuals from which a sample will be drawn. The researcher needs to have a specific target population in which he is to draw inferences concerning the study. The target population for the study included 30 employees of MNS from the following departments: internal audit unit, senior managers and Accounts/Finance department.

The researcher used a complete census instead of sampling in order to attain detailed information about the target population.

3.4 MEASUREMENT OF VARIABLES

The dependent variable- performance of internal audit function- was measured using a 5-point Likert scale in respect to performance indicators. The independent variables: management support, the independence of internal auditors and the level of technical competence were measured using a 5-point Likert scale. The respondents were required to indicate their level of agreement on how these relates to MNS.

Table 3.1: Measurement of Variables

Variable	Measures/Indicator	Measurement scale	Question Number
Independent Variable Support from management to Internal auditors	-Opportunities to training and seminars. -Action on recommendations -Availability of adequate resources.	Five-point Likert scale	PART B
Independent Variable Internal Auditors' independence and authority.	-Restrictions to access all information. -Unlimited access top management. -No internal pressure from management.	Five-point Likert scale	PART C
Independent Variable Internal auditors' level of technical competence	-Use of IT and technical-based audit techniques. -Excellence forensic skills. -Excellence in risk analysis and control measures assessment.	Five-point Likert scale	PART D
Dependent Variable Performance of	-Thorough reporting of findings and recommendations.	Five-point Likert scale	PART E

Internal Audit Function			
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3.5 RESEARCH INSTRUMENTS

In this study, the researcher utilized the questionnaire as the research instrument. The questionnaire was directed to the Internal Audit unit staff and the senior managers. The questionnaire was designed in alignment with the research questions and objectives. It contained close-ended questions which made it easy to gather information that was required and also allowed for standard responses.

3.6 PRE-TESTING

This is where the survey questions or questionnaire is tested on the members of the target population to ascertain the research instruments' reliability and validity. In this study, the researcher carried out a pilot study on the target population which involved issuing them with a draft questionnaire and requested for their suggestions on the clarity of the questionnaire.

3.7 VALIDITY AND RELIABILITY

3.7.1 Validity of the Instrument

To enhance validity, the researcher used Expert Review. Before being administered to the respondents, the questionnaire was reviewed by an expert and in this case, the University supervisor reviewed the questionnaire and gave recommendations and corrections that were used in enhancing the clarity of the items in the questionnaire.

3.7.2 Reliability of the Instrument

Reliability is concerned with whether the after effects of a study can be repeated. The researcher used the Cronbach's Alpha or the coefficient Alpha to test for reliability. Reliability coefficient of 0.70 and/or above was considered acceptable.

3.8 DATA COLLECTION TECHNIQUES

The researcher utilized primary method of data collection. Data was collected by use of a questionnaire that the researcher developed in alignment with the research questions and objectives.

The questionnaire contained 5 parts: Part A was to determine demographic information of the respondents, Part B was to determine how management support to internal auditors affects their performance, Part C was to determine the level of independence of the internal auditors, Part D sought to determine the level of technical competence of internal auditors and Part E was to determine the performance of the internal auditors.

The questionnaire was designed to answer inquiry questions centred on a 5-point Likert scale. The questions were close-ended which gave the respondents pre-determined responses to pick from.

The questionnaires were distributed to the respondents using the drop and pick later method so as to avoid disrupting respondents' work schedules. The respondents' confidentiality and anonymity were assured and an introductory letter was issued to respondents so as to inform them on the significance of the study.

3.9 DATA ANALYSIS

Descriptive statistics such as mean, standard deviation and frequency distribution were employed in analyses of quantitative data. Data was analysed using Statistical Package for Social Sciences (SPSS).

Multiple Regression analysis was used to establish the relationship between the study variables. The Regression analysis equation is shown below:

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

Where:

Y= Dependent variable (Performance of IA)

β_0 = Regression constant

$\beta_1, \beta_2, \beta_3$ = coefficients of independent variables

X_1 = management support

X_2 = IA's independence

X_3 = IA's technical competencies

3.10 LOGICAL AND ETHICAL CONSIDERATIONS

3.10.1 Logical Considerations

The researcher sought permission to carry out the research from the management of MNS. The respondents were clearly informed on what the study entailed, the person carrying out the research and the importance/significance that was to be drawn from the study.

3.10.2 Ethical Considerations

The researcher upheld ethical issues by assuring the respondents of confidentiality and anonymity of responses. The researcher obtained direct consent from the respondents for participation.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.0 INTRODUCTION

This chapter presents the results and findings of the study on “Determinants of the performance of IAF in MNS, Nairobi, Kenya”. The data was collected in the following departments: IA department, Account and Finance department and from Senior Managers. The data was collected exclusively by use of questionnaires which were designed in alignment with the research questions and objectives.

4.1 RESPONSE RATE

The study involved 30 respondents. The response rate was 90%, that is, 27 out of 30 respondents filled the questionnaires and returned them. The non-response rate was 10%, that is, 3 respondents.

Table 4.1: Response Rate

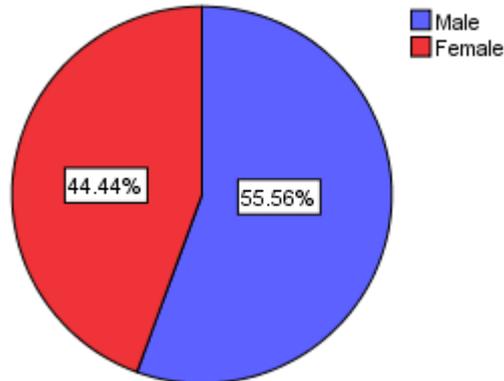
Description	Size	Percentage
Study Population	30	100
Responses	27	90
Non-responses	3	10

4.2 DEMOGRAPHIC INFORMATION

4.2.1 Gender of Respondents

Out of the 27 responses, findings of gender of respondents were as follows: 12 respondents (44%) were Female while 15 respondents (56%) were Male. These findings show that both genders were significantly involved in the study. The figure below shows a summary of the gender response findings:

Figure 4.1: Gender of Respondents



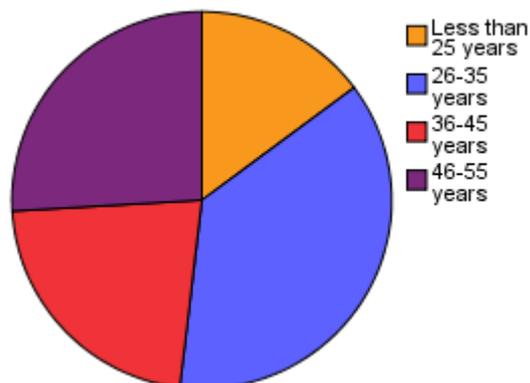
4.2.2 Age Group of Respondents

From the responses gotten, the majority age group was 26-35 years (41%) followed by 36-45 years (26%), followed by 46-55 years (18%), the minority age group was less than 25 years (15%) and the age group above 55 years had zero percent.

These findings show that data was obtained from across almost every age group in the organization.

The figure below shows an illustration of the age groups of the respondents:

Figure 4.2: Age group of Respondents

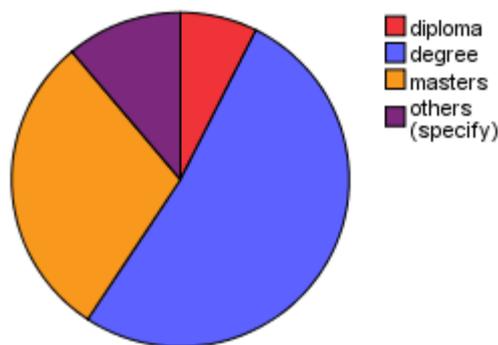


4.2.3 Highest Education Qualification

The majority of the respondents had degree as their highest qualifications (52%), followed by 30% who had masters, followed by 11% who had other higher qualifications, and the minority 7% had diploma. These findings show that all the respondents were well qualified to provide adequate and reliable data for the study.

The figure below shows a summary of the educational qualifications of the respondents:

Figure 4.3: Level of Education

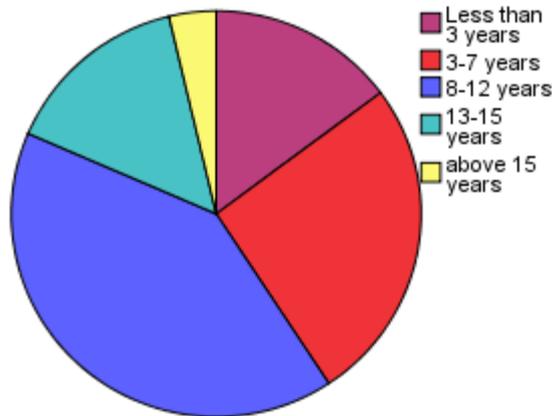


4.2.4 Duration worked by respondents in the Organization

The respondents gave responses on the period of time they have worked in MNS. From the findings, majority were 41% (11) have been in the organization for a period between 8-12 years. This was followed by 22% (6) who have been in the organization for duration between 3-7 years. 19% (5) have been in the organization between 13-15 years, 13% (4) have worked in the organization for a period less than 3 years and 5% (1) have been in the organization for above 15 years. These findings show that the respondents have been in the organization long enough and hence the data provided by them was reliable enough.

The figure below shows a summary of duration worked by respondents in the organization:

Figure 4.4: Duration worked in the organization



4.3 DESCRIPTIVE STATISTICS

4.3.1 MANAGEMENT SUPPORT TO INTERNAL AUDITORS

From the questionnaire, statements on management support to the internal auditors were indicated and the respondents were required to indicate the level at which they either agree or disagree with them and as they relate to the organization they work in. A five-point Likert scale was used and ranked as follows: 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree. The data obtained from the responses was coded, analyzed and the respective means and standard deviations drawn and used in generalizing the findings.

Management support to Internal Auditors and performance

As shown in the table below, internal auditors are presented with opportunities to attend training programs had a mean of 3.67 and a standard deviation of 0.734, recommendation by internal auditors are recognized and acted upon had a mean of 3.70 and a standard deviation of 0.669, internal auditors are recognized, awarded and motivated for their work had a mean of 3.74 and a standard deviation of 0.656, top management provides the necessary resources to the internal audit staff had a mean of 3.59 and a standard deviation of 0.501, controls in the organization are flexible to manage in a dynamic environment had a mean of 3.63 and a standard deviation of 0.688. The aggregate mean was 3.67.

The respondents agreed with the statements and this showed that management support is a great contribution to the performance of internal auditors. Opportunities for training, motivation and availing necessary resources to IA contribute positively to their performance which otherwise were not available, the internal auditors' performance would deteriorate. These findings are in agreement with those of Kamere (2013) where he indicated that failure

to deal with diminishing resources and failure to equip Internal Auditors with necessary skills affects their performance.

Table 4.2: Management Support of IA and Performance

Management Support to IA and Performance	N	Mean	Std. Deviation
Internal Auditors are presented with opportunities to attend training programs	27	3.67	.734
Recommendations by internal auditors are recognized and acted upon	27	3.70	.669
Internal auditors are recognized, awarded and motivated for their work	27	3.74	.656
Top management provides necessary resources to the internal audit staff	27	3.59	.501
Controls in the organization are flexible to manage in a dynamic environment	27	3.63	.688
Valid N (listwise)	27		

4.3.2 INDEPENDENCE OF INTERNAL AUDITORS

The respondents were presented with statements which described the indicators of independence of IA in MNS and were required to respond on the extent to which they agree or disagree with them as they relate to their organization. A five point-Likert scale was used and their responses were coded, analyzed and the mean and standard deviations calculated.

Internal Auditor’s Independence and Performance

As shown in the table below, internal auditors report to the top management had 3.52 as mean and 0.580 as standard deviation, no internal pressure and influence to carry audit and give findings and recommendations had a mean of 3.56 and a standard deviation of 0.577, internal auditors carry out audit on activities of the management had a mean of 3.67 and a standard deviation of 0.679, the internal audit staff have unlimited access to top management had a mean of 3.63 and a standard deviation of 0.742, internal auditors have no restricted access to operations and information had a mean of 3.59 and a standard deviation of 0.501. The aggregate mean was 3.58. These responses show that the respondents agreed with the statements. This concurs with the study carried out by Kadondi (2012) where he found out

that independence of Internal Auditors enables them to perform well and thus, where IAs have no independence they fail to perform to the expectation of the business entity.

Table 4.3: Independence of IA and Performance

INDEPENDENCE OF INTERNAL AUDITORS	N	Mean	Std. Deviation
Internal auditors report to the top management	27	3.52	.580
Internal auditors are not internally influenced and pressured to do audit and give findings and recommendations	27	3.56	.577
Internal auditors carry out audits on activities carried out by the management	27	3.67	.679
The internal audit charter stipulates clearly the roles of internal auditors	27	3.56	.506
The internal audit staff have unlimited access to the top management	27	3.63	.742
Internal auditors are not restricted to access any operations, information, assets and financial records	27	3.59	.501
Valid N (listwise)	27		

4.3.3 TECHNICAL COMPETENCE OF INTERNAL AUDITORS

Under technical competence of internal auditors, the respondents were asked to indicate the extent to which the statements presented to them applied to MNS. A five-point Likert scale was used and ranged as follows: 1. significantly below expectations 2. Below expectations 3. Average expectations 4. Above average expectations 5. Exceptionally above expectations

A summary of the findings is presented below in a table.

Technical competence of internal auditors and performance

From the table shown below, internal auditors are excellent in forensic skills and detecting fraud had a mean of 3.74 and a standard deviation of 0.656, Internal auditors are excellent in using technical-based audit techniques had a mean of 3.56 and a standard deviation of 0.506, Internal auditors are excellent in real time auditing had a mean of 3.63 and a standard deviation of 0.629, Internal auditors have excellent problem-solving skills had a mean of 3.56 and a standard deviation of 0.577, Internal auditors are excellent in analyzing organizational controls had a mean of 3.52 and a standard deviation of 0.509, Internal

auditors are excellent in risk analysis and controls assessment had a mean 3.63 and a standard deviation of 0.565. The aggregate mean was 3.61.

These findings show that the respondents' expectations of IAs are on Average and thus technical competence of IAs is a determinant of performance of IAF in MNS.

Table 4.4: Technical Competence of IA and Performance

Technical Competence of Internal Auditors	N	Mean	Std. Deviation
Internal auditors are excellent in forensic skills and detecting fraud	27	3.74	.656
Internal auditors are excellent in using technical-based audit techniques	27	3.56	.506
Internal auditors are excellent in real time auditing	27	3.63	.629
Internal auditors have excellent problem-solving skills	27	3.56	.577
Internal auditors are excellent in analyzing organizational controls	27	3.52	.509
Internal auditors are excellent in risk analysis and controls assessment	27	3.63	.565
Valid N (listwise)	27		

4.3.4 INTERNAL AUDITOR PERFORMANCE

The respondents were issued with statements which represented key performance indicators of Internal Auditors and were required to indicated to what extent they agree or disagree with how they apply to MNS-their organisation. A five point Likert scale was used and ranged as follows: **1. strongly disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree**

Below is a table that summarises the findings:

Table 4.5: Internal Auditors' Performance

Performance of Internal Auditors	N	Mean	Std. Deviation
The number of audit reports indicated in the audit plan are issued	27	3.52	.509
The internal audit plan is implemented throughout the year	27	3.59	.501
Areas of priority and high risk are covered by the internal audit	27	3.56	.506
The issuance of internal audit reports is usually timely	27	3.63	.492
There is positive feedback on implementation of recommendations issued by internal auditors	27	3.70	.609
Valid N (listwise)	27		

The table above show the following findings: The number of audit reports indicated in the audit plan is issued had a mean of 3.52 and a standard deviation of 0.509, The internal audit plan is implemented throughout the year had a mean of 3.59 and a standard deviation of 0.501, Areas of priority and high risk are covered by the internal audit had a mean of 3.56 and a standard deviation of 0.506, The issuance of internal audit reports is usually timely had a mean of 3.63 and a standard deviation of 0.492, There is positive feedback on implementation of recommendations issued by internal auditors had a mean of 3.70 and SD 0.609. The aggregate mean was 3.60. This shows that the respondents agreed with the statements as key indicators of internal Auditors' performance. These findings are in agreement with the findings of Jovanovi (2011) where he indicated that the Internal Audit Unit is responsible for availing reliable, objective and neutral service to all the stakeholders of a business/ organization.

4.4 INFERENTIAL STATISTICS

4.4.1 Regression Analysis

Regression Analysis was conducted to determine how the independent variables relate to the dependant variable. SPSS was used to code and compute the regressions for this research study. The table below shows the summary of the multiple regressions model.

Table 4.6: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.722 ^a	0.522	0.459	0.58642

Table 4.6 above, shows the regression analysis model between three independent variables: management support, independence of IA, technical competence of IA and dependent variable performance of IA. The coefficient of determination (R^2) was 0.522. From the findings, the independent variables contributed 52.2% to the performance of Internal Audit Function in MNS. This is a clear indication that there are other determinants (47.8%) of the performance of IAF and that future studies should be done to investigate these other determinants of the performance of IAF.

Table 4.7: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	8.627	3	2.876	8.363	.001 ^b
Residual	7.909	23	.344		
Total	16.537	26			

a. Dependent Variable: performance of internal auditors

b. Predictors: (Constant), Technical competence of internal auditors, Independence of internal auditors, Management support

As shown in table 4.7 above, ANOVA statistics of the processed data at 5% level of significance was 8.363 and the level of significance was 0.001. This shows that the regression model was significant.

Table 4.8: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.947	1.213		7.377	.000
Management support	0.432	0.208	0.530	3.520	.002
Independence of internal auditors	0.196	0.139	0.210	1.411	.004
Technical competence of internal auditors	0.495	0.125	0.585	3.956	.001

a. Dependent Variable: performance of internal auditors

The regression equation was established as follows:

$$Y = 8.947 + 0.432X_1 + 0.196X_2 + 0.495X_3$$

Where: Y = Dependent variable (Performance of IA)

X₁ = management support

X₂ = IA's independence

X₃ = IA's technical competencies

The regression analysis findings show that if all factors (management support, independence of IA and technical competence of IA) were held constant, the performance of internal auditors would be at 8.947. An increase in the level of management support to the internal auditors would increase the performance of internal of internal auditors by 0.432. An increase in the independence of internal auditors would increase the performance of internal auditors by 0.196. An increase in the level of technical competence of internal auditors would increase the IA's performance by 0.495. All the P-Values were less than 0.05 and hence all the determinants were statistically significant. This shows that there was enough evidence to conclude that Management support, Independence of IA and Technical competence of IA are great determinants of the performance of the Internal Audit Function in MNS.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter provides the summary of the findings of the study, the conclusions drawn and recommendations of the study based on the study objectives. There are suggestions for further studies and also the delimitations of the study.

The general objective of the study was to investigate the determinants of the performance of internal audit function in MNS. The study was narrowed down to specific objectives which included: to investigate whether management support, independence of IAs and Technical competence of IAs are determinants of the performance of IAF in MNS.

The researcher had a target population of 30 respondents and instead of sampling; a census study was carried out where the whole of the target population was involved in the study. Out of the 30 respondents, the response rate was at 90%, meaning only 27 respondents filled and returned the questionnaires.

5.1 SUMMARY OF THE FINDINGS

5.1.1 Management Support as a determinant of IA's Performance

From the findings of the study, the respondents agreed that internal auditors are recognized, awarded and motivated for their work, Recommendations by internal auditors are recognized and acted upon, Internal Auditors are presented with opportunities to attend training programs, Controls in the organization are flexible to manage in a dynamic environment and Top management provides necessary resources to the internal audit staff. More than a half of the indicators of management support were above the aggregate mean 3.67.

The beta value (0.432) and p-value of 0.002 ($p\text{-value} \leq 0.05$) evidenced that there was a positive relationship between management support and performance of Internal Auditors. This was an indication that management support is a great determinant of IA's performance.

5.1.2 Independence of Internal Auditors as a determinant of IA's Performance

The study on independence of IAs as a determinant of their performance had the following indicators: Internal auditors carry out audits on activities carried out by the management, The internal audit staff have unlimited access to the top management, Internal auditors are not restricted to access any operations, information, assets and financial records, Internal auditors are not internally influenced and pressured to do audit and give findings and recommendations, The internal audit charter stipulates clearly the roles of internal auditors

and Internal auditors report to the top management. From the findings, a beta of (0.196) and a p-value of 0.004 ($p\text{-value}\leq 0.05$) showed that there was a significant relationship between independence of IA and performance. This helped make a conclusion that independence of IA is a determinant of the performance of the IAF.

5.1.3 Technical Competence of IA as a determinant of Performance of IA.

The study sought to investigate technical competence of IAs as a determinant of their performance. The following were the indicators of the level of technical competence of IAs: Internal auditors are excellent in forensic skills and detecting fraud, Internal auditors are excellent in real time auditing, Internal auditors are excellent in risk analysis and controls assessment, Internal auditors have excellent problem-solving skills and Internal auditors are excellent in analyzing organizational controls.

From the findings, it was established that there is a positive relationship between technical competence of Internal Auditors and performance. This was evidenced by an aggregate mean of 3.61, a beta value of 0.495 and a p-value of 0.001 ($p\text{-value}\leq 0.05$). A conclusion was made that technical competence is a determinant of performance of internal Auditors.

5.2 CONCLUSIONS

5.2.1 Management Support

The study concluded that management support is a great determinant of the performance of internal auditors. The study concluded that internal auditors were recognized, awarded and motivated for their work, their recommendations were recognized and acted upon, they were presented with opportunities to attend training programs and that the top management provided the necessary resources to the internal audit staff to carry out their functions.

5.2.2 Independence of Internal Auditors

The study concluded that the Independence of Internal Auditor was well observed. This was arrived at by concluding that: Internal auditors carried out audits on activities carried out by the management, The internal audit staff have unlimited access to the top management, Internal auditors were not restricted to access any operations, information, assets and financial records, Internal auditors were not internally influenced and pressured to do audit and give findings and recommendations, The internal audit charter stipulated clearly the roles of internal auditors and Internal auditors reports to the top management.

5.2.3 Technical Competence of Internal Auditors

The study concluded that the technical competence of Internal Auditors was on average. This conclusion was based on how good their forensic skills are in detecting fraud, whether they carry out real-time auditing, how good they are in controls assessments and risk analysis, their problem-solving skills and how good they are in analyzing organizational controls.

5.3 POLICY RECOMMENDATIONS

5.3.1 Management Support

The organization (MNS) should organize seminars and training programs for the internal audit staff more regularly either internally or externally. This is to ensure that the auditors' skills are update and also to ensure that they are updated on new knowledge in the Audit field.

5.3.2 Independence of Internal Auditors

The chief IA should be responsible to the management with enough authority to promote independence. The internal auditors should be allowed to access all information in the organisation regardless of the level of hierarchy in management.

5.3.3 Technical competence of Internal Auditors

The organisation should invest in the most recent audit software so as to ensure delivery of quality results. The organization should fully automate their IAF and educate the IA on how operate a fully automated internal audit system.

5.4 RECOMMENDATIONS FOR FURTHER STUDIES

The study was limited to only one organization in the private sector; further study should be carried out in more organisations in the private sector to counter-check the findings of the study. The study was also limited to the service industry; a similar study can be carried out in the manufacturing industry.

Further studies should be carried out to investigate on other determinants of the performance of the Internal Audit Function.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Caroline Ng'endo,
Gretsa University,
P.O BOX 3-0100,
Thika, Kenya.

Dear Respondent,

RE: RESEARCH PROJECT PROPOSAL STUDY

I am an undergraduate student at Gretsa University –Thika- pursuing a bachelor of commerce-majoring in Accounting. As part of the requirement by the institution, I am undertaking a research study on “**Determinants of performance of internal audit function in Saccos.**” I took a key interest in Metropolitan National Sacco since it is one of the oldest – existing and well established Saccos in Kenya.

Your participation in this study is key and will be highly appreciated. Kindly spare a few minutes of your time to fill in the attached questionnaire.

I assure you that the information provided here will be kept strictly confidential and the identity of the respondent will remain anonymous. The information will be used for scholarly purposes only.

Receive my kindest regards.

Sincerely,

Caroline Ng'endo.

APPENDIX II: QUESTIONNAIRE

PART A: DEMOGRAPHIC INFORMATION

1. Gender of Respondent:

Male ()

Female ()

2. Age group of respondent:

Less than 25 years () 26-35 years () 36-45 years () 46-55 years ()

Above 55 years ()

3. What is your highest education qualification?

Certificate () Diploma () Degree () Masters ()

Others (specify) _____

4. How long have you been in the organization?

Less than 3 years () 3-7 years () 8-12 years () 13-15 years ()

Above 15 years ()

PART B: MANAGEMENT SUPPORT TO INTERNAL AUDITORS

This section attempts to assess how support from management to Internal Auditors affect their performance. Rate the extent to which you agree or disagree with the following statements as they relate to your organization.

Use a five-point Likert scale:

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

	STATEMENT	1	2	3	4	5
1.	Internal auditors are presented with opportunities to attend seminars, conferences, training courses, workshops and exchange programmes.					
2.	Recommendations by internal auditors are recognized and acted upon.					
3.	Internal auditors are recognized, awarded and motivated for their work.					
4.	The internal audit unit has well-laid out plans for managing major risks I the organization.					
5.	There is a specific risk management policy.					

6.	The top management offers support to the internal audit unit by availing all the necessary resources.					
7.	Controls in the organization are flexible to manage in a dynamic environment.					

PART C: INDEPENDENCE AND OBJECTIVITY OF INTERNAL AUDITORS

This section attempts to assess how independence and authority of internal auditors affects their performance. Use a five-point Likert scale to best describe the level of internal auditors’ independence in your organization:

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

	Indicators of Independence and Authority of internal auditors	1	2	3	4	5
1.	Internal Auditors’ independence and authority is adequately protected.					
2.	Internal auditors report to the top management.					
3.	Internal auditors are not influenced by any internal pressure and they carry out audits and give findings and recommendations without fear.					
4.	Internal auditors carry out audits on activities and operations undertaken by management.					
5.	The internal audit charter stipulates clearly the roles and authorities of internal auditors.					
6.	The internal audit staff have unlimited access to the top management.					
7.	Internal auditors are not restricted to access any operations, information, assets and financial records.					

PART D: TECHNICAL COMPETENCE OF INTERNAL AUDITORS

This section attempts to assess how the level of competence of internal auditors affects their performance. Use a five-point Likert scale rating to show how the following indicators relate to your organization:

1. Significantly below expectations 2. Below expectations 3. Average expectations

4. Above average expectations 5. Exceptionally above expectations

	Indicators of Internal Auditors' technical competence	1	2	3	4	5
1	Internal auditors are excellent in forensic skills and detecting of fraud.					
2	Internal auditors are excellent in using modern technology and technical-based auditing techniques.					
3	Internal auditors are excellent in real-time auditing.					
4	Internal auditors are excellent in problem-solving skills.					
5	Internal auditors are excellent in analysing and understanding organizational controls.					
6	Internal auditors are excellent in using techniques on control assessment and risk analysis.					
7	Internal auditors are excellent in analysing organization's processes.					

PART E: PERFORMANCE OF INTERNAL AUDIT FUNCTION

Rate the performance of internal auditors in respect to the following indicators using a five-point Likert scale:

1. Strongly disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly agree

	Indicators of performance of Internal Audit Function	1	2	3	4	5
1	The number of audit reports indicated in the audit plan is issued.					
2	The internal audit plan is implemented throughout the year.					
3	Areas of priority and high risk are covered by the internal audit.					
4	The issuance of internal audit reports is usually timely.					
5	There is a good comparability between time spent on specific activities and the budget allocated.					
6	There is positive feedback on implementation of recommendations issued by internal auditors.					

THANK YOR FOR YOUR PARTICIPATION