EFFECT OF MODERATED INTERNAL AUDIT PRACTICES ON FINANCIAL PERFORMANCE OF NSE-LISTED BANKS IN KENYA

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DECLARATION

I hereby declare that this thesis is my original work and to the best of my knowledge has not been presented for a degree award in this or any other university.

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APPROVAL

The undersigned certify that they have read and hereby recommend for acceptance of Murang'a University of Technology a thesis entitled "**Effects of moderated Internal Audit Practices on the Financial Performance of NSE-listed banks in Kenya".**

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DEDICATION

I dedicate this thesis to my parents, Mr. Elijah Mokono and Mrs. Dorothy Nyaga, my sister Dr. Mercy Mokono, my dear husband, Dr. Felix Nyatigo, and our daughter Shani Nyatigo.

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I express my deep-felt gratitude to God. He says His biddings are His enablings. His mercy and grace have constantly been my guide and my strength.

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ABSTRACT

The application of ongoing financial management reforms seeks to enhance and improve the performance of various organizations. In the last decade, performance of Kenyan banks, in terms of rate of increase in profits before tax has been 20% below the industry average. The banks' capacity to improve this level of performance has proven to be an area of concern and therefore, banks have enhanced the use of internal audit practices. The research investigated the effect of moderated internal audit practices on the financial performance in the NSE listed banks in Kenya. The specific objectives of this study were to; analyze the effect of adoption of ISAs; evaluate the effect of independence of internal audit; assess the effect of audit committees' operations; examine the effect of internal control systems on financial performance of NSE listed banks in Kenya; and to investigate the moderating effect of CBK regulations on the effect of internal audit practices and financial performance of NSE-listed banks in Kenya. The study was anchored on the attribution theory, and further supported by the contingency and agency theories. The research adopted descriptive and correlational research approaches. The regression and structural equation models were adopted. A census survey was used for the banks. Stratified sampling was done to identify the different departments in the listed banks, while purposeful sampling was applied to deduce a representation of the participant departments of 44. Questionnaires were used to collect the main data from the 11 NSE-listed banks in Kenya, while data extraction techniques were used to obtain secondary data to collect data for financial performance from the CBK annual supervisory reports. Likert collected responses from questionnaires were analyzed while quantitative data analysis was deduced using both descriptive and inferential statistics. The research findings showed that independence and internal controls have a statistical effect on financial performance in Kenya's NSE-listed banks, while the unmoderated ISAS and the audit committee had no statistically significant effect. The R squared for the independent variables showed a good fit with relatively low values of ROA and ROE at 20.2% and 19.5% respectively. The F statistic was also significant for the two variables on independence and internal controls. The R squared for the CBK regulations moderating effect also showed a good fit with relatively high values of 76.2% and 61.1% respectively for ROA and ROE. It was also evident that the moderating effect of the CBK regulations affected the internal audit practices, and specifically the ISAs. Internal audit aids boards of directors in carrying out their governance responsibilities, resulting in enhanced performance and competitiveness. Corporate success and a well-governance structure are inextricably intertwined. This study therefore recommends the continuous adoption of ISAs and ensuring independence of internal audits to keep improving the NSE-listed bank's financial performance. The internal auditors' members should be hired on merit, receive regular training, and include a reporting channel identified that will protect independence and objectivity. Further, the study recommends that there should be policies to guide audit functions, remunerations and fees charged to improve NSE-listed banks performance. The study also recommends on adoption and employment of internal control systems. A recommendation to study other internal audit practices apart from these studied on the financial performance of the NSE-listed banks in Kenya is imperative and another field that can be explored.

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ACRONYMS AND ABBREVIATIONS

ABSA	Amalgamated Banks of South Africa Limited
AC	Audit Committee
ACCA	Association of Chartered Certified Accountants
AfDB	African Development Bank Group
ANOVA	Analysis of Variance
BK	Bank of Kigali
BOD	Board of Directors
BRC	Blue-Ribbon Committee
CAE	Chief Audit Executive
CIIA	Chartered Institute of Internal auditors
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CIFA	Certified Investment and Financial Analyst
CIFR	Center for IDEA Fiscal Reporting
CMA	Capital Markets Authority
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPA	Certified Public Accountants
CPSPK	Certified Procurement and Supply Professional of Kenya
EAC	East African Community
EGX	Egypt Index 100
ERP	Enterprise Resource Planning

ERM	Enterprise Risk Management
FIFA	The Federation Internationale de Football Association
GFC	Global Financial Crisis
IA	Internal audit
IIA	Institute of Internal auditors
IIA-SA	Institute of Internal Auditors-South Africa
IAF	Internal audit Function
IAS	Internal auditing Standards
IIARF	Institute of Internal auditors Research Foundation
ICPAK	Institute of Certified Public Accountants of Kenya
IC	Information and Communication
ICS	Internal Control System
ICT	Information Computer Technology
IFAC	International Federation of Accountants
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards of Auditing
IT	Information Technology
KMO	Kaiser Meyer Olkin Measure
KPMG	Klynveld Peat Marwick Goerdeler
LAAA	Libyan Association of Accountants and Auditors
NAC	National Arts Council
NACOSTI	National Commission for Science, Technology, and Innovation
NPL	Non-Performing Loans

NSE	Nairobi Securities Exchange
NSSF	National Social Security Fund
NYSE	New York Stock Exchange
OCP	Operating Control Procedure
OECD	Organization for Economic Co-operation and Development
PLC	Public Limited Company
PBT	Profits Before Tax
QQ	Quantile-quantile
RMCs	Regional Member Countries
ROA	Return on Total Assets
ROE	Return on Equity
SACCOs	Savings and Credit Co-Operative Society
SD	Standard Deviation
SEC	Securities and Exchange Commission
SM	Senior Management
SMEs	Small and Medium-sized Enterprises
SOEs	State-Owned Enterprises
USA	United States of America
VIF	Variance Inflation Factor

OPERATIONAL DEFINITION OF TERMS

Internal audit

This is an independent, unbiased affirmation and assessment operation aimed at adding financial worth to an institution or firm's processes through a methodical approach of assessing the influence of handling risks, control, and administration methods. (IIA, 2016).

Internal audit Practices

Operations that ensure independence and unbiased affirmation having a goal of adding financial value to an organization's processes by providing methodical approaches of handling tasks and activities (IIA,2016).

International Standards of Auditing

The International Standards on Auditing (ISA) are a framework of professional requirements for conducting a financial review of the financial data. The International Federation of Accountants give the guidelines through the International Auditing and Assurance Standards Board (IFAC,2009).

Internal audit Independence

It is being devoid of the conditions threatening the performance of the Internal auditor and the audit activity without bias. (INTOSAI, 2020).

Audit Committee

Members of an institution's board of non-executive managers selected and tasked to give an unbiased assessment of the financial reporting system, the internal control measures put in place, and the Internal auditors. (CIIA, 2017).

Audit Committee Operations

Operations concerned in giving an unbiased assessment of the financial reporting system, the internal control measures put in place, and the internal auditors. (CIIA, 2017).

Internal control system

Mechanism implemented by a company's committee of directors, managers, and other staff: aimed at offering reasonable confidence regarding the achievement of goals in: Operational effectiveness and efficacy; financial reporting dependability; and adherence to relevant rules, acts, and guidelines (Integrated Framework COSO,2013).

Financial Performance

Financial condition of an enterprise in a period involving the gathering and spending of financial resources quantified by various indicators such as capital adequacy ratio, cash flow, leverage, financial stability, and profitability indicators (IIA, 2016).

CBK Prudential guidelines

Regulations and supervisions are imperative in the enforcement of regulations and judgments relating to the quality of the bank's asset, management, and capital adequacy (CBK, 2020).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Concerns in the efficiency of internal audit (IA) and components affecting it have been an area of interest in the recent past. The interest has also been increasing internationally in both the private and public segments. The growth of IA's practical scope has ensured addition of value and the achievement of the firm's goals (Cohen & Sayag, 2010). However, there has been a paradigm change from IA's previous focus on internal control, compliance testing, and asset protection for the company. Despite the expanding and evolving IA responsibilities on other financial management changes, banks have continued to perform below expectations in both groups (Shamshuddin & Bharathii, 2014). The majority of third-world countries, where little attention has been paid in the research, were particularly concerned about this (Alzeban & Gwilliam, 2014). Due to this, the internal audit function's (IAF) capacity to provide financially beneficial practices to the institution's objective realization in developing nations has been constrained (Sakour & Laila, 2015).

The objectives and duties of the IAF have shifted owing to the changes in international company practices. IA enhances the institution's activities as it is a separate and independent operation. The function encourages the organization to attain its objectives using a properly planned procedure to insure risk, internal control, administrative efficiency and effectiveness (Stewart & Subramaniam, 2010). The existence of an effective IA aids in the identification of various methods to ensure an improvement of a firm's efficacy and attainment of reduced overhead costs. An efficient internal audit prevents a corporation or institution from losses that may influence the financial performance of an institution (Subhi & Stanišić, 2016). An efficient and effective IAF ensures achievement and an increased level of stakeholders' value (Awdat, 2015). Further, the IAF has a positive relationship with improving the financial performance of an institution (Feizizadeh, 2012).

The major objective of the IA is to achieve improved value for the institutions in the form of better organizational returns (Saud, 2012). Multiple research projects have analysed the relation between the IAF and corporate financial performance. These are important for the audit to have beneficial effects. Moreover, a higher quality of internal audit ensured that management earnings were commensurate to their work, and consequently improved the quality of the financial reports (Ching, Teh, San & Hoe, 2015). Improved risk management procedures that support internal audit effectiveness are required for the IAF to achieve its key objectives in an organization (Al-Shbail &Turki,2017). Effective qualities are particularly assumed to have an obvious quality. Badara and Saidin (2014) and the Institute of Internal auditors Research Foundation (IIARF), (2014), agree that the concern in the efficacy of the IAF, has been kindled by various variations and that the value added by the IAF to a firm can be attained. This is possible by the effective and successful implementation of risk management, monitoring, information and communication, control of environment and activities. The prominence of the internal audit's responsibility in the environment of corporate governance, causes internal audit effectiveness to remain a subject of constant interest (Irodenko,2017).

Al-Shbail and Turki, (2017) affirm that there is a need for institutions to establish, assess, and accurately govern aspects influencing the internal audit's effectiveness in institutions. The research shows that in the previous periods, internal auditing has to a great extent added value to the institution's effectiveness. This is achieved by providing value-added services and consultancy to the board and as a result, it has become important for every modern institution to adopt the IAF (Al-Matari, Al-Swidi & Fadzil, 2014). Thus, since IAF provides assurance, certainty to shareholders for the provision of steady activities, and proper use of resources, it is necessary for every modern institution to expect success (Ahmad, Jusoff & Othmans, 2009). The ability to acquire adequate and suitable audit evidence in order to make a reasonable judgement on the financial statement's conformance with generally accepted accounting standards (GAAPs) is a measure of internal audit effectiveness (Kirima, 2016).

Quality auditing has an important duty in protecting an institution from the risks of a collapse. This is a goal that all companies strive for. This means that organizations whose activities are examined by professional auditors are at lower risk (Chae, Nakano & Fujitani, 2020). One of the most popular characteristics of IA is that it improves the tracking and follow-up process to increase outputs which adds value to the organizations (Coram, Fergusona & Moroney, 2008). IA is also an important tool for enterprises to maximize their business outcomes (Drogalas, Karagiorgos & Arampatzis, 2015). IA's effectiveness has a significant beneficial consequence on bringing value to work and enhancing performance (Postula, Irodenko & Dubel, 2020). The IA's independence, the auditors' accounting experience, the internal audit's frequent meetings, and the IA's effectiveness all have a favorable complementary relationship (Goodwin-Stewait

& Kent, 2006). Many variables commit to the internal audit's success, including their participation in promoting the organization's outputs. The most essential of these are independence, adherence to international standards, ongoing auditor training, and the application of current control structures (Hazaea, Zhu, Khatib & Arshad, 2020). IA aims at ensuring that there is an improvement in the quality of an institution's operations and that it added value to them (IIA,2016).

Accounting disgraces in distinguished global institutions such as Enron, Parmalat, WorldCom among others have revealed major company management deficiencies. The General Motors Corporation that led to the filing of Bankruptcy in the year 2008, the Federation Internationale de Football Association (FIFA) management deficiency, are deficiencies among others that raise alarm (Nyaga, Kiragu, & Riro, 2018).). This has resulted in deep interest in the corporate governance practices and a robust set of internal controls. Data shows that corruption, lack of liability, and clarity are some of the reasons for the dismal performance (Shamshuddin & Bharathii, 2014, IIARF, 2014). This has increased the interest in the effect of internal audit to sufficiently add value to an institution's goal attainment (Mustika, 2015). In the framework of the internal auditors' operational environment, the goal of Tsai, Chen, Chang, and Lee (2017) was to identify the fundamental components that characterize IA performance. They discovered that it included the integration of the enterprise resource planning (ERM), the ERP process, audit programs, and internal audit's IT and systems (Abdulmunim, 2018).

The Financial Reporting Council, United Kingdom, (2014) examined that the internal management, risk governance, and business administration operations are more productive when coupled with organized checks and balances. Data shows that there has been an increase in poor institutional risk governance skills, company management deficiencies, an unsteady economy, and fraudulent activities. These consequently demanded that value in internal audits be scaled up to exceptional new heights (Vinary & Skaerbaek, 2014). As a result, interest in the adoption of the international standards on auditing has received more attention (Tsipouridou & Spathis, 2014). It is therefore important that independence, internal controls, audit committees be investigated. An assessment and analysis of these variables showed that an optimum improvement of the IAF has led to the attainment of many institutional objectives (George, Theofanis & Konstantinos, 2015; CIIA, 2017 & Ackermann, 2015). The influence of regulatory frameworks on bank profitability and cost management using the same data was also evaluated. The research found out that the guidelines for improving administrative authority and the discipline of the market tended to have a more desired effect on both measures (Pasiouras, Tanna, & Zopounidis, 2009).

The previous securities and exchange commission (SEC) chief accountant indicated that internal operational auditing is important. SEC (2002, 2004) affirms an organization's internal evaluation of its operations is an intrinsic part of a firm’s governance practice and internal control system. It further indicates that there is a need for firms to develop an IAF for the prosperity of the institution in eradicating abuse and fraudulent operations and in establishing accurate financial statements (Herdman, 2002). These, therefore, showed the significant duty of internal audit in the attainment of the institutional objectives.

Banks form a crucial constituent of the financial sector in all economies. This is based on its critical activities on both the asset and liability sides of the balance sheet. They boost the flow of funds by lending funds to customers or borrowers. These need money for their businesses (Diamond & Rajan 2001). Banks also provide liquidity to depositors on the debit side. Banks also make payment and settlement systems easier. At the same time, banks encourage economic growth and efficiency in the transfer of goods and services. The activities of the banking sector are governed by the framework of banking companies issued by the Basel Committee (2002) on bank supervision. Banks safeguard capital investment and support the development of new industries. This is to encourage economic growth and thus increase employment rates and enable growth.

Studies have shown regionally that financial sector reform objectives are largely the same in the majority of sub-Saharan African countries (Balogun, 2007). In Nigeria, financial management reform's effects on corporate administration of the banking sector concluded that good corporate administration practices established are both imperative and desirable to check for misuse in the emerging consolidated banking system (Oluyemi,2005). The IA guarantees that the rules of corporate governance, risk management, and control are followed by businesses in both the public and private sectors (IIA, SA 2011).

Research from Ghana show that internal controls are the safety measures put in place by a company to make sure that its objectives, goals, and missions are achieved. Internal audit is critical in making sure that the proper actions are carried out in an organization, guaranteeing that assets and resources are safeguarded, and institutions' financial performance is improved. (Ofori, 2011; Ofei, Owusu & Asante, 2020). Internal control systems (ICS) have had a substantial impact on financial performance in recent years, with certain institutions being adversely impacted by the nature of the poor systems in place. Further studies in Nigeria show that an appointed auditor investigates and communicates an opinion on a firm's financial statements independently, in accordance with his provisions of employment and the observance to statutory limitations and professional conditions (Dandago, & Kurawa, 2012; Adafula, Asare, Abayaawien, & Adafula, 2019).

The value added by IAFs is further explained by further regional studies in South Africa. The positive value-added by IAF was investigated by Ferreira (2007). The selection, process of development of the constitution of the audit committee, and the impact on the independence of the IAF were examined. Establishing the efficiency of the South African public sector audit committee was crucial on the other hand. Van der Nest (2008) examined if public segments IAFs are assessed for efficiency and value-added in the public sector. Flamini, Valentina, McDonald and Liliana (2009) studied the profitability of banks in the Sub-Saharan Africa region. The study showed that banks in the region earn higher profits. The study showed further that the average asset return was two percent on the internal audit activities.

The banking industry in Kenya maintained its resilience on a global scale due to enhanced supervision standards and safeguards put in place following the 2007–2008 Global Financial Crisis (GFC). Rising non-performing loans (NPLs), a flight to safe government assets, and increasing credit concentration, particularly in the household, manufacturing, commerce, and real estate sectors, were features of the banking industry in the East

African Community (EAC) Region (Stability Report, 2020). The various failures incorporated have raised interests over corporate governance procedures in Kenya. In both the private and public service practices, internal auditing has been increasingly identified as a central part of the present-day governance and control structures. In organizations across all sectors, fighting the worldwide financial crisis and current incidences of fraudulent activities in corporates has been the primary goal. Organizations across all sectors have set these as their main objective. Consequently, internal auditors have a precarious responsibility to perform in ensuring good corporate governance (Barasa, 2015). Culturally, IAF has been structured to protect the assets of the company. It also helped produce dependable, decision-making accounting information. (Chagwony & Rotich, 2015).

The IA department's primary function is to give an unbiased affirmation as well as make sure that consultancy activities are targeted at enhancing an organization's financial value. Internal auditors are required to provide for this role to be performed by the opinion of an auditor. This opinion is later backed up by adequate and dependable evidence of audit (Kamau & Kariuki, 2012). Muchiri and Jagongo (2017), agree that IA offers management auditing services at all sections. This includes the administration and the audit committee (AC), thereby developing the corporate governance of organizations. The audit function protects the company from irregularities and misdeeds by acting as a watchdog, therefore, enabling the institution to attain its goals of long-term viability and profitability (Ruto, 2015).

Central Bank of Kenya (2020), regulates that, consumers are expected to diversify into other financial services as they increasingly pursue a "one-stop financial supermarket." This improved supply of banking products has brought more Kenyans into the banking space by being more attractive. Nevertheless, the threats experienced in the banking sector today led to the adjustment of the minimum core capital to Kshs.1 billion (Finance Act 2008; Finance Act 2012). To comply with the Act, this became a threat to existent banks and some banks were forced to merge. However, although the transformation of small banks into a steadier organization was expected to be achieved, stability has remained a threat to performance due to the requirements of the Act. Data showed that the increase in PBT was less than 20% on industrial average over the 2008-2013 periods. In 2013, PBT increased by 16.6% compared to 2012, when PBT grew by 20.6%. In 2009, PBT increased by 12.9% compared to 2008 while in the year 2008, the PBT had increased by 13.4%. The year 2010 was the only year in which PBT rose by about 52% (Onuonga, 2014).

There exists a dynamic, steady, and well-regulated Kenyan banking division. The Central Bank of Kenya (CBK) governs the banking and financial corporation sectors. The number of licensed commercial banks is forty-five with one mortgage finance company, thirty-two locally owned and thirteen foreign owned. Further, three of the commercial banks owned locally boast a substantial shareholding of state corporations and government. Of all the banks, however, only twelve are on the list of the Nairobi Securities Exchange. Bank of Kigali (BK) group is secondary listed in NSE and primary listed in Rwanda. These have fulfilled the terms of being listed and also having applied to be listed (CBK

2020). NSE has a crucial responsibility to the rate of growth of the economy of Kenya. This is because it encourages investments and savings, as well as in aiding the local and international companies in accessing capital that is effective in costs. NSE operates under the jurisdiction of the Capital Markets Authority (CMA) of Kenya. The listed companies are divided according to the industries in which they operate within the banking industry. There are eleven commercial banks primarily listed in the Nairobi Securities Exchange (NSE, 2018).

The Banking field is responsive and sacred to the economy in terms of growth and stability. This means that the Government cannot let it loose and statutory oversight is important in the implementation of financial regulations and judgments. This contributes to the soundness of the bank's asset, management, and capital adequacy, as the regulatory structure ensures clarity of the institutions of banking and the persons and organizations with which they operate the business (CBK, 2013; Oloo, 2010). Supervisory processes and procedures aid banks and other financial institutions to become active participants in the financial sector for longevity and hence optimal shareholder returns over time and a significant influence on the Kenyan economy (Ndung'u, 2017). CBK issues regulations that decrease the risk levels that bank stakeholders are exposed to as bank supervision entails adherence to rules and regulations as well as on the overall governance processes and operations. Consequently, it is important that adequate supervision results in a robust banking sector that wields the might to foster financial growth (Amupitan, 2015). The reform program is also desired to bring about an expanded, robust, and dependable banking sector in the country.

This has led to the integration of the IAPs and CBK regulations referred to as moderated internal audit practices as a way to solve this dismal performance. The capability of the regulations to regulate the random factors stabilizes the performances of the banks, which have a bigger duty to play in the macroeconomic business environment due to their lending activities (Muithya, Muathe, & Kinuya, 2021; Wakarindi, 2018). Stabilizing the business environment simplifies the challenges making it difficult for financial institutions to achieve their set objectives. Kamau (2020) appreciates the existence of the regulations, which confirms the outcome of the research, especially due to the ability to create bare minimums within which financial institutions like banks should operate. With this in mind, firms having trouble with their controls and management should rely more on the issued guidelines as a sure means of controlling the external environment.

1.2 Statement of the Problem

The are many financial management reforms introduced and enhanced over time which are meant to enhance financial performance across different organizations. The steadiness and efficiency of organizations have been the focus of past initiatives of financial management reforms. Despite this, data shows that firms in the banking sector have posted inconsistent performance over the years with commercial banks in Kenya reporting a decline in performance in the recent past.

Between the financial years 2008-2013, the increase in Profits before Tax (PBT) was 20% below the industry average which displayed a continuous downward trend (Onuonga, 2014). In 2013 the PBT increased by 16.6% compared to 20.6% in the year 2012; while in 2009, PBT increased by 12.9% compared to 13.4% in the year 2008. In addition, banking sector valuations in the country has declined over the years with the financial under-performance and collapse of several financial institutions being associated with lack of effective corporate governance in the industry (Hussein, 2016). This is as well associated with corporate scams, bad accounting, inaccurate financial reporting and ineffective internal audit functions in some of the entities in the banking sector (Lumumba, 2015).

Despite many empirical studies on financial performance in the banking sector, gaps remain unfilled on effect of specific variables on financial performance. Cited studies on effect of internal audit were limited to one internal audit practice (Mburunga, Walubuka & Gichana, 2019; Oussi & Taktak, 2018; Ewa & Udoayang 2012). The identified methodological gaps reinforced the need to subject tested measures of performance including revenue and profitability against specific internal audit variables. The study therefore aimed at ascertaining the effect of moderated internal audit practices on the financial performance of Kenyan banks that are listed on the NSE.

1.3 Objectives of the Study

1.3.1 General Objective

The purpose of the study was to investigate the effect of moderated internal audit practices on financial performance of NSE-listed banks in Kenya.

1.3.2 Specific objectives

i. To analyze the effect of adoption of international standards of auditing on financial performance of NSE-listed banks in Kenya

ii. To evaluate the effect of independence of internal audit on financial performance of NSE-listed banks in Kenya

iii. To assess the effect of audit committee operations on financial performance of NSE-listed banks in Kenya

iv. To examine the effect of internal control systems on financial performance of NSE -listed banks in Kenya

v. To investigate the moderating effect of adoption of CBK regulations on the effect of internal audit practices on financial performance of NSE-listed banks in Kenya.

1.4 Hypotheses

The following null hypotheses guided the study:

H_{01}: There is no statistically significant effect of adoption of international standards of auditing on financial performance of NSE-listed banks in Kenya.

H_{02}: There is no statistically significant effect of independence of the internal audit on financial performance of NSE-listed banks in Kenya.

H_{03}: There is no statistically significant effect of operations of the audit committees on financial performance of NSE-listed banks in Kenya.

H_{04}: There is no statistically significant effect of internal controls measures on financial performance of NSE-listed banks in Kenya.

H_{05}: The adoption of CBK regulations do not moderate the effect of internal audit practices on financial performance of NSE-listed banks in Kenya.

1.5 Significance of the Study

This investigation is anchored on targeted internal audit practices and will guide policy formulation for more stable operations of commercial banks. Consequently, economic growth is achieved due to a stable banking sector. It will also aid to expand the duty of internal audit for experts in the executive personnel. The management of the commercial banks listed by the NSE will also understand the deviations in their operations. It will help stakeholders which include the customers, board of directors, financial markets and shareholders to embrace the Internal audit duty as a central and important part of the banks' essential administrative control frameworks needed to safeguard their interests.

The findings will contribute to the ongoing research in the regulatory bodies in Kenya which will use the findings for making internal audits more accessible from the management hence success. Administrative reports will possess the ability to improve the operational activities of the NSE-listed banks in Kenya in the implementation of the proposals from the internal audit. The results will enable the government to gain plenty of knowledge on accountability and effectiveness of service delivery. The study findings will be a source of reference for it will allow researchers to recognize and improve their insight into the internal review to hold fast to the specialist moral principles as required by the ISA. The results will also enable the investigator to comprehend why the NSE-listed commercial banks, despite the internal controls put in place, operate the way they do. The students and academicians will make the research ground for discussions on the internal audit and other corporate governance operations and how these affect performances.

1.6 Scope of the Study

The study targeted the IA department, the representation of the AC, and the financial department of the NSE-listed commercial banks. It covered the 11 NSE-listed banks primarily listed in Kenya. The financial performance analysis was based on the 2013-2017 financial years. This showed the consistency of the increasing levels of profitability before tax which also helped in comparison. The availability of these data at the time of the research is what led to the choice of these periods. The methodology of the research was constrained to the positivism philosophy, and both the descriptive and correlation research designs were used.

1.7 Limitations of the Study

The sensitive nature of the needed information made it difficult to get the most precise statistics. Even though they worked for the same bank, some respondents provided wildly divergent answers. Securing participants for the research given the awareness of the data needed for the research proved to be a challenge. Many companies had the fear of giving data relating to their finances assuming that they could be availed to their competitors in the industry. Being limited sample proved to be a challenge especially in I&M bank where only one respondent responded to the questionnaire meant that missing a single entry could skew the outcomes of the study. Additionally, the COVID-19 epidemic and the time-sensitive nature of the data collection process made it challenging to reach every responder on time.

The correlational analysis was efficient in establishing the relation between the variables but it in no way stands for a causal relationship between the variables. The established strengths and direction of relationships can in no way account for changes occurring in the paired variables given the existence of other numerous conditions influencing financial performance in banks. A descriptive-correlational research strategy was utilized to carry out the study, which prevents the researcher from manipulating the variables to their preference.

1.8 Assumptions of the Study

The study made an assumption that the internal audit practices (IAP) are limited to the international standards of auditing, independence of IA, AC operations and ICS. The assumption that financial performance was only measured by the financial ratios of ROE and ROA was made in this study. The study further assumed that the representation of the respondents in the respective technical departments was sufficient and encompassed the various answers that would have been given by the other respondents in the same departments if given chance.

1.9 Contribution of the Thesis

The study contributes to various sectors that is both in the private and public sectors. It includes the following;

i. Policy formulation by the government and financial institutions listed in the NSE
ii. Stakeholders which include, customers, management and shareholders of these listed banks by ensuring that the required knowledge is made available before decision making is made.
iii. Management at the commercial banks listed by the NSE are able to ensure that proper governance is actuated.

iv. Contribute to the ongoing research in the regulatory bodies in Kenya.

v. Source of reference for researchers.

1.10 Organization of the Thesis

The study has five chapters in total. Chapter one presents a study of the independent and dependent variables. It includes an introduction, the global, regional and local internal audit practices application and financial performance, the failures that have been existing in spite of financial management reforms and the gap that arises as well as what the study seeks to bridge. Chapter two further analyzes both theoretical and empirical reviews related to the variables including the gaps not addressed. The methodology section in chapter three describes how the study was conducted. The research design, target population, sample design, data collection methods, data collection procedures, data processing, and data presentation, as well as conceptual and empirical models including ethical considerations are discussed. Chapter four further describes the data analysis results, presentation, and conclusions of the study. To make the results easier to grasp, they were presented in tables and figures. Chapter five finally presents the summary, conclusion, and recommendations and further addresses areas for additional research.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter provides an account of developments in the literature on the moderated relationship between Internal audit practices and the financial performance of NSE-listed banks in Kenya.

2.2 Theoretical Framework

A theory is a collection of thoughts and opinions that are used to explain occurrences founded on basic rules that are related to the events being investigated. The theoretical review provides an outline of the ideas that are utilized to explain why the study is being conducted. Additionally, a theoretical review identifies the key variables that influence the phenomenon under investigation and emphasizes the need of considering the effects of these variables under various conditions (Swanson & Chermack 2013). The rising reputation of internal audit as a factor in economics has resulted in the methodical investigation of the aspects that enhance the performance of the audits and several theories formulated to explain the concept of internal audit.

2.2.1 Attribution Theory

The theory of attribution presents the way people make decisions based on their attitudes. The theory had first been constructed in 1958 by Fritz Heider. But it could not encompass all aspects, and multiple different concepts of attribution were created. Bernard Weiner, of the Los Angeles University of California, created what is now one of the widely known attribution theories (Praveen,2017). It is a set of diverse theoretical and empirical contributions that concentrate on why a particular event state or outcome has a universal concern with explanation and the consequences of phenomenal causality that have occurred. It is the way people see the success or failure of their conduct or other people's conduct. (Weiner, 2004). According to Schroth and Shah (2000), it is an approach of social psychology that seeks to find out the way people interpret events and behaviours and how they relate occurrences and behaviours to causes. Research that applies this approach investigates the application of knowledge in the social setting to describe occurrences and attitudes.

Reffett (2007) states that if investigators are confident that those similar individuals in each situation operated differently, are likely to relate accountability to the individual for an effect. Wilks and Zimbelman (2004), affirm that the very first context relates to inner or extrinsic attributions, whereas the second relates to the outside or behavioral attributions. The research by Reffett (2007), forecasted that, it is more likely for auditors to be brought responsible by assessors when auditors become unsuccessful in preventing fraudulent operations from occurring after recognizing the incident of fraud as a risk of fraudulent activity, extends the auditor's obligation of exposing fraudulent operations. Thus, there is an increment in auditors' obligation whenever an audit continues to fail. This is especially done after the auditors have established the fraud done as a risk of fraud. The auditors then conduct tests to evaluate the risk of fraudulent operations being recognized. (Reffett,2007)

Attribution theory affirms that auditors report the efficiency of the corporates' internal control. Auditors are thus anticipated to have a deeper knowledge of the internal controls available, to assess the structuring of internal controls, and to measure the operational efficiency of internal controls. This is regarded as appropriate for the auditors' having to rely on and probably downsizing other constructive audit processes for the expected outcomes. The attribution theory assumes that recognized members must be made liable when fraud occurs, and auditors are the most likely to hold personal responsibility to the "public watchdogs" if assessors establish that substandard audit services have been given (Reffett, 2007).

The attribution theory puts the responsibility of disclosing malpractices to the appropriate persons relevant to this research in the entities. Despite the advancement in technology that has restructured the framework of the systems of control, there is always going to be a need for these persons to govern these structures. Simply put, the relevant legal and legislative concerns must be recognized on the grounds of such figures of authority, i.e., the executives and the executive board. This concept of this research ensures that auditors in their Internal audit operations are at the forefront of fraud reporting when it occurs hence supporting the general objective of moderated internal audit and the first objective of international standards of auditing, of this study. This will be a major theory that will guide the research.

2.2.2 Agency Theory

Stephen Ross and Barry Mitnick were the pioneer researchers to clearly suggest the establishment of a theory of agency, and to start working on one. This was done so independently and precisely simultaneously. Ross established the concept of agency as an issue of compensation contracting; in essence, agency was viewed as an incentive problem (Jensen & Meckling, 1976; Ross, 1973). The agency theory and Internal audit was later propounded by Adams, (Adams,1994). The Agency Theory discusses how firms may engage effectively with one another and with stakeholders, with agents selecting the tasks to be completed (Dess, Lumpkin & Eisner, 2009). Adverse selection and moral hazard are two concerns that must be dealt with under the elements of incomplete flow of information and hazards that emerge from the two parties (agencies), according to the theory (Lin, Vargus & Bardhan, 2013).

The agency relationship is one where one or more people (the principals) engage another individual (the agent) to execute a duty on their behalf, with the principals transferring some decision-making mandate to the agent. Thus, not only independence but also top management cooperation is expected for Internal audit to be successful. The question of the agency problem and its solution is core to agency theory (Jensen & Meckling, 1976; Ross, 1973). The foundation of the problems of agency theory can be dated back from the beginning of civilization of humans when people engaged in business and attempted to maximize their profits. The agency dilemma is a long-standing problem that has existed since the formation of joint-stock enterprises. It cannot be ignored since every company has faced this concern in one way or another. The agency problem has taken on several structures as time has passed, and there is evidence in the literature to support this.

This theory revolves around the resolution of problems associated with agency relationships; that is, principals (e.g., shareholders) versus their agents of the principals (e.g., company directors). It addresses difficulties arising from opposing interests of the principal and agent; cases where the principal is not able to validate the actions of the agent, as well as the complications that may arise if the principal and the agent employ different approaches towards risk. Conflict arises when shareholders are unable to oversee management actions and activities due to separate ownership and management, necessitating the usage of particular source information systems and control mechanisms in order to decrease agency costs (Krishnan & Visvanathan, 2013).

IA combined with other structures such as external audit and financial reporting is vital for maintaining cost-effective interaction between principals and agents. Various organizations use control systems like Internal audits to better financial management efficiency and correctly monitor the operational performance of certain divisions. Top management is often paid based on agreed-upon performance under reward-based programs, which are intended to encourage executives to maximize shareholder wealth while also recruiting and keeping the finest and brightest personnel (Bhattacharjee, Maletta & Moreno 2016). It explains the existence of an Internal audit and its characteristics, including its size and operational scope that touch on operational and financial auditing, (Adams, 1994). Internal audit is employed as a form of control to assess a company's performance versus the board's and shareholders' expectations (Fisher, Garnsey, & Hughes, 2016). It can be applied in testing the cross-sectional differences empirically in Internal audit cultures and assessing whether these mirrors the diverse contracting associations stemming from challenges in an institutional way. This theory supports objective two of independence of internal audit and three of audit committee operations of this study where the independence of auditors and audit committee is prudent to ensuring the success of an organization's goals therefore the agency problem between the audit committee, auditors (agents) and the shareholders (principal) is resolved by the agency theory principles.

2.2.3 Contingency Theory

This theory was propagated by Fieldler, (1964) who proposed that there is no standard method of leading, controlling, and managing organizations. Audit functions are themselves, influenced by different determinants in the environment. Such factors validate the contingency theory. Largely, the process of auditing is straightforward. Auditors analyze records, policies, systems, and processes to manage an audit. Adhering to industry frameworks, statutory guidelines, and requests internally. The sub-processes of audit, in particular, planning and fieldwork, include factors such as business type, employee skill set, relevant laws, availability of labor, technology, systems, and deadlines all of which can vary.

Daft (2012), defines a contingency as the dependence of a specific factor or occurrence on others. Audit functions being task-oriented can vary. An audit team's system may vary. In audit projects, audit team managers may select auditors based on their skill set and availability, all of which compound the contingencies. The output quality of audits is likely to improve when auditors are pliable and can adjust to the process of vacillations. This ensures effectiveness even when the instruments offered do not belong to the usual pattern (Davoren, 1994). This theory supports objectives four of internal control systems and five of CBK prudential guidelines of this study as it focuses on the various environmental activities that affect the manner in which operations are conducted.

2.3 Empirical Literature

The section outlines the work of accredited researchers and scholars on the topic. The section seeks to bring out the information and discussions that have been investigated for the variables. It provides an in-depth discussion on the components of Internal audit; incorporating facts identified from previous research. Empirical review for this study utilized the secondary sources including the CBK annual supervisory reports, INTOSAI reports and IFAC reports.

2.3.1 International Standards of Auditing and Financial Performance

The success of any implemented ISA is associated with the underlying institutional factors. The inclusion of the variable is essential as it enables the adoption of an explanation based on conformity to the planning, production, and management techniques employed by the institution (Boolaky & Soobaroyen, 2017). With this, there is evidence that although the ISA is fundamental for the auditing department, the inclusion of the condition of the firm under investigation is key when establishing the capability to determine better financial performance.

Auditing standards and other related assurance tools are issued by the IIA (IIA, 2008). They capture the attributes, application, performance, and standards. Generally, proper auditing standards identify that internal auditor additionally offer services that touch on both financial reports and other assurance services and information. The standards provide guidelines regarding auditor objectivity and compliance with the established frameworks. In this way, the IAF will perform a crucial duty in the analysis and effective management of risks and control and management following a structured and methodical approach. This is vital to attain compliance with legal requirements given that the auditor's responsibilities can touch on the areas of the evaluation requiring complex reasoning. Consequently, audit reports bear a significant influence on the action taken by management (Newman &Comfort, 2018).

Mennicken (2008) presents a thorough case study of a top Russian audit firm's efforts to adopt international auditing standards, and he draws the conclusion that a nation's political, economic, and social context—including its linguistic landscape—influences its approach to auditing. Local users, preparers, auditors, and regulators in Jordan, according to Al-Awaqleh (2010), prefer ISAs over local standards for auditing because global investors and international organizations would consider the latter to be insufficient. Brody, Moscove, and Wnek (2005), on the other hand, examine the situation with regard to accounting and auditing standards in Poland and come to the conclusion that its local regulator only encourages the adoption of ISAs in the absence of comparable local standards. The authors note that Poland would need to raise its standards in order to comply with EU directives, but they discover some opposition to adopting EU-directed standards broadly (Dellaportas, Senarath & Sivanantham, 2008). None of these studies have examined the use of ISAs at the national level, particularly in IFSC-designated jurisdictions where risks are significant. The goal of this study is to close the gap.

Castro, Vasconcelos and Dantas (2020) conducted an investigation on the effects of the implementation of the ISAs on financial institutions in Brazil. The researchers established that the effective implementation of the ISAs plays a pivotal duty in enhancing the performance of the organisations. One of the primary reasons for implementing the ISAs is to ascertain that the functions of the auditing department occur efficiently, which in turn improves the processes of making certain various decisions of the management team (Chalu, 2020; Haapamäki & Sihvonen, 2019). Thus, there exists a knowledge gap on the IAPs and financial performance interactions in the Kenyan institutions. IA and corporate governance are inextricably linked. Internal audit aids boards of directors in carrying out their governance responsibilities, resulting in enhanced performance and competitiveness (Florea & Florea, 2013). Corporate success and a well-governance structure are inextricably intertwined (Bhagat & Bolton, 2008).

Elewa and El-Haddad (2019) analyzed the influence of IA value on company performance by adopting a panel data methodology. The research worked on the statements of finance of companies that are non-financial and listed under Egypt Index 100 (EGX 100). The independent variables were the knowledge of internal auditor and independence of auditor. The dependent variables were ROA and ROE. Constant with the findings of the model of random-effects, internal auditor independence and experience did not have a considerable effect on the organization's ROA and ROE. Research was undertaken on the effect of internal audits on the whole performance of firms in the Souss Massa area in Morocco. The research evaluated the IA by the skills of the in-charge of IA, the scope of the IA, the experience of the internal auditor, and the skills (competency) of the internal auditor.

However, the research evaluated performance by taking into account fiscal and financial performance, social performance, and environmental performance. The findings of the research gave a substantial positive effect relating to the internal audit and economic, financial performance, and social performance (Bengrich & El Ghadouia, 2020). However, the study found a negative effect relating to IAs and environmental performance. The research established that fiscal and financial performance is exhaustively supported by the attributes of IA.

The division of ownership of organizations from their sections is the major objective for the new developments. This is by what the audit requires whether internally or externally (CIIA, 2017). As a consequence, the audit comprises an investigation and control procedure to report on the financial statements' quality and trustworthiness. The quality of the reports financially produced by institutions and IA functions has a substantial beneficial relationship, which helps to achieve competition (Alzoubi, 2019). Many factors influence bank financial performance. These include those linked to auditing, and some of these aspects relate to the administration. The elements of financial performance of banks in Central and Eastern Europe are classified into macro-economic factors bank-specific factors, and industry-specific factors (Agapova & McNulty, 2016). The size of a bank's committee of management has a positive relation with ROA. However, there exists a negative relationship with ROE (Majeed, Jun, Zia, Mohsin & Rafiq ,2020). To improve financial performance, therefore, IA methods must be made more efficient (Ondieki, 2013).

Basel Committee report (2002) guides that every bank must have a steady and stable IAF to attain its roles and responsibilities. The top-level manager should adopt suitable controls to enhance the banks' reliance on proper IAF suitable for the nature of its activities and the overall size. These strategies involved the allocation of adequate funding and staffing to internal departments. Leung, Cooper & Perera (2011) propose that the IA duty in the Asia- Pacific territories, analyzed various issues of concern to the profession. They uncovered covered various misconceptions about internal audit and the perceptions of the institution’s CEOs as well as their expectations relating to the duty of internal audit. The investigation showed that CEOs appreciated the role of internal audits in giving long-term course chances. Nevertheless, the internal audit expertise in Australia in the early 1980s went through an image issue based on weak professionalism in the organization to represent its interests. Additionally, there was a lack of commonly recognized professional qualifications necessary for one to work as an internal auditor. The survey was investigated before the growth of contemporary Internal auditing. It formed the foundation for the resultant studies in various regions.

Akande and Alalade (2019) researched on the effect of IA on the financial performance of commercial banks. The research focused on detection of the degree of IAF of these commercial banks operational in Nigeria, and its impact on their financial performance. The research showed that frauds were all uncovered by the IA, which clearly influences financial performance. IAS and related services positively affect performance The current study is on the effect of moderated IAPs on financial performance. Hernandez and Lema (2012) in their research of the IAF and financial reporting in 47 Spanish banks observed that in 62% of the banks, the internal auditors specialize in financial audit and the firms had an increased quality of financial reporting. They concluded that greater reporting quality of financial statements happens when the IAF dedicates extra time and funds to financial audits. Improved reporting further resulted from the establishment of guidelines necessary to make sure that the correctness and dependability of financial reports and accounting records existed.

Talab, Flayyih and Ali (2018) endeavoured to examine the IAF, stakeholder formation, and company performance in Iraq. The research analysed the impact of corporate management systems on the performance of listed firms in Iraq. Consequently, the researchers analysed the influence of the IAF, public and private ownership on organizational performance. The findings resulting from the linear regression of the examination showed a substantial positive correlation between IA and performance. This indicates that listed organizations that have an organized IA department are working very well owing to such a control structure that is believed to be strong. The conclusions of this investigation have aided judgement-makers and executives of Iraq listed firms to appreciate the value of the IAF and to ascertain it for those that do not have it. The study was not in NSE listed firms. Ndege (2012), demonstrated that ROE and ROA could be applied to gauge the financial performance of Kenyan banks. In this current analysis, IAs, financial ratios, and financial performance are all considered as a whole. Financial ratios are a measure of financial performance in this study.

2.3.2 Independence of Internal audit and Financial Performance

Rodgers & Al-Fayi (2019) established that the possibility of such independence having a less meaningful effect due to the situation in the business environment was definite. An unstable or underdeveloped business environment makes it difficult to establish the exact situation despite accurate auditing. Further, establishing an independent internal audit will help ensure internal control, better management of corporate affairs, and prudent financial planning within the institutions under study (Nyaga et. al, 2018). An investigation conducted among the Yemeni banks showed that team independence in improving the quality of the internal audits performed, was significant in the relationship between the performance of the banks and the effectiveness of the independent audit functions (Hazaea, Tabash, Khatib, Zhu, & Al-Kuhali, 2020).

Mihret and Yismaw (2007) also established that the effectiveness of IA in the Ethiopian government sector is affected by quality in the IAF and the support of management. Sarens and De Beelde (2006) established that the involvement of an institution's administration in the IA activities affected the auditors' firmness to principle and weakened the relation with the AC. Chambers (2014) recommended that the CAE should report to the in-charge of the IA committee. However, in unique situations, the board may require the IA committee to directly report to the chairperson of the board of the committee dealing with the management of risk. This is subject to the fact that the chairperson of the management of the risk committee and the other participants are independent non-executive directors. Moreover, the research suggested that CAE, alternatively, could answer to the CEO to ensure the independence of firm operations and to find out the position of internal audit alongside members of the Executive Committee.

Sarens,De Beelde and Everaert (2009) opine that the communication channels of IAF to the audit committee have a fundamental duty in attaining the effectiveness of the IA. Lin et. al, (2011) observed that a principled IAF had reduced chances of being biased by management in the evaluation of ICS and giving feedback of problems of ICS to the audit committee. Bedard and Graham (2011) research findings showed that an auditor has increased chances of detecting gaps in the internal control measures put in place if he/she accounts to the AC rather than the organization.

The independence of the members responsible for auditing in organizations, as well as the regularity and consistency with which they meet, together with the size of the AC, positively influence the efficacy of organizations and the quality of their products (Bansal & Sharma, 2016). Large AC are detrimental to the audit process. This is because; there will be a lack of interest in the task and a lack of cooperation among the auditors (Drakos & Bekiris, 2010). It was recommended that having adequate participants as regards to the size of the AC in the IAF, is advantageous both adequately and considerably in acquiring various types of abilities, points of view, and propositions that are important in various organizational stakes in a manner that is also advantageous to the institutions. (Ujunwa et al. 2012).

Offering a truthful and fair perspective of the organization’s financial statements is what is required. The audit is one of the variables that reduce enterprise risk and lower the cost of the supply chain process (Waseem-Ul-Hameed, Hashmi, Ali & Arif, 2017). They consist of increasing organizational and supervisory intricacies, corporate administration operations including the Sarbanes Oxley's Act-U.S.A., the Combined Code 2003, King II Report- South Africa, Organization for Economic Co-operation and Development-OECD (2007), technological advancements, professional announcements of the International Federation of Accountants-IFAC, (2009), and IIARF Practice Standards, (2016). Sensitization on the value addition that the Internal audit provides has attracted global interest. This interest is on the operational activities conducted, their efficacy, and the elements that impact the internal audit efficacy in both segments. (Dellai & Omri, 2016).

Bett (2014) established that internal auditor must uphold the most excellent of their employer, yet they may be unwilling to go contrary to the administration, regardless of the effects. Organizational independence has a crucial duty in attaining the effectiveness of internal auditors by protecting them against intimidation while increasing the objectivity of the auditing work. Christopher, Sarens and Leung (2009) opined that the control structure established by the management sought to achieve control and compliance frameworks. The IAF enhances compliance and control supports an organization in fulfilling duties in line with corporate goals. Management bears a strong effect in establishing the complete tone for administration. Senior managers influence the activities, executive board, and IAF (Claybrook, 2004).

Sarens and De Beelde (2006) found that an organization's administration may require the Internal audit function to adopt other roles based on the increasing complexity in organizations. Drent (2002) noted that most top managers expected internal auditors to take part in operations while communicating to the audit committee as a custom to meet enterprise administration frameworks. These findings, however, are affected by the fact that the IAF must contribute positively to the administration and not become its servant. These demands on firm performance to the board (Van Gansberghe, 2005). Mzenzi and Gaspar (2015), noted that the IAF is employed in the organization to ensure accountability, and there are no substantive errors in the financial statements. They further suggested that the audit function should remain autonomous in the institution's system. This shows that the management cannot directly influence the career visions of internal auditors. Additionally, they cannot affect the planning and budgets of the IA department significantly.

Chapman (2001) argued that objectivity is a critical element of the IAF, and this is achieved based on the positioning of the department in the organizational structure. He further suggested that the IAF should be without charge to determine its audit scope free from interference. Bariff (2003) affirmed that the IAF's independence is improved by positioning in a way that they can operate on strategic issues. Kirima (2016) found out that an internal auditor's effectiveness is determined by the capacity to gather adequate and suitable audit evidence to give a reasonable opinion concerning the financial statement's conformity to the generally accepted accounting principles. Alzeban and Gwilliam (2014) observed the interactions and associations relating to the top managers and internal auditors are both important and complex. Senior management influences the resources allocated to the IAF, which may critically affect the internal audit plan, and the functions (Christopher et al., 2009).

Van Peursem (2005) observed that internal assessments done in a close environment with senior management were at risk of lack of independence from the management influence. The researcher further proposed that the Internal auditors must be careful to avoid conflict of interest of their managers and their profession. Leung, Cooper and Robertson (2004) studied the involvement of the IA in organizational management and administration in Australia with the application of online surveys and detailed interviews of CAEs. The study found out that most CAEs bore reporting duties to the audit committee, and 22% of participants disclosed only to management. Njeru (2013) asserts that a threat to internal auditor independence was identified since the CEOs of some of the banks have an opinion on the IA budget, recruitment, termination and the remuneration of the CAE. The administration's impact on the internal auditors' work affects their objectivity in reporting and may result in improper revenue recognition, overstated purchase costs of assets, and other cash impropriety which affects the organization's overview, (Cohen, Krishnamoorthy and Wright,2008).

Stewart and Subramaniam (2010) opine that fewer investigations have been carried out to determine the effect of reporting more to senior administration such as the CEO and the impact on the objectivity and independence internal auditors. Mutchler, Chang and Prawitt (2001), identified risks to the objectivity of the internal auditors' one of them being economic interest, due to motivation payments or from reviewing the work of an individual with authority to affect the internal auditor's job or earnings. This was a detailed documentation of the ICS lapses and the recommendations by the internal auditors given to management to address the control lapses in their area of authority. The reports could be monthly, quarterly, or annually depending on the approved IA plan. The IA report provides recommendations to advance controls and correct deficiencies. Dandago and Suleiman (2005) propose that it is anticipated that both external and internal auditors will demonstrate an expert opinion on the financial statement(s) endorsed or investigated in the execution of duties as guided by legislative requirements and professional guidelines. Modibbo (2015) observed that an internal auditor must safeguard an organization's assets and carry out other duties necessary to improve the efficiency and efficacy of activities. This is accomplished via a regular appraisal of the structures of accounting, internal control measures, and the application of the firms' approaches.

Mutai (2011) observed that the internal auditors should be cognizant of irregularities and report to the management in the audit reports before the external auditor. In a report, Ernst and Young (2007) noted that the top two measures of IAF's effectiveness lie in the completion of audits in conformance with the internal audit (IA) plan and the time taken to produce reports for necessary action. The survey outcomes proposed that value tracking is a critical component in demonstrating the financial worth and applicability of the IAF. There is a need to track the benefits in terms of cost and revenue as an instrument to measure the IAF's backing of core corporate actions and drives. Their results indicated that 51 percent of participants do not conduct IAF real worth monitoring, while 13% analyze the value of the function in terms of real savings in costs.

Moreover, improving the audit department's independence, holding frequent meetings, and continuing auditor instruction to keep up with the modernism of international standards that govern auditing activities all help to improve institutions' performance (Hazaea, Zhu, Khatib & Arshad, 2020). Archambeault, DeZoort and Holt (2008) noted that reports generated through internal assessments are vital for complementing the prevailing governance disclosures, enhancing the confidence of stakeholders in the quality of administrative processes as well as the dependability of financial communication of data. Asare, Davidson and Gramling (2008), indicated that Internal auditors are quick to react to the extra benefit of administration to misrepresent financial data and, may be forced to work excess hours when the administration has a high motivation to give misleading data.

Peursem (2004) in a study in New Zealand on the role and authority was based on the internal auditors' views on their function in connection with audit engagements regarding their roles and authority. The research also captured areas of auditor-independence as professional conduct. The study surveyed New Zealand auditors and found that a high percentage (73%) response rate was attained both in the initial and follow-up polls. The research gathered that the attributes of actual professions exist, but they do not dominate. The author also perceived that the public practice of experienced auditors is associated with a significant influence over management. Additionally, he noted that accountancy-trained auditors boast of larger status as a result of the practices and operations arising from membership of renowned accountancy professional organizations.

The above research reiterates previous research done by Leung et. al (2011) which conveyed conditions relating to the usefulness of the internal auditor's responsibility. A study to follow-up conducted by Peursem scrutinized the duty and responsibility of the internal auditor and conceptualized the auditor's power on that responsibility. The research questioned the effectiveness of an internal auditor's ability to outgrow the pressure of working with an organization's administration to enhance performance while maintaining independence to support objective reporting. The research uncovered three critical features of internal auditors who efficiently balanced their roles: expertise status; the existence of an effective network of communication; and the obligation of internal auditors in deciding their responsibility. An understanding of the aforementioned elements was vital for the effective delivery of assessment functions and management of ambiguity. This was qualitative research that used multiple case-based approaches characterized by observations, document examination, and interviews of senior Internal auditors in six New Zealand institutions. The study offers critical insights not ready for us in more contemporary mathematical research and does not recognize the role of other factors that relate to performance.

Boubakary (2020) undertook an investigation on internal audits and the performance of public and Para public corporates in Cameroon. The findings of the investigation indicated that IA, with qualities such as the size of the IA section, skill, experience, and the internal auditor independence has a significant positive impact on the financial performance of the sample researched. The sources summarized the research paper on the significance of instituting IA with auditors with the fore-cited outline to increase financial performance and get value addition. The research was limited to only the internal auditor independence. Newman and Comfort (2018) investigated IAs value addition and its effect on corporate returns. The goal of this research was to investigate the possible addition of value of an operational and quality IAF in an institution. It also explored its effect on its financial performance. The conclusions showed that the IA is related positively to the performance of the corporation, as its affirmation and consultative responsibility were found to increase value. Additionally, the size of the IA division, the skill, and experience of the internal auditors, which characterize the features of IA, were established against the performance of the firm and it was determined that IA had a positive relationship to the performance.

Zulkifli, Alagan and Mohd (2014) determined that top administrators should make sure that its IAF is resourced fully and maintained, and that it should actively involve the IAF in assurance and advisory engagements, as internal auditors have a wide functioning know how and both duties have confirmed to advance corporate performance. Christophers et al (2009) in their inquiry of the objectivity of the IAF of Australian companies observed that 56% of the respondents admitted there is a culture of Internal auditors moving to management functions during their professional careers, which may impede their judgment on areas where they target to grow into. The IAF department was seen as a stepping-stone and teaching and development ground for other administrative operations. They observed a potential threat to independence, where the internal auditors do not consistently report to the audit committees functionally. Another threat was identified as the lack of adoption of the international standards of auditing. The other threat was observed where the management has the power to appoint and dismiss the CAE. They concluded the four threats have a major effect on the effectiveness of the IAF.

Ebaid (2011) in their study of the IAF of Egyptian listed companies observed there was an increased credit of the IA role by Egyptian listed firms. He found 62% of respondents indicated that the Chief Finance Officer (CFO) sets up the IA budget, reviews and approves the audit plan. In comparison, 38% of respondents indicated the responsibility was with the BOD or AC. This was interpreted to mean that the IAF in Egyptian listed companies does not achieve the desired levels of administrative independence based on the fact that the CFO and the CEO play an important duty in the IA function. The above study was done in the Egyptian listed firms and not in the Kenyan institutions.

Hailemariam (2014) studied the effectiveness of IA determinants in the chosen Ethiopian public sector offices. The study looked at the 15 offices sampled through purposeful sampling which was a representation of all the other segments. The researcher got the relevant information from the administration groups and the internal auditors of the chosen public sector office via the questionnaires administered. Besides that, the results of this study show a direct link between the perspective of administration, administration support, the overall firm's independence of internal auditors, sufficient and competitive staff of the IA, and the availability of an accepted IA charter and the efficacy of IA in the public sector. Zulkifli et. al (2014), further consisted of 330 respondents from the IA departments of ministries in India. The sources established that there was a substantial positive relationship between the financial performance and audit competence, independence and support by the management audit. The above studies were done in Ethiopia and India and concentrated in the public sector ministries unlike the current study that looks at the Internal audit practices in the NSE listed banks.

Endaya and Hanefah (2016) focused on investigating the relation link between the qualities of Internal auditors and effectiveness of internal audit, and the moderating effect of senior administration support. The information was collected via a physical hard copy questionnaire from one hundred and fourteen members of the IA, and the data were analyzed using conventional and moderated multiple regression. According to the data, internal auditor qualities have a considerable effect on internal audit efficiency, and senior administration help has a moderating effect. The conclusions will encourage organizations in Libya focus on IA effectiveness while also assisting government entities in enhancing their Internal auditing skills. The current study moderating effect is CBK regulations and their effect the effect of IAPs on financial performance of NSE-listed banks in Kenya.

Bednarek (2018) researched on the elements that affect the efficiency of IA. IA effectiveness was affected by; the IA characteristics; IA activity; and inter-organizational interactions, according to a survey of 342 organizations in Poland. When the IA is older, its effectiveness increases. This is because the monitoring process is done more frequently. The findings on the measuring of the audit performance and self-assessment are further used to introduce changes. The AC later recognized the significant risks. Priorities were made for the yearly and strategic plans of the audit. Commissioned audits did not exceed 20% of the work of the internal audit. Bello et al (2018) undertook research on the aspects of the IA condition and the firm's performance. The sources utilised the expertise and independence of internal auditors and the size of the IA department as a proxy for IA quality. The conclusions of the investigation showed that IA quality has a substantial and positive effect on performance. The research suggested that further emphasis should be placed on internal auditor competence, internal auditor independence, and the size of the IA division and that further procedures be put in place to preserve these elements to enhance the performance and efficiency of the IAF.

Musah, Gapketor, and Anokye (2018) researched the determinants influencing the efficacy of internal auditing in Ghana's SOEs. The study was undertaken as a result of several scandals that involved Ghanaian SOEs. There was also insufficient empirical evidence on the determinants of internal audit effectiveness that could address these issues. The review investigated how participants perceived the effect of criteria including IA unit expertise, structure, relation link on the internal and external auditors, administration support for the IA function, and IA unit independence on the IA effectiveness in SOEs in Ghana. According to the findings, organizational commitment to the IAF is one of the most important drivers of IA effectiveness. internal audit effectiveness was also determined by the size of the IA unit, the competency of IA staff, the independence of the IA unit, and a solid interaction between internal and external auditors. The studies were performed in Poland and Ghana respectively. There exists a knowledge gap on the interactions of IAPs on financial performance in Kenyan listed banks.

Mburunga et al (2019) researched internal auditor independence and financial performance of banks listed on the NSE. The influence of the internal auditor independence on the financial performance of banks listed on the NSE was the focus of this research. It was established on market power and agency theories. Internal auditor independence was evaluated by the cost assigned to the IA division and financial performance by return on assets (ROA). The analysis found out that the IA budget, which defines internal auditor independence, has a considerable impact on publicly traded institutions' financial performance. The studies were limited to IA quality and internal auditor independence and the company's financial performance.

2.3.3 Audit Committee Operations and Financial Performance

AC affect financial performance through their independence, composition, and expertise in the review of the worth of the financial reports of the company. The Chartered Institute of Internal auditors CIIA, (2013), affirms that the IAF should be managed in a manner that upholds and improves the autonomy and rationality of internal audits. A fully functional audit committee should be more capable of identifying problems in the organization than a dormant one (Choi, Jeon & Park 2004). The research further added that a board with financial and accounting expertise would unlock the earnings of the company. Improprieties in financial communication and business declines in firms such as Enron, among others have resulted in increased scrutiny of the audit committees of corporate boards. This was after a collapse of the companies that were founded on weak economic foundations and dishonest financial reporting, as well as the loss of retirement savings for investors and staff and investors resulting in bankruptcy (Direction, 2003). Due to its capability to influence independence in the functioning of the IA, the audit committee ensures the representation of skills in the leadership positions for easier functioning (Ali & Handayani, 2018; Alzeban, 2018).

Al-Thuneibat (2006) stated that the audit committee was a collection of individuals composed of non-executive directors of the company. CBK Guidelines (2013) indicates audit committee shall be made up of non-executive managers with at least three members with an independent manager at the helm. One member of the council must have financial accounting expertise and knowledge and be a member of the Certified Public Accountants Institute of Kenya (ICPAK). The guidelines further note that the committee is tasked with an independent evaluation of the financial reporting, ensuring adequate internal controls, and recommending timely appropriate action. It is anticipated that the AC would continuously analyze the financial information of the corporate entity, make sure appropriate accounting policies, and encourage high quality and prompt financial statements.

Rahman, Meah and Chaudhory (2019) cross-examined the degree to which audit qualities influence the corporation's financial performance. The outcomes showed that the AC's size is strongly correlated positively with financial performance. This is since a big audit committee may unquestionably involve some members with various diverse professional expertise in accounting, and finance, which may assist in resolving obstacles and facing the struggles and challenges that organizations face, and thus improve financial performance. If the audit committees are too large, there will be less interest in the task and less cooperation among the auditors to make informed conclusions. Consequently, their expertise and knowledge go unused

(Dharmadasa, Gamage &Herath, 2015). In both positive and negative IA, authority systems play an important role. In a monarchy system, on the other hand, democratic regimes foster IA independence, which helps to improve performance (Hazaea et al., 2020).

Archambeault et.al (2008) found that corporations that switched internal auditors more often were associated with decreased qualifications regarding auditing, accounting, and finance than those that do not switch. The size of the AC and the funds allocated to the IAF would supervise financial reporting and internal control functions within a company, thus the success (Anderson & Christ, 2014). They further indicated that institutions with a smaller board could give the CEO a better-disciplined approach in case of a less than desired performance and was associated with the higher market valuation. Bear, Rahman and Post (2010) further added that increasing membership of directors who were women in the AC associated positively enhances a firm’s reputation and hence an increased institutional performance.

Sharma, Naiker and Lee (2009) found a negative influence on the AC meetings where the members had numerous directorships, independence of the AC, and an independent AC chair. The study showed a strong connection relating to the greater risk of financial inaccurate reporting and the size of the board's ownership of institutions and managers, financial competence, and independence. This then suggested that the number of participants of the AC and gatherings had a bearing on the corporation's performance. Lacking independence makes it difficult to trace the financial aspect accurately; hence, interferes with the reporting and measuring the performance accurately by an extension

(Asiedu & Deffor, 2017). Other factors determined to have a strong effect on the functioning of the committees include gender diversity (Oradi & Izadi, 2019), which is a key attraction to investors and the customers; higher expertise among the auditors; and the continuous involvement of the committee in the running of the organization (Bravo & Reguera-Alvarado, 2019; Mardessi & Fourati, 2020).

Chen, Lin, Lu and Zhou, (2020) concluded that the overrall duty done by the AC helps gain financial expertise necessary for the handling of the companies' statements, better management that ensures inclusion. Additionally, the committee is effective in establishing internal controls that will be beneficial for maintaining the system for effective function. The conducted research showed that the presence of the AC had a positive influence on the financial performance of the organization in both the descriptive and inferential analyses. Given their capability to reinforce the condition of the internal auditors, the ACs function immensely in improving the financial performance of the institution. Gender diversity in the audit committees was associated with performance financially (Carter et al., 2008), decreasing the inherent risk (Ittonen et al., 2007), increased positive reaction from investors (De fond et al., 2005), and the business profitability (Huang, Shen& Sun, 2011). The authors suggested that females were less likely to have issues with attendance, and this encouraged the men directors to attend the meetings.

The independence of the AC is a critical determining factor of the effectiveness of the IAF. Zulkamain and Shamsher (2001) indicated that an AC's independence is crucial to make sure that the executive board achieves its control duties successfully and holds the administration liable to the stakeholders. Krishnan (2005) observed that the independent AC has a definite relationship with the reliability of the reports of internal audit. Alzeban (2015), in his studies on the professionalism of IA committees, found that quality in financial reporting is influenced by the independence of the AC's and auditing expertise. The existence of an AC in an organization generates a view of greater independence of the IAF, and dependability of financial reporting among the users of financial reports. Alzeban and Gwilliam (2014) observed that AC's might reinforce Internal auditors' condition and objectivity and independence in the audit processes. According to De Zoort and Salterio (2001), all AC members were capable of interpreting the financial communications, making audit judgments, and addressing material misstatements.

Turley and Zaman (2007) observed from their research in the UK financial services firm that an audit committee has the main obligation in how the Internal audit function implements its responsibilities in the institution. Audit committees serve as possible help for the IAF. Goodwin (2003) observed that an operational AC has a critical duty in strengthening the IAF by functioning as an independent setting allowing Internal auditors to report issues influencing the administration. This independence is additionally improved through the accessibility of the AC to the internal auditors. Because the independence of AC members is linked positively with the quality of profits in organizations and corporations, chiefs of departments should not serve on AC's due to the detrimental influence on performance and profit quality (Al-Absy et al., 2020). When internal auditors adhered to the criteria that govern the internal auditing profession, they would be able to contribute to the advancement and regularization of performance (Mihret, James & Mula 2010).

James (2003) determined that internal audit functions with reporting lines to the executive board are considered less capable of preventing fraud in banks' financial statements than those reporting only to the AC. ACs are regarded as a fundamental safety instrument for Internal auditors in dealing with their expertise independence. According to Gramling (2004), a good relation relating to the internal auditors and the AC gives a good setting and support structure to perform its operations such as risk assessment, control operations, and compliance work. According to Chambers (2014), on the guidance to an IA, he urged that the AC appoints and removes the CAE and recommends the IA budget; and that the chairperson of the AC sets the CAE's objectives. Abbott, Parker and Peters (2010) indicated that enterprises with audit committees consisting of independent executives and meeting minimally twice a year are not prone to be charged with fraud or misrepresentative reporting. They further added that the independence of the AC influences the revenues, administration, and attitudes of the investors of corporations.

Abbott et al. (2010) determined the relations that exist between the AC's commitment and the funds provided to the IAF through an examination focusing on the CAEs of 1,000 firms. The outcome of the study demonstrated that committees with a broader goal assigned longer hours to the IAF than those with shorter hours. Significant alterations in IAF financial plans and the assignment of those financial plans to different operations have also been shown by organizations, demonstrating that while the main section of IAF budgets focuses on the evaluation of internal control operations, a notable amount is allocated to non-control operations. Mat Zain, Subramaniam and Stewart (2006) studied the CAEs of seventy-six public firms listed in Malaysia. The investigation sought after determining the relations between audit committee attributes and IAFs. It also focused on the assessment of the internal auditors' inputs to audits of financial statements. The outcomes showed a definite relationship between internal auditors' evaluation of their input to financial audits and AC attributes. They acknowledged the features of audit committees as member independence, their financial expertise and know-how, budget natures, and the condition of scrutiny of the IAF's work program.

Davidson, Goodwin-Stewart and Kent (2005) found a telling increase in a company's stock prices following the appointment of participants of an audit committee with financial competence. Abbott et al. (2004) noted that the financial expertise of the audit board has a relationship to the amount of the audit fees. Zhang, Zhou and Zhou (2006) observed companies are at more risk of ICS weaknesses if their AC has less accounting and non-accounting financial professionalism. Cohen et al. (2014) considered the effect of competence in the sector on the committee's capacity to oversee financial communication. Estimates are made in the preparation of the organization's financial reports. Competence in industry operations and the financial expertise of the individuals involved is vital in supporting the audit committees to appreciate and evaluate industry issues (CIFR, 2018). According to Carcello and Neal (2000), the audit committee possesses a big duty in the monitoring of the features of financial communication and firm governance by the potential litigation risk they face in executing their duties. To evaluate the value of the AC, there is a need to determine the financial competence of the members.

Raghunandan, Read and Rama (2001), determined that AC's that are independently engaged in very endless meetings and more private conversations with the CAE that had at least one member with financial and accounting competence. De Fond et al. (2005) defined the measures of financial expertise in two categories: financial, accounting expert, and non-financial accountant. An accounting expert, defined as an experienced certified public accountant, auditor, chief financial officer, controller while non-financial accountant who could be the CEO, chairman of Board or President with expertise as the director of the administration, knowledge in investment banking, a principal in venture financing or money management. Financial expertise is vital in handling the complexities of financial communication and decreases the necessity for reaffirmation of financial statements (Abbott et al., 2010).

Baxter and Cotter (2009) observed that the independence of an AC is core in affecting the performance of the committee in the assessment of financial communication and processes. They further suggested that an AC with a professional rate of accounting training significantly impacts the returns on equity (ROE) and return on assets (ROA) of an organization and therefore its performance. Qin (2007) adds that higher-earning businesses are more connected with members of the AC who have accounts training. De Zoort and Salterio (2001) added that AC participants with financial communication and audit know-how have an increased probability of understanding audit judgments and estimates. They can handle material misstatements in the financial accounts adequately. Krishnan (2005) notes that financial professionals in audit committees are related to reduced chances of ICS lapses.

Alzeban (2015) investigated the role played by both industry and audit expertise within the audit committees and how they affect the IAF. His studies revealed that audit committees whose participants are competent in industry knowledge and trends, as well as the auditing process, consistently possess more impact on the IAF than those with auditing experts only. Gacheru (2014) researched on the influence of the variables of board audit ACs on the financial performance of Kenya's banks. The functional and institutional features of boards in 43 banks were evaluated and a strong positive relationship was witnessed between the proportion of financially competent AC members and ROEs; changes in AC participation have no impact on ROEs and the rate of attendance of the AC meetings had a positive correlation significantly with ROE.

Wee (2009) researched audit committees, management boards, and remediation of important deficiencies in ICS. The study determined the value of the committee by its size, financial competence, recurrence of meetings, and freedom. The scale, independence, and frequency of meetings of the executive, as well as the combined effect of the chief executive officer (CEO) and chair roles, were used to assess the executive's power (CEO duality). The study found out several factors that influence an organization's timeliness in addressing serious flaws, such as the seriousness of serious flaws, the ease of operations, and the profitability of the firm. The research discovered that the percentage of committee members who are finance professionals is proportional to the pace at which grave flaws are tackled. Secondly, corporations having bigger committees have increased chances to remediate grave flaws promptly. Thirdly, the independence of the board is inversely proportional to the unwarranted influence of the administration and increased the likelihood to wield stress on the administration to remediate grave weaknesses. The research narrowed to the efficiency of committees and the board of management on the remediation of the weighty weaknesses in internal controls. This research focuses on ICS effects on financial performance.

Mohammed (2018) investigated the AC's effectiveness in restoring Jordanian investors' faith in the stock market. This benefited stakeholders and investors by allowing them to independently oversee the annual corporate reporting process. The evidence that performance was measured was provided by the processes of size, independence, financial knowledge, and stock owned by members. The processes, which included size, independence, financial competence, and stock owned by members, showed evidence that (Tobin's Q) performance is influenced by certain audit committee mechanisms. The majority of past Jordanian studies, like (Hamdan, Mushtaha& Al-Sartawi, 2013; Mohammed, 2018; Alqatamin, 2018; Zraiq & Fadzil 2018), undertook an investigation on the AC influence on organizational performance. As a consequence, the present research looks into the link between the audit committee operations as a practice in internal audit and the firm's performance. This current investigation will add to the information by highlighting the duty of the AC methods in organizational performance.

Enekwe, Nwoha & Udeh (2020) evaluated the effect of a good IA on the financial performance of Nigerian listed industrial businesses. The influence of internal auditor and AC's independence on ROA was investigated in this study. The findings of the study revealed that IA quality positively and significantly affected the performance of these firms. Wakaba (2014) in his investigation on the outcome of AC features on the economic performance of businesses listed at the NSE. The research found out that the committee's competence, gender diversity, size, and quantity of independent auditors have a weighty effect on the profitability of firms. Pizzini, Lin & Ziegenfuss (2015) posited that the Chief Audit Executive (CAE) that reports to AC is linked to lower audit report lag by assisting senior administrators in maintaining a solid structure of ICS over the reporting of financial statements. The conclusions showed that the competence of IA employees drives the negative relation link of the value of the IAF and the delay of the audit. Internal auditors increased technical skill, they argued, might improve IAF effectiveness and lower the risk of serious internal control flaws.

Beasley, Carcello, et. al (2000) investigated the gaps in companies' management processes between institutions that have committed financial reporting fraud and those that had not. They divided the institutions by market concentration, innovations, medical care, and financial services, unlike previous researchers. They used data from the NAC to balance the fraudulent firms and create a no fraud company reference base, as well as claims of false financial reporting made by the SEC between 1987 and 1997. Organizations charged and convicted of financial reporting fraud had fewer independent boards, fewer AC's, audit committees met less frequently, ACs lacked the necessary degree of independence, and the Internal audit feature offered less support to the board and audit committees. The studies above focused on Nigeria and on financial reporting respectively and not in financial performance of NSE listed banks in Kenya.

Lenz, Sarens, & Hoos (2017) explored on the interaction between the CAEs and the SM and their association with the IA effectiveness. The study discovered differences in the effectiveness of more successful and less effective IA jobs and provided additional explanations. The results suggested that the way CAEs and SM interacted was a key element in the effectiveness of IAs. Since expectations vary greatly in practice and often very little is required, this study demonstrated the hazards of using customer happiness as the major indication of IA performance. CAEs adapted to expectations as well. CAEs also can set the agenda. Good Internal auditors have "finger-feeling" and "swimming" in the firm when it comes to personal attributes. CAEs with IA designations were found to be of little further benefit. The findings show that "hidden champion" organizations seek out and benefit from excellent IA practices at the organizational level. The current study looks at internal audit practices wherein internal effectiveness is studied.

Crutchley, Jensin & Marshall (2007) investigated the probability of an institution’s involvement in accounting distress. According to the findings, those attributes increased the probability of a corporation’s involvement in accounting distress. Big levels of company growth, employing earnings administration strategies, audit committees made up of a few managers, and overextended outside directors were among the characteristics. Corporations with a reduced rate of growth and audit committees made up of more directors, on the other hand, were less likely to be entangled in accounting distresses. ICS and an ethical corporate culture were viewed as critical in inhibiting a company from being embroiled in accounting distress. The current study is on the effects of moderated internal audit practices on financial performance of NSE listed banks in Kenya.

2.3.4 Internal Control Systems and Financial Performance

Internal control entails the identification, capturing, and relaying of important information in an institution (Aldridge and Colbert, 1994). Effective communication of this information should be done to enable various stakeholders to carry out the reporting of financial statements duties adequately. This must happen in a great impression with information that flows down, across, and up in all departments of the institution (Theofanis, Drogalas & Giovanis, 2011). The latest writings on the structure of the ICS have brought up some issues relating to information and communication as a critical component based on their significance in affecting the functioning relationship at all levels in the organization (Amudo &Inanga, 2009). As a result, information such as this should be conveyed throughout the entire organization. This will therefore allow personnel to undertake their duties concerning the institutions' goal achievement. Usually, losses in banking institutions arise because of a lack of employee awareness of bank policies.

The institutions fail to report on inappropriate activities to the BOD or senior management, promptly leading to the severity of the issue and consequent losses. Incompleteness and inaccuracy of management reports create a false favourable impression of the business situation (Turley & Zaman, 2007). Effectiveness in communication and adequacy of information is imperative in the proper operations of the ICS (Arena et. al, 2006). The usefulness of the information in the banking system is based on its reliability, timeliness, accessibility, relevance, and consistency in presentation. Such information incorporates internal financial, functional, and conformance data and external environmental data regarding occurrences and circumstances useful for making decisions. Internal information must include established procedures to support the retention of records as part of the record-keeping process (Theofanis et al., 2011).

Applicable and precise policy notation and procedural guidelines help to govern the execution of activities of control. It also gives sufficient data to support the auditor's investigation of the suitability of control designs on financial management operations (Aikins, 2011). These operations of control make sure the organizational actions address risks to achieve corporate objectives. As per Rezaee and Sharbatoghlie (2001), IC operations include approvals, verifications, authorizations, and analysis of operating performance, reconciliations, assets security, and separation of responsibilities. The IAF makes them achievable. The various management levels of banks receive and analyze the acceptable performance and omission reports regularly.

Reviews based on functions happen more regularly than the highest-level reviews which are more detailed. An example is that a manager who lends commercially may analyze the weekly missed payments, cash received, and income on interest accrued on the portfolio, while the executive credit manager may analyze the same incidents monthly summarily, covering all sectors of lending areas. For top-level review, the produced questions which come up subsequently after analyzing the reports and the answers to questions are representative of the control activity. The effectiveness of control activities is based on their adoption as an integral part of bank processes (Rezaee & Sharbatoghlie, 2001). To foster a suitable tradition of control in banks, the highest-level management should promote these processes as integral to the company's success. The establishment of appropriate procedures and policies should be followed by compliance and regular reviews of the existing systems to assess their suitability. This is a significant aspect of the IAF.

It is the activity of determining the nature of the ICS in a period. Internal control measures are processes that should be monitored adequately to analyze the influence and characteristics of its performance in a period. Monitoring assures an organization's management that the audit findings and assessments are expedited (Theofanis et al., 2011; Rezaee et al., 2001). Additionally, the monitoring of activities makes sure that there are proper and functional systems of internal control (Amado and Inanga,2009). Through the process of monitoring, an institution recognizes whether the policies and procedures formulated and operationalized by the directors are being implemented appropriately by the institution’s personnel.

Bowrin (2004), indicated that the process of monitoring is attained by frequently inspecting and directing operations such as monitoring of client dissatisfactions and reactions and regular audits administered regularly by internal auditors. They can determine and analyze the structure of the internal control and the capability that the different activities are executing their appointed responsibilities. As a result, they produce a methodical and instructed model for the assessment and advancement of activities related to the governance of risk. It also ensures that there exists a successful compliance procedure by analyzing the internal controls and determining how adequate and productive the controls are. Monitoring makes sure the audit results and other examinations are expeditiously solved (Rezaee & Sharbatoghlie, 2001).

Massa (2017) researched the impact of ICS on performance financially in higher education institutions in Uganda. The major goal of the research was to determine whether there was a connection between ICS and financial results at the target institution. Internal controls were analyzed based on the control environment, control activities, and IA while monetary performance focused on the aspects of liquidity, accountability, and reporting. The researcher attempted to find out what was behind the company's weak financial results by looking at the ICS in place. According to the results, there was a close correlation link between internal control and financial efficiency. Based on University requirements for internal audit roles and the number of people required for optimum results, the study suggested competence profiling in the IA department. The IA department's role in ensuring adherence to internal controls is noted in the report. Internal controls are important for companies to improve their financial results.

Oussii and Taktak, (2018) studied having a base on a sample of fifty-nine Tunisian listed companies. The study found out that the quality of the ICS quality had a positive significance on the IAF competence, the IA quality control assurance level, follow-up process, and the AC's participation in evaluating the IA program and results. Professional organizations believe that the IAF's characteristics and activities help to improve the quality of the ICS. The above studies focused on higher institutions in Uganda and listed companies in Turkey respectively and not in Kenya. Mutua (2017) studied the impact of audit as a risk-based control on the performance financially of commercial banks in Kenya. Despite the reality that the research was aiming attention on risk-based auditing, it was noted that financial performance necessitates an internal audit that is effective and efficient. Based on the findings, the research found out that auditing was based on risk, as well as Internal auditing standards and the staff. These must have to be improved to make sure companies can perform risk-detection activities more quickly. Focus on areas where the risk is high is of importance. This results in improved transparency and accountability and thus improved financial performance. This demonstrated that there was a link between the IA and financial performance.

Ayagre, et al. (2014), researched the efficiency of the ICS of banks in Ghana. Using COSO's principles and qualities for measuring the efficacy of ICS, this research examined the environment of control and operations which monitor the components of Ghanaian Banks' ICS. Strong controls are observed in the environment of control and operations which monitor the components of Ghanaian Banks' ICS, as per the results of the research. According to the report, the committees of the banks in Ghana should not be reluctant with the results but instead must work hard to cultivate regular, distinct ICS monitoring to make sure that controls are available and working correctly. The impact of risk on financial performance was studied while Ghanaian banks ICS were also studied.

However, the current study focused on the effect of risk management as a component of ICS and the financial performance of NSE listed banks in Kenya.

Hayali, Dinc, Saril, Dizman & Gundogdu (2014) researched the advantage of the ICS in the banking sector which was examined by using data from Turkey. The significance of the ICS was discussed in this research, as well as their effects on the banking system. The study found out that banks' internal control efforts in Turkey are compliant with international guidelines, and that the banking sector has effective control systems. Furthermore, effective ICS procedures play a important role in the Turkish banking sector's robust and steady outlook. Bayyoud and Sayyad (2015) investigated the effect of the ICS and the governance of risk on Palestinian banks. The research aided in determining the effects of new banking reforms and legislation on risk management, detection, and alleviation in financial institutions. The overall ICS and the administration of risk systems in Palestine have a beneficial impact on banks' qualitative and quantitative performance were shown. The literature above examined had been implemented from countries whose tactical method and financial strength differ from the Kenyan perspective and therefore, the current study seeks to investigate the moderated IAP on financial performance of NSE listed banks in Kenya.

Magara (2013) investigated the impact of ICS on deposit-taking Savings and Credit Cooperative Societies (SACCOs) in Kenya's financial performance. Internal control was proxied using the environment of control, management of risk, activities of control, and monitoring. They had a favorable effect on the financial performance of Kenyan

SACCOs. In Kisumu City, Kenya, Nyakundi, Nyamita & Tinega (2014) examined the impact of internal control processes on the financial performance of small and medium-sized businesses. ICS have a major impact on the financial performance of SMEs, according to the research's findings. The investigation also found out that there were difficulties in implementing internal controls, particularly because the IAF, which is the core of internal controls, is lacking in technical manpower, which has harmed their performance. Inadequate financial resources have hastened the inefficiency of the organization, as seen by irregular audit efforts and the absence of regular reporting. Entrepreneurs' business understanding in ICSs was found to be lacking, according to the survey. The research concluded that internal control systems and financial performance have a substantial favorable association. However, the study was conducted in SACCOs.

Ndiwa and Kwasira (2014) conducted a study empirically that relied on the agency theory to examine the impact of ICS on financial performance in Kenyan higher education schools. A case study research design was used in this investigation. The findings found out that the IA department of the organization was understaffed. It was advised that the IA section be staffed sufficiently and that the auditor recruiting processes be free of the administration's interference. Ireri and Wagoki (2014) undertook research in Kenyan public universities to determine the role of internal control system components. The findings revealed that ICS existed in Kenyan universities, but that they were inefficient. The report indicated that ICS was strengthened in the forms of training and supervision to make sure that all staff were not only aware of controls but also actively engage in their efficacy. The agency theory was the main theory, and the study was done in the higher institutions while the main theory for this study is the attribution theory.

Muio (2012) conducted a study on the impact of the ICS on the financial performance of private hospitals in Kenya. The factors reflecting the ICS in the study were information and communication, monitoring, the management of risks, activities of control, and the environment of control. The research put to use a descriptive study technique, with the population targeted consisting of all privately owned hospitals working in Nairobi County that were certified by the National Hospital Insurance Fund (NHIF). The link between information and communication, monitoring, the assessment of risks, activities of control, the environment of control, and the financial performance of private hospitals in Kenya was determined using linear regression analysis. The research findings indicated that for an ICS to be regarded effective, all five components must be present: information and communication, monitoring, the management of risks, activities of control, and the environment of control. Monitoring, followed by the environment of control, information and communication, assessment of risk, and activities of control, had the largest impact on the financial performance of private hospitals in Kenya, according to the data. The regulator was the NHIF while the regulator in this current study is the CBK regulations.

Jones (2008) undertook a study on ICS, responsibility, and business administration in medieval and current Britain. The variables included the environment of control, assessment of risks, information and communication, as well as monitoring and activities of control. The investigation used an updated referential structure as a benchmark to explore medieval internal control measures applied in the twelfth-century royal exchequer and other firms. He established that the present-day internal control measures had been passed down from the medieval period. The elements of accountability by individuals as well as stewardship played a vital role in medieval internal control. Individual accountability is currently valued in a way that is reminiscent of medieval thinking. There has been an outstanding inadequacy of research in the third world countries regarding the moderated relationship between IAP and financial performance in listed banks. The current study seeks to bridge this knowledge gap.

Kakucha (2009) measured the extent of efficacy of Nairobi's internal controls. The analysis took into account several factors, including an organization's age and the efficacy of its ICS; the amount of capital possessed by an organization and the efficacy of its ICS; and the essence of how the ICS and financial output relate. The research was quantitative, and it included a sample of 30 smaller firms from Kenya's National Social Security Fund (NSSF) register from 2008. The research reveals that internal control structures have bugs, with the magnitude of the flaws varying from one organization to the next. The elements of ICS that were lacking in the majority of the companies surveyed were risk identification and a lack of adequate information flows. Amudo and Inanga (2009) investigated the examination of ICS in the African Development Bank Group's (AfDB) Regional Member Countries (RMCs), with a focus on Uganda in East Africa. The variables included monitoring, control operations, risk management, information and communication, and the control environment. According to the findings, some elements of control that are of effective ICS and mechanism are missing in these projects, rendering the current mechanisms of control ineffective. The analysis suggested that the projects' existing internal control mechanisms be improved. The study focused on a sector in Uganda while the current study focuses in NSE listed banks in Kenya.

Further, the analysis showed that the population sample was unaware of what constitutes an efficient ICS. The research also revealed that there is quantitative proof to substantiate a negative association between an organization's age and the efficacy of its ICS. Furthermore, the researchers discovered a detrimental relationship between an organization's wealth and its internal control vulnerabilities. Finally, the analysis discovered that internal control failures and financial results have a poor negative relationship. However, the results of particular constitutes of internal control, such as monitoring and assessment, as well as risk auditing and management in small businesses, were not included in this report. Nawhera (2012) agree that the IAF had a substantial beneficial influence on performance in terms of control environment evaluation, risk assessment, monitoring, and advising services in his study on the Internal audit function and financial performance of the NSSF in Uganda. The study investigated the financial performance in NSSF.

Ewa and Udoayang (2012) searched to find out the effect of the structure of the ICS on the bank's potential to determine employee fraud and employee way of life and the detection of fraud in Nigeria. The findings showed that the ICS affected the employees' attitudes regarding fraud. A robust internal control structure prevents employee fraud by ensuring that all necessary checks are in place and limiting staff members' capacity to engage in any deliberate fraudulent action. A poor mechanism, on the other hand, proves the structure to fraud and provides a chance for employees to get involved with fraud due to the existent gaps. As a result, the examination stressed the importance of having a positive strong ICS in place to prevent fraud. The above study concentrated on internal controls role to detect fraud. The current study focused on the effect of moderated IAPs on financial performance of NSE listed banks in Kenya.

Olatunji (2009) purposed to investigate the effect of ICS in the banking industry. Protective measures, detective controls, and corrective measures were the three categories into which controls were classified in the study. The information underlying the findings came from data collected from fifty Wema Bank Plc branches. This required traveling to each of the states that had been previously mentioned and asking the staff members in authority, who provided proper answers. Both primary and secondary sources of information, such as an interview, a formal questionnaire, journal articles, textbooks, newspapers, and the internet, were used to gather the data. Since primary data is the original research, secondary data is used to complement it. The study used both descriptive and inferential statistical methods in the analysis of data. The descriptive statistical approach employs tabulation, percentages, and the presentation by use of graphs. The inferential statistics employed the chi-square. Internal control deficiencies, according to the results, were a major source of bank fraud in Nigeria. According to the findings, every bank's administration must develop and implement a standard internal control structure that can withstand the machinations of fraud to ensure the bank's financial health, liquidity, and going concern principles. The study was limited to internal controls only while this current study seeks to determine the Internal audit practices with ICS as a component of internal audit.

Ngugi (2020) determined to investigate the practice relating to the system and the application of the internal control structure in the public sector. The research investigated whether there was a disparity in efficacy and efficiency. The study concentrated on the critical elements of internal control structure, such as the environment of control, assessment of risk, control methods, information and communication, and monitoring. The research looked at the structures of the various industries to see what they had in common and where they differed. Questionnaires and focused group discussions were utilized to gather information for this research. The information gathered was examined using descriptive and inferential statistics. The findings revealed that the private sector has a stronger internal control structure than the public sector across the board. Nevertheless, there was no major discrepancy in the monitoring and operations of control between the public and private sectors. In reality, the public sector includes stronger aspects of preventative controls. The sector in the above study is different from the current study on NSE listed banks in Kenya.

Barra (2010) conducted a study on the impact of fines and other internal controls on personnel tendency to commit fraud. The outcomes revealed that the quality of control operations and division of roles lifts the price of fraud. Thus, in an environment of segregated roles, the reward of performing an act of fraud must surpass the cost for staff to conduct fraud. Furthermore, it was determined that division of roles is a "lowest-cost" fraud impediment for the personnel that is not in the management, whereas maximal fines are the "lowest-cost" fraud determent for employees in management. According to the findings, detective controls are required for the effectiveness of preventative controls like the assignment of duties. This study explores the impact of internal audit procedures on financial performance as well as how fraud might be found in Kenya's NSE-listed banks.

Wainaina (2011) examined the Kenya Polytechnic University College's internal control structure. Control climate, risk evaluation, control practices, communication and information, monitoring, and information technology were among the variables studied. The research's findings revealed that, instead of being present on the activities' scene, the administration should depend on internal control strategies to carry out its policies and govern the operations for which she is eventually accountable. The use of efficient ICSs in the management of financial resources is deemed essential in this light. As a result, every institution's management creates internal control processes to assign, control, and ensure optimal resource usage to meet overall organizational goals. ICSs were discovered to ensure fraud is detected and prevented as well as secure the institution's tangible and intangible assets. This is accomplished by implementing appropriate authorization controls and documents. The study focused in the educational sector while this current study is in the NSE listed banks in Kenya.

Olumbe (2012) studied how ICS and corporate administration relate to Kenyan commercial banks. The equity structure, 28 enterprises' internal and external supervision vacancies, the board of management, and supervisors were among the variables. The research used a descriptive research methodology and included all 43 commercial banks in Kenya. A standardized questionnaire and an unstructured interview guide were used to collect primary data. The information was examined using a linear regression approach based on descriptive statistics and a performance comparison between 2009 and 2011. The research reveals that most banks had adopted the different parameters used to determine internal controls and corporate governance, as demonstrated by the means used to collect information on the subject, and that the participants agreed that their banks had introduced good corporate governance and a strong structure of internal controls. Internal control and corporate governance are inextricably linked. An efficient internal control structure is the bedrock of efficient management and, as a result, outstanding organizational performance (Badara, 2015). The current study uses multiple regression equations as well.

Oseifuah and Gyekye (2013) undertook a study on how effective the internal controls in SMEs in South Africa were. The report concentrated on SMEs in Limpopo Province's Vhembe District. The data was collected via a questionnaire, and the Chi-square statistical approach was used to determine the link between levels of internal controls among enterprises in the research area by size and kind of business. Internal control methods among small company businesses were found to be lacking, with only 45 percent of firms examined having adequate internal control mechanisms in place. The study above concentrated on SMEs and not on NSE listed banks.

The current study seeks to bridge the above gaps by analyzing how the Internal audit works as well as an assessment of the conditions that impede or facilitate the process. Internal audit activities and findings do seem to have a short-term impact on an organization's operations; they are the foundation of the corporation, and they determine its success or failure. Its efficacy and appropriateness should be promoted at all stages, particularly within management, to ensure its feasibility. The studies above provide various excellent bases for understanding the relationship of Internal audits on the financial performance of various organizations. These include the Savings and Credit Co-Operative Society (SACCOs,) National Social Security Fund (NSSF), National Hospital Insurance Fund (NHIF); Institutions of higher learning, commercial banks among others are some of the institutions that have been studied in the private and public segments. These have also been studied in Europe, Asia, Africa, and East Africa. Nevertheless, it looked like looseness had found its way in, and it is as a consequence that the study sought to investigate the effect of moderated internal audit practices on financial performance of Nairobi Securities Exchange (NSE) listed banks in Kenya.

2.4 Conceptual Framework

This is what a researcher conceptualizes what the connection of the variables is. The researcher then represents the relationship visually. (Mugenda and Mugenda, 2003). It appreciates conceptualization quantitatively, operationalization, data gathering techniques, and measurement of the variables known (Neuman, 2000). In addition, the conceptual framework addresses the different variables in the research. (Cooper and Schindler,2004).

The research investigated the effect of internal audit practices on the financial performance of NSE-listed banks and also investigated the moderating effect of the CBK regulations on the effect of IA practices on financial performance. The conceptual framework of the research consisted of the independent variables; International Standards of Auditing, Internal audit independence, Audit Committees operations, and Internal control systems while the dependent variable was the financial performance. The Moderating variable was the CBK regulations. This research was led by the conceptual framework shown in Figure 2.1.

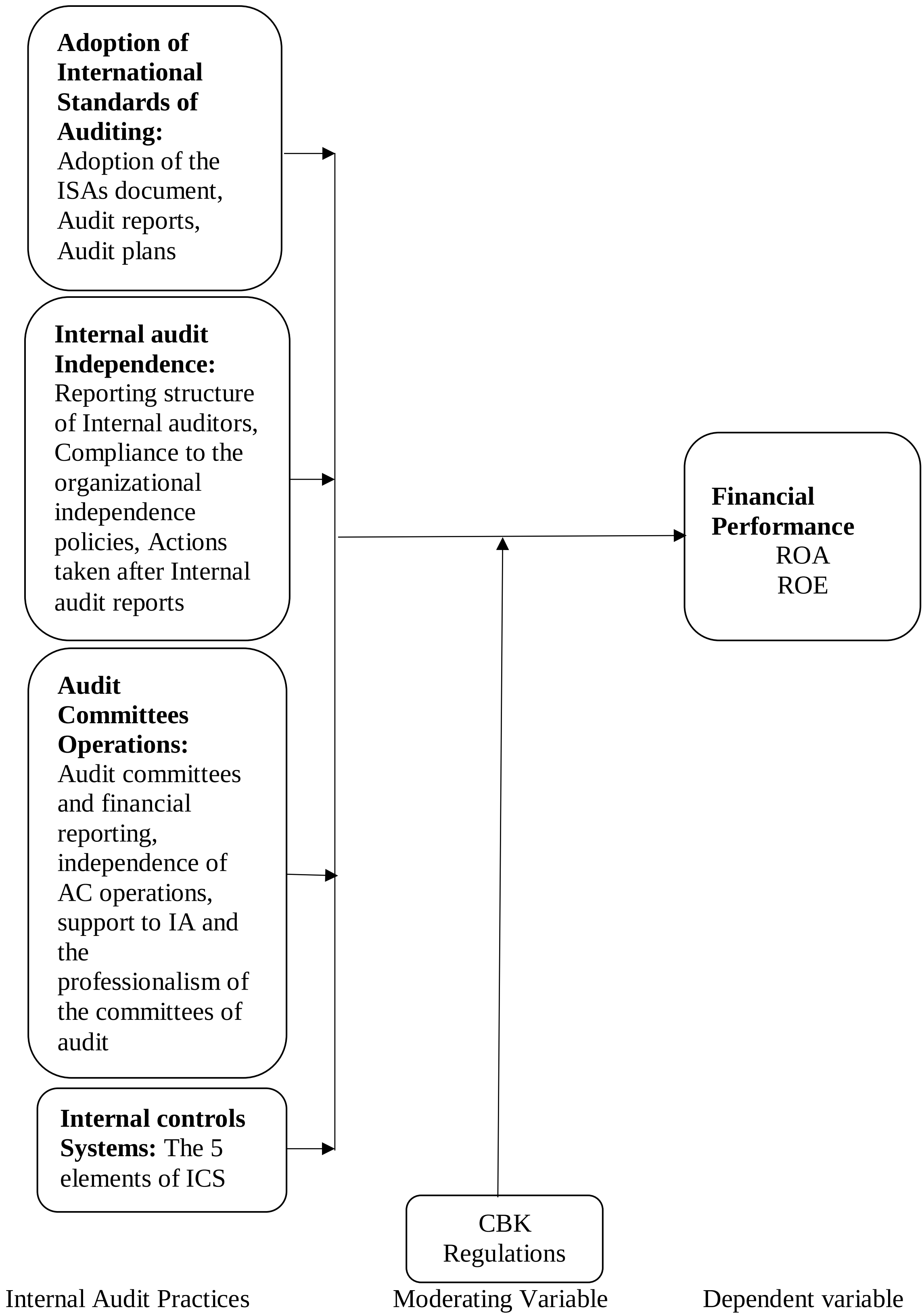

Figure 2.1: Conceptual Framework

2.5 Summary

The chapter explored the review of the literature by various writers on the research objectives. The major objective was to investigate the effect of moderated internal audit practices on the financial performance of the Nairobi Securities Exchange (NSE) listed banks in Kenya. The specific studies of the research included the adoption of ISAs, internal audit independence, audit committee operations and internal control systems and their relationship between the financial performance of NSE listed banks in Kenya. The agency theory is majorly concerned with trying to correct and solve the challenges that may be there in agency relations. This relationship is, between the agents and principals. Two major problems that the theory tries to solve are: those that usually exist after the objectives and needs of the principal and the agent do not agree and the principal is not able to validate what the agent is working on and the challenges that come into being when the principal and agent have diverse perceptions towards risk. The theory relates to the dependent variable factors affecting the financial performance in that it looks into the risk that may arise relating to the financial performance of an organization. This theory however doesn’t cover other reasons other than the differing attitudes between the principals and the agents when conflicting interest arises.

According to the contingency theory of administration and leadership, there is no one-size-fits-all approach to leading, controlling, and managing companies. The duties of audits are tailored to the various firms that are influenced by numerous environmental conditions. The existence of these determinants is the reason why auditing can be guided using the contingency theory. It recognizes that audit procedure and results are dependent on variable and contingent determinants; however, these do not primarily define why managers choose a particular leadership method to lead control and manage an organization, and how it affects Internal audit standards.

The studies reviewed examined the ancient and recent studies related to the research problems. A further analysis of the literature systematically allowed for studies of research recommendations which had not been examined. Some of the studies discussed agreed with one theory while some contravened to another. This is since various research had various factors in the environment such as the activities and operations involved and including the moderating variable applicable. Various studies also used financial performance measures that were different from one industry to another. Diverse research methodologies were also discussed in the reviews including case studies and surveys. Both private and public sectors were examined to ensure that the discussions were inclusive. Despite the diverse views, the majority of the findings obtained showed a positive effect on the internal audit practices and financial performance.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

In conducting the research, the goal of this study was to investigate the effects of moderated internal audit practices and the financial performance of the Kenyan banks listed in NSE. The section of the paper gives the research process, design, and methodology for handling provided data to ascertain the achievement of the specific objectives and hypotheses guiding the study.

3.2 Research Philosophy

The research assumed a positivism research philosophy. As a philosophy, positivism affirms that only "factual" information acquired by observation which includes measurement, is reliable. Positivism perceives the role of the researcher's investigation in a goal-oriented way, where there is a restriction to data gathering and processing, and interpretation. According to Wilson (2010), positivism is dependent on material findings that point to statistical evaluations. It's been established that "as a philosophy, positivism conforms with the empiricist view that knowledge is as a result of human experience. It has an ideational, epistemological worldview consisting of aspects and occurrences that communicate in a measurable, defined and regular way that is explicit, provable.

In this research, the investigator will use a deductive approach that is factual. As a fundamental rule, positivist researchers typically embrace a deductive approach, while the inductive method to research is generally linked to the philosophy of phenomenology. Furthermore, positivism refers to the view of interpretation that investigators must concentrate on reality, while phenomenology focal point is on the meaning which provides interest to humans (Crowther & Lancaster, 2008). The selection of the positivism philosophy was influenced by the fact that the events under inquiry were unbiased, independent of the researcher, and external, as well as being founded on visible social reality, which constitutes the main assumptions of positivism (Carr, 2006).

3.3 Research Design

This research adopted a quantitative design based on correlational and descriptive methods which are applicable in deducing the required responses. Using the correlational design is a necessity since it examines the underlying relationships between the selected variables at a deeper level based on their numerical nature (Cooper & Schindler, 2014). The comparison made based on the generated numerical measures enabled the researcher to quantify the magnitude of effect. The correlational design is essential for proving the nature and direction of the relationships given that it involves no manipulation of extraneous variables but instead only relies on determined associations to conclude the data.

3.4 Target Population

A population is described by Kombo and Tromp (2006), as a specific person, organization, segment, event, social occasion, or family that are fully inspected. This description is applicable when the populace is not comparable. The eleven (11) Kenyan banks that were listed on the NSE and conducted transactions between 2013 and 2017 were the populations of importance in this inquiry. To ensure consistency in comparisons at the time of the research, the time frame 2013–2017 was selected. The CBK annual supervisory reports are freely available, have been audited, published, and are accessible to the general public during the periods specified.

There are eleven (11) primarily NSE-listed banks in Kenya (Appendix VI) and one secondary listed bank which is the BK group primarily listed in Rwanda. This was preferred since the financial statements could be depended upon and were readily available at the time of the research. These are exposed to a compulsory audit by a globally known audit firm and the CBK as a regulator.

3.5 Sampling Design

A sample design is described as a process involved in obtaining a sample or the selection of the right sample size for the study. In addition, Saunders, Lewis and Thornhill (2016), affirm that a sampling design is a procedure that ensures the data gathered is representative of the populace of the research. The sampling frame, sampling technique, and sample size, all make up the sample design.

3.5.1 Sampling Frame

This describes the items in which a representative sample is chosen for conducting a study (Kombo & Tromp, 2006). The research was conducted in the eleven banks that are listed in the NSE which are given licenses by the Central Bank of Kenya. The study adopted a census survey. They include the Kenya Commercial Bank, CFC Stanbic Bank Ltd., Diamond Trust Bank Kenya Ltd., Housing Finance Ltd, Equity Bank Ltd., Co-operative Bank of Kenya Ltd., National Bank of Kenya, I & M Bank, Standard Chartered Bank, Barclays Bank of Kenya and NIC bank.

3.5.2 Sampling Technique

As per Kothari (2004), a sampling technique is a procedure applied to select a sample from a larger population. Stratified sampling was done to identify the different departments in the listed banks. Thereafter, purposeful sampling was applied to deduce a representation of the participants. The purposeful technique is a type of non-probability sampling method applied to study a focus populace with definite attributes (Saunders, Lewis &Thornhill, 2016). The study chose the participants grounded on their understanding, skill set, and engagement with the IAF. The focal point of the investigation was the internal audit department, the audit committee representation, and the financial department of these companies. The IA department was expected to give a representation of two respondents, while the other departments were to give a representation of one respondent per department. Therefore, a total of four respondents were expected per bank totaling to a grand total of 44 respondents.

3.6 Instrument and Data Collection

The research relied on primary data collected from the eleven (11) NSE-listed banks of interest and secondary data. The designed instrument, which is a semi-structured questionnaire, included the firm's characteristics and other questions measuring international standards of auditing, the internal auditor's independence, the audit committees, and internal controls. The firm's characteristics present the basic company data such as several employees, years of operation, and size, among others. Such data was obtained from the respondents themselves.

Secondary financial data was obtained by use of data extraction techniques from the reports generated by the banks for submission to the NSE and the Central Bank of Kenya. Banks that have been in operation between 2010 and 2019 were incorporated to guarantee that the frame of sampling is up to date and complete. The investigator gathered information from the financial statements on the aspect of the net income, total assets, the shareholder's equity, and the solvency disparity in the balance sheet of the bank from the notes to the accounts. Observations were eliminated for companies with irregularities such as undesired values of their total assets, current assets, fixed assets, equity, depreciation, or interest paid. Furthermore, the research only took into account firms that continuously operated between 2013 and 2017. The collection process occurred through the mail using soft-copy questionnaires on google form as well as a few hard copy questionnaires for the respondents that requested them.

3.7 The Pilot Study

The object of the pilot study was to establish the validity and dependability of the instrument applied in the research (Joppe, 2000). Pilot testing offered the investigator a chance to revise instruments and data gathering procedures. This ensured that correct queries were asked, the right data was gathered, and established that the data gathering method works (Myers, Jerome, Arnold & Well, 2003). This study undertook a pilot study on two of the commercial banks not listed. The essence of a pilot study is to make sure and enable the researcher to test the effectiveness of the data collection instruments for use during the study. Amron, Ibrahim, Bakar, & Chuprat (2020) advocates for the pilot study as a means of identifying which of the questions are ambiguous and as a result, not contributing effectively to the obtained results of the study. The pilot study involving only two commercial banks not listed was conducted and the results were used to confirm the dependability of the instruments used for the gathering of information. During the pilot study, different parts of the questionnaire were edited to ascertain that the questions included were relevant and effective in analysing the phenomenon in question.

3.8 Validity and Reliability

Validity is the overall consistency of a measure based on studies' outcomes. (Mugenda & Mugenda, 2003). Reliability aims at ascertaining that the results outcomes obtained from the research can remain similar even if conducted by another researcher sometime in the future. The Cronbach's alpha, which is an internal measure of consistency, was necessary to determine the reliability statistic. A value of 0.7+ shows the high reliability of the data. The validity of content derives an inference from test scores to a wide range of items like those on the test. Sample-population representativeness also relates to content validity (Rousson, Gasser, & Schreiter, 2003).

Leach and Gillham (2011) indicated that the experience and expertise covered by the test items should be reflective of knowledge and expertise in the larger field. When determining the validity of the data, the researcher considers the assumptions of linearity, the absence of outliers, and related pairs for all entries. The absence of outliers is necessary to ascertain that the obtained results are not skewed. There was a need to meet the assumption of normality to enable the fitting of the model required for prediction. The analysis only occurred upon confirming the data meets the set standards.

3.9 The Operationalization and Measurement of Variables

The considered variables in the study were financial performance, internal standards of auditing, independence of internal audit, audit committees, and internal controls. The questionnaire included different questions that point to the measurement of the specified variables. Financial Performance (dependent variable) was measured on an ordinal scale. The recorded data from the different years in operation were grouped into various categories and the representative values for their categories were recorded as the responses. Summing the different categories enabled an analysis of the variable based on different elements.

Audit Committees (independent variable) were analyzed on an ordinal scale and determined by summing up the outcomes of the different statements formulated in the questionnaire. For this variable, the questionnaire comprised ten questions with responses ranging in categories 1-strongly agree, 2- agree, 3-neutral, 4-disagree, 5-strongly disagree on a Likert scale. The scores for the variable range from 10-50, where 50 was the highest standard and 10 the lowest standard. Summing the outcomes was necessary given competency in an organization cannot be determined by a single statement.

Internal Controls (independent variable) were examined on an ordinal scale and determined by summing up the outcomes of the different statements formulated in the questionnaire. For this variable, the questionnaire comprised of various questions depending on the constitutes of internal controls with responses ranging in categories 1-strongly agree, 2- agree, 3-neutral, 4-disagree, 5-strongly disagree, on a Likert scale.

Summing the outcomes was necessary, as the effectiveness of the internal controls could not be determined using opinions on a specific factor.

The adoption of international standards of auditing (independent variable) was analyzed on an ordinal scale and determined by summing up the outcomes of the different statements formulated in the questionnaire. For this variable, the questionnaire comprised of six questions with responses ranging in categories 1-strongly agree, 2- agree, 3-neutral, 4-disagree, 5-strongly disagree on a Likert scale. The scores for the variable ranged from 6-30, where 30 was the highest standard and 6 the lowest standard. Summing the outcomes was necessary as the efficiency of the Internal audit standards could not be determined by a single variable.

The independence of the IA (independent variable) was measured on an ordinal scale and was determined by summing up the outcomes of the different statements formulated in the questionnaire. For this variable, the questionnaire comprised of seven questions with responses ranging in categories 1-strongly agree, 2- agree, 3-neutral, 4-disagree, 5-strongly disagree on a Likert scale. The scores for the variable ranged from 7-35, where 35 is the highest standard and 9 the lowest standard. A summary of the above is found in Table 3.1

Table 3.1: Summary of Operationalization and Measurement of variables

Variable	Variable type	Operationalization	Measurement
Financial performance	Dependent	Return on assets Return on equity	Net income/Average total assets and Net Income/Shareholder's equity
International Standards of Auditing	Independent	Adoption and compliance with the international standards of auditing (ISA)	Likert scale
Internal audit independence	Independent	The reporting structure of Internal auditors, organizational independence, Internal audit reports	Likert scale
Audit committees	Independent	Composition of audit committees, independence of audit committees, audit committee support to an Internal audit, financial expertise of audit committees.	Likert scale
Internal controls	Independent	Environment of control, management of risk, information and communication, activities of control, monitoring.	Likert scale

3.10 Diagnostic Tests

Several diagnostic tests were used in the study to assess the regression model's suitability for identifying the association between the variables.

3.10.1 Multicollinearity

Multicollinearity is a linear regression problem that occurs when independent variables influence each other. This means that fitting a model on such data is impossible if one or more of the independent variables are precise combinations of other independent variables

(Brooks 2008). Multicollinearity is a measure of the lack of connection between two or more independent variables. The variance inflation factor (VIF) was used in this investigation to discover possible multicollinearity issues. The VIF measure's basic rule is that the value should not exceed 10 with a tolerance of more than 0.1.

3.10.2 Measures of Normality

The goal of the normality test is to verify if the data has a normal distribution. Jarque-skewness Berra's and kurtosis statistics were employed to test normality in this study. The general rule is that in normal statistics, the skewness and kurtosis measures should be zero and close to three, respectively (Gujarati, 2007)

3.11 Data Analysis and Presentations

Anderson and Krathwohl (2001) hypothesized that the investigator must be able to decipher its dependability once data has been gathered. The process involves the data being summarized and categorized to a short-lived controllable length, determining themes, examining, and conducting assessments. It was at this point that the investigator concentrated on the obtained data. A regular comparison of the results to previous research was done to determine if they supported existing studies. The study used quantitative data analysis methods. Descriptive statistics, which consists of the mean and standard deviation, were the quantitative techniques used. For analysis, the study utilized correlational studies and regression equations. Correlation analysis was used to get the materiality of the variables' relations. To demonstrate the effects of the variables, multiple regressions were used.

The data analysis was done using the descriptive and inferential statistics by use of the analysis program IBM SPSS version 25. In conducting the analysis, the researcher gave weight to answering the five-set objectives to draw the necessary conclusions. In finding out the effects of the independent variables on the dependent variables (financial performance), there was a need for descriptive data to explain the distribution of the responses. Additionally, the researcher conducted correlational tests to investigate the direction and strength of the relationships. For parametrically distributed data, there was a need for a Pearson Correlational statistic. The statistic is considered strongly correlated if above 0.5 with positivity or negativity determining the direction of the relationship. For interpretation regarding significance, the p-values were necessary, where <0.05 proves the researcher's hypothesis was significant. Data was then presented by use of cross-tabulation charts, figures, tables and bar graphs.

For the general objective, which is to establish the overall effect of the independent variables on the dependent variable, there was a need to run a multiple linear regression model to establish the combined relationships. Two models were run to establish the effects. The multiple linear regression was used in partnership to the structural equation model. From the models, it was easier to predict the likely financial performance based on the different variables. The first model sought to assess the relationship of IAP to financial performance while the second model assessed the effect of the moderated IAP on the financial performance. The regression model was as follows:

$Y_{ij} = \beta_{0j} + \beta_{1j}X_{i1} + \beta_{2j}X_{i2} + \beta_{3j}X_{i3} + \beta_{4j}X_{i4} \ldots + an\ \beta_{pj}X_{ip} +$
$\in_{ij}$…………………………**(i)**

$$Y_{ij} = \beta_{0jm} + \beta_{1j}X_{i1m} + \beta_{2j}X_{i2m} + \beta_{3j}X_{i3m} + \beta_{4j}X_{i4m} \ldots + an\,\beta_{pj}X_{ipm} + \in_{ij} \ldots\ldots\ldots\ldots\ldots\ldots \textbf{(ii)}$$

Where:

Y is the Financial Performance of the bank.

β_0 is the regression constant.

β_1, β_2, β_3, and β_4 are the coefficients of independent variables.

X_1 is the adoption of ISAs

X_2 is internal audit independence.

X_3 is the AC operations.

X_4 is ICS and

X_m is the moderating variable (CBK regulations)

ε is the error term.

3.12 Ethical Considerations

These are developed to ensure that the investigator does not go against the privileges of the persons offering to participate in the study. The fundamental ethical considerations outlined include safety of personal data, confidentiality, and no harm intended to the organization. Before engaging any of the clients, the researcher sought permission from the institution heads such as CEOs and provided extensive information for purposes of informed consent. An introductory letter and permit from the National Commission for Science, Technology and Innovation (NACOSTI) was an added assurance in Appendices I and II. With the collected information, the researcher also ascertained anonymity such that in case of any illegal access, no third party could trace the information back to the respondent. Additionally, grouping the questions in the analysis process also eliminated direct access and comprehension of the private financial information given by the company. Strict observance of the ethical practices encouraged participation and the presentation of more accurate data.

3.13 Summary

The chapter describes the positivism research philosophy that was adopted and the research designs. The descriptive and correlation designs are clearly defined and explained further to determine their applicability in the research. The chapter also explains the population targeted and the techniques used to determine the samples for the study. The instrument and data collection techniques are also discussed, the validity and reliability as well as diagnostic tests are shared. The chapter concludes by data analysis and presentation of data and the ethical considerations to be applied prior to data collection and issuing of the questionnaires.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The chapter includes the test results and results obtained from conducting an analysis of the collected data and a discussion of those findings. The reporting is organized in accordance with formulated objectives of adoption of ISAs, independence of IA, AC operations and ICS and hypothesis guiding the research.

4.2 Instruments

The instruments were tested for validity and reliability. The results are as discussed below.

4.2.1 Validity of the Instruments

The essence of conducting a validity test is to ascertain that the data collection process occurred to precision to avoid drawing any wrong conclusions to the study. During the pilot study, some of the identified mistakes in the questionnaire included the inclusion of different Likert Scales within one section aimed at measuring a single variable. In the section, 5 out of the six questions had "1-strongly agree, 2- Agree, 3- Moderately agree, 4- Disagree and 5- strongly disagree" as the categories while the remaining had "1-Very great extent, 2-Great extent, 3-Moderate extent, 4-Little extent, 5-No extent" as its categories. Other misspelled information like written sentences were also corrected to ascertain that every of the included questions was clear and therefore, easier for the respondents to understand. An example in section C of the questionnaire, where the initial question was "Internal auditors reporting to the senior management affects their quality of work and their contribution to the organization". The question was changed to "an internal auditor must be independent of both the personnel and operational activities of an organization” so that the respondents could tackle it with ease without the need for an explanation from a research assistant.

Besides this, the Kaiser-Meyer-Olkin (KMO) and Bartlett's test of sphericity were administered to measure the sampling adequacy. The two statistics are obtained by conducting the factor analysis as a means of dimension reduction to look into the number of items contributing effectively to the variable under measurement (Bandalos & Finney, 2018). Through this, it is possible to determine the description of the underlying relationships among the items used to define the variables. The findings established that every one of the variables under measurement comprised of items with a positive relationship among them. For the ISA, the KMO measure of adequacy was 0.738 with a corresponding p-value of <0.05 for Chi-square value 118.899. The significant p-value was an indication that the included items were a sufficient measure for the international standards used for auditing.

Another variable of interest was the independence of the audit, measured using items such as overdependence on the management. The KMO measure of adequacy was 0.904 with a corresponding p-value of <0.05 for Chi-square value 206.774. The significant p-value was an indication that the included items were a sufficient measure for the independence of the auditing team. This is as shown in Table 4.1

Table 4.1: KMO and Bartlett's Test

Factor	KMO	Approx. Chi-Square	Bartlett's Test	df
International Standards of Auditing	0.738	118.899	0.000	6
Independence of the Internal audit	0.904	206.772	0.000	15
Operations of the audit committee	0.716	113.532	0.000	28

The third variable, which measures the operations of the auditing committee on the financial performance of the organization, recorded 0.716 as the measure of sphericity accompanied by 113.532 for the approximate chi-square. Bartlett's statistic is less than 0.05, which is an indication of significance and therefore, a positive relationship among the included statements used to measure the variable.

For the final variable internal control systems, the different elements were put under consideration to ascertain that they contributed efficiently to the final variable. First, the five elements: environment of control, the management of risk, control activities, information and communication systems, and monitoring activities were considered independently as they all comprised different items. The statistics obtained were posted in Table 4.2

Table 4.2: KMO and Bartlett's Test Individual Measures for Internal Control Systems

Factor	KMO	Approx. Chi-Square	Bartlett's Test	df
Control assessment	.749	60.494	0.000	10
Risk management	.677	102.768	0.000	10
Information and communication systems	.742	117.907	0.000	15
Control activities	.861	228.587	0.000	21
Monitoring activities	.737	93.292	0.000	3

The posted results revealed that the items used to measure the structured variables had a positive relationship and contribute effectively to their definition. Further, an analysis of the contribution of the items to the final variable also confirmed their relevance. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0.904, the approximate chi-square 298.144 with a corresponding p-value of 0.000. Bartlett's test, as a result, was significant since it is less than 0.05 that is the level of significance.

4.2.2 Reliability Analysis

The reliability of the instruments was measured using the Cronbach's Alpha statistic, which gives values between 0 and 1 (Chan & Idris, 2017). The generated coefficient gives the best reliability if above 0.7 and the worst performance if below 0. The reliability statistics were generated for the different sections of the questionnaire, as they comprised of questions measuring different parts of the study. The results are presented in Table 4.3 with the number of items referring to the number of questions in the section used to generate the reliability statistic.

Table 4.3: Reliability Statistics

Factor	**Cronbach's Alpha**	**No of items**
The Effects of International standards of auditing	0.950	6
The Effects of Independence of the Internal audit	0.800	7
Influence of the audit committee	0.765	10

The conducted reliability analysis for the first three variables reveals that there was very high reliability since none of the values was below the recommended statistic 0.7. The number of questions included in every section was what was relevant for use in the actual study. Unlike the first three sections, the third section for internal controls had five different parts whose aim is to determine the influence of the different parts on the outcome of the study. The statistics obtained are as posted in Table 4.4.

Table 4.4: Reliability Statistics for Internal Controls

Factor	**Cronbach's Alpha**	**No of items**
Control assessment	.871	6
Risk management	.963	7
Information and communication systems	.940	3
Control activities	.963	8
Monitoring activities	.946	5

The Cronbach's Alpha values obtained were greater than 0.7, which indicates high levels of reliability for the five components used to gauge the internal controls of the various banking institutions that took part in the study (Connelly, 2011). For the entire questionnaire, the included items were verified as being important as part of the data collection and analysis during the actual study.

4.3 Diagnostic Tests

The normality, multi-collinearity, homoscedasticity and QQ plots were relevant diagnostic tests for running linear correlations and the construction of the general linear model. This was due to the existence of two dependent variables used to measure the financial performance of the banks included in the research.

4.3.1 Normality Tests

The Normality Tests used in the study are Shapiro Wilk's lambda and the Kolmogorov Smirnov statistics. The two statistics test the hypothesis that the data was normally distributed, which was an indication that a value higher than the considered level of significance was an indication of normal distribution for the variables (Cox, 2017). The results are as shown in Table 4.5.

Table 4.5: Normality Tests

Factor	Dependent Variables	Kolmogorov-Smirnov			Shapiro Wilk's		
		Stat	**Df**	**Sig.**	**Stat**	**Df**	**Sig.**
International Auditing Standards	ROA	0.260	4	0.532	0.951	4	0.626
	ROE	0.182	4	0.065	0.984	4	0.832
Independence of Audit	ROA	0.273	4	0.200	0.935	4	0.631
	ROE	0.305	4	0.144	0.832	4	0.143
Audit committee's operations	ROA	0.328	4	0.084	0.805	4	0.082
	ROE	0.428	4	0.543	0.752	4	0.227
Internal control systems	ROA	0.266	4	0.200	0.822	4	0.056
	ROE	0.141	4	0.432	0.744	4	0.215

From the results recorded for the Normality tests, none of the significant values for both tests were less than 0.05, which was an indication that the variables when tested according to the dependent variables were normally distributed. The significance values are greater than 0.05. It is therefore conclusive that the data in the variables are normally distributed for each of the dependent variables.

Further, a test was done to test the normality of the CBK prudential regulations as shown in Table 4.6.

Table 4.6: Tests for Normality for CBK Regulations

	Are CBK prudential regulations enough	Kolmogorov-Smirnov			Shapiro-Wilk		
		Stat	**Df**	**Sig.**	**stat**	**df**	**Sig.**
ROA	No	.266	20	.001	.822	20	.002
	Yes	.141	16	.200	.928	16	.225
ROE	No	.307	20	.000	.735	20	.000
	Yes	.209	16	.060	.890	16	.056

The Kolmogorov and Shapiro tests show p-values more than 0.05 for those who agreed that the CBK prudential guidelines are enough to curb all commercial banks irregularities. The values are 0.200 and 0.060 for the Kolmogorov and 0.225 and 0.056 for the Shapiro tests of normality for the ROA and ROE respectively. From the above results, a conclusion can be made that the data in the variables exhibit multivariate normality for those applying the CBK regulations effectively to their banks since the p-value are more than 0.05 for ROA and ROE.

4.3.2 QQ Plots

The plots established for the different variables are also an indication of the normal distribution confirmed by the Shapiro Wilk's and the Kolmogorov-Smirnov tests. The plots, also referred to as the quantile-quantile plots, are scatter plots giving out straight lines if the plotted quantiles belong to the same distribution (Cox, 2017). The plots for the variables under measurement are in Figure 4.1.

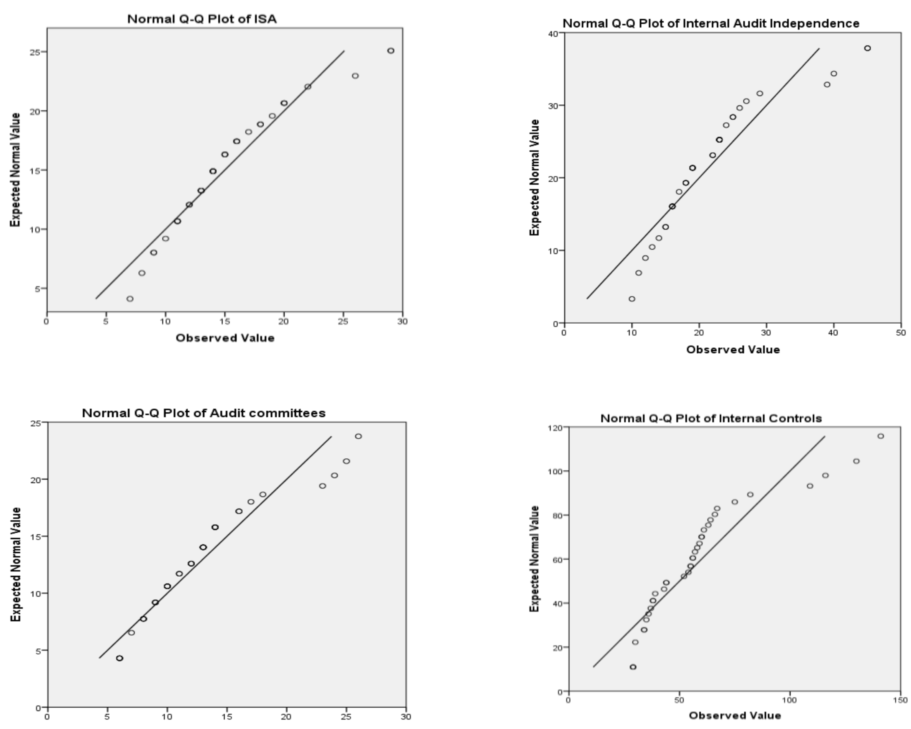

Figure 4.1: QQ Plots for Independent Variables

The constructed QQ plots for the independent variables reveal that they were normally distributed since much of the data was closer to the fitted line with only the ends deviating from the line. For the dependent variables, the following plots in Figure 4.2 also show that they were normally distributed since they assumed an almost similar shape.

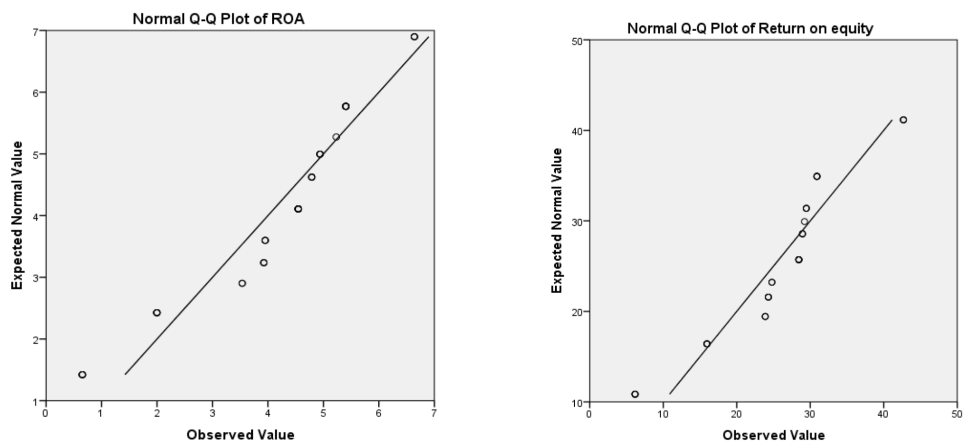

Figure 4.2: QQ Plots for Dependent Variables

Although not fitting neatly in a straight line, the constructed QQ plots for the dependent variables also reveal the possibility of a normal distribution since many of the recorded values are closely aligned to the fitted line.

4.3.3 Homoscedasticity Test

Whenever there exists the violation of homoscedasticity in the data set, there is the possibility of inhibiting a proper evaluation of the forecast errors resulting from the standard deviation. The presence of heteroscedasticity results in inconsistent confidence intervals that can be too wide or narrower than anticipated. Breusch-Pagan tests the hypothesis that the variances of the errors are equal, therefore implying that a p-value greater than 0.05 represents homoscedasticity (Đalić & Terzić, 2021). For the dependent variable ROA, the obtained values for Chi-square and p-values were 0.6034 and 0.4404 respectively. For the dependent variable ROE, the determined values were 0.8342 and 0.1853 for Chi-square and the p-value respectively. The values generated by the test indicate that the responses obtained are greater than the level of significance 0.05. Given this, one can conclude that the variances of the errors for both the dependent variables were equal. This is as shown in Table 4.7.

Table 4.7: Results of the Breusch-Pagan Test

Dependent Variable	Chi-Square	Sig.
ROA	.6034	.4404
ROE	.8342	.1853

Since the analysis was conducted in SPSS, a scatterplot of the residuals against the predicted values was also done to confirm the results. The presence of heteroscedasticity was determined by the presence of a pattern in the plot that indicates an increase in the residuals with an increase in the value of the prediction (Schmidt, Germano, & Milani, 2019). The plots obtained for the two dependent variables were as in Figure 4.3.

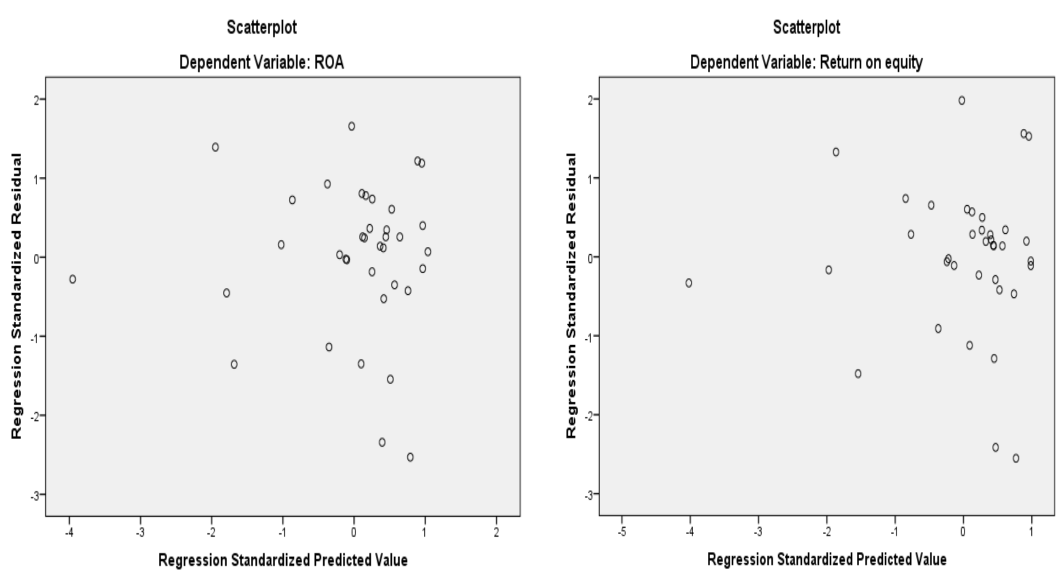

Figure 4.3: Scatter plot for Residuals against the Predicted Values

In both plots, one cannot deduce a specific pattern on the behaviour of the standardized residuals as the predicted values increase. For this reason, one can confirm the earlier tests proving homoscedasticity.

4.3.4 Test for Multicollinearity

When the independent variables in the multivariate regression model are highly correlated, it could lead to the construction of an effective prediction equation. Multicollinearity determines the probability of the existence of correlation among the variables, which implies that one variable can be easily predicted from another in the equation (Thompson, Kim, Aloe, & Becker, 2017). The VIF and the tolerance statistics are important measures for use in determining the presence of multicollinearity. When interpreting, VIF values above 10 are an indication of extreme Multicollinearity among the variables under the measure. Similarly, values for tolerance below 0.1 are also an indication of high multicollinearity. The results obtained for the research areas were seen in the Table 4.8.

Table 4.8: VIF and Tolerance Statistics

Independent Variables	VIF	Tolerance
International Standards for Auditing	2.781	0.360
Independence of Internal audit	2.788	0.359
Operations of Audit Committee	6.583	0.152
Internal Controls	7.446	0.134

In the table, none of the variables have values going beyond the expected limits of VIF>10 and tolerance<0.1. For the four independent variables, it is clear that there is no high multicollinearity among the variables.

4.4 Demographic Data

The response rate, gender, level of education, professional certifications, and work experience of the primary study officers are only a few of the demographic factors that were taken into account during the study.

4.4.1 Response Rate

The study's target banks were those that were actively dealing between 2013 and 2017 and were listed with the Kenyan NSE. To ensure consistency in comparisons at the time of the research project, the years 2013 to 2017 were chosen. The CBK annual supervisory reports have been audited, published, and made publicly available during the periods mentioned. All of the targeted institutions participated in the study, while the respondent participation was 38 out of the expected 44 respondents. The results showed a response rate at 86.4% since each bank was given repeated chances to participate through its officers. The Cooperative Bank of Kenya had the highest representation while I&M Holdings had the lowest representation. The outcome is as presented in the Figure 4.4.

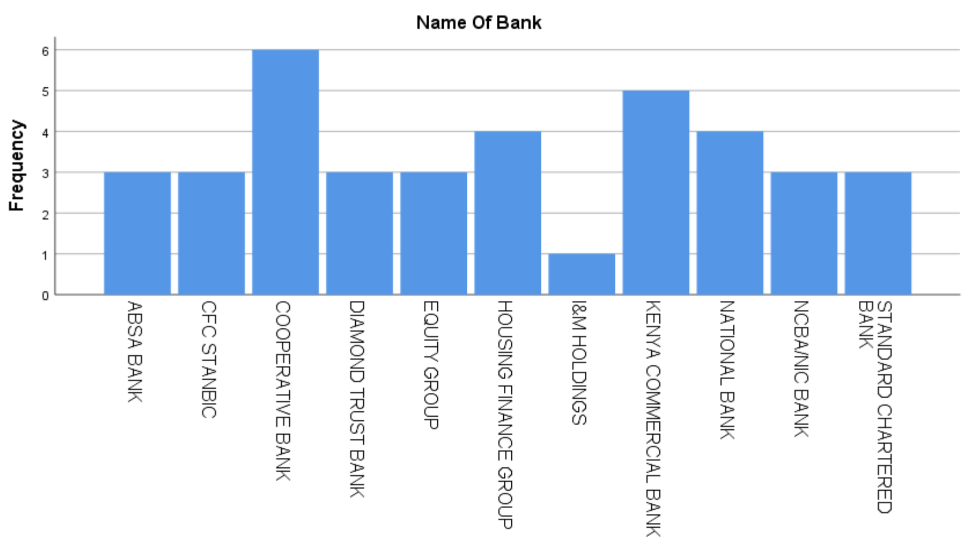

Figure 4.4: Frequency participant representation of the NSE listed banks

The percentage and counts of participation of the staff from the banking institutions are as demonstrated by the Table 4.9

Table 4.9: Frequency Distribution of Participating Banks

Name Of Bank	Count	Column N Percentage (%)
Absa Bank	3	7.9%
CFC Stanbic	3	7.9%
Cooperative Bank	6	15.8%
Diamond Trust Bank	3	7.9%
Equity Group	3	7.9%
Housing Finance Group	4	10.5%
I&M Holdings	1	2.6%
Kenya Commercial Bank	5	13.2%
National Bank	4	10.5%
NCBA/NIC Bank	3	7.9%
Standard Chartered Bank	3	7.9%

ABSA bank had 3 respondents, which is 7.9% of the total representation. The Cooperative Bank respondents stood at 15.8% and were the highest in number, while I&M Holdings had the lowest representation at 2.6%. For the bank, there was just one entry in the records. It is clear from the table that the participation was sufficiently representative to be used in drawing conclusions about the subject at hand.

4.4.2 Education Level

The respondents to this study possessed varied levels of education as presented in Table 4.10

Table 4.10: Level of Education

	Frequency (n)	Percentage (%)
Undergraduate	22	57.89
Master's degree	16	42.11
PHD	0	0
Other	0	0

Results on education level showed that most of the respondents possessed an undergraduate degree (57.89%) followed by Master's degree (42.11%). There were none with PHD or any other education level. From the table, it is evident that the participation was qualified enough for use in concluding the study at hand.

4.4.3 Duration of Stay in Organization

The study sought to understand the duration that an individual respondent stayed in the organization. The responses were captured as in Table 4.11

Table 4.11: Length of Stay in Organisation

	Frequency(n)	Percentage (%)
Less than 3 years	12	31.58
3-9 years	15	39.48
10-15 years	**7**	18.42
16-20 years	2	5.26
Over 20 years	2	5.26

Considering duration of stay in years worked in an organization, most respondents had worked in the listed banks for a duration of 3-9 years (39.48%) followed by less than 3 years (31.58%). Very few respondents had worked in the listed banks for over 15 years (10.52%). The results reveal that about 71% of the organization only stayed to 9 years before seeking different areas of work. From the table, it is evident that the length of stay was consistent and reliable enough for use in concluding the study at hand.

4.4.4 Respondents years of experience

The research sought to establish the years of experience of respondents working in the listed banks under study. Table 4.12 shows the responses.

Table 4.12: Number of years of experience

Years of experience	Frequency(n)	Percentage (%)
Less than 3 years	8	21.05
3-9 years	19	50.00
10-15 years	5	13.16
16-20 years	4	10.53
Over 20 years	2	5.26

From the table, 50% of the respondents had up to 9 years of experience. Further, approximately 16% of the respondents had over 16 years of experience. 21% of the respondents had less than 3 years of experience while 13% had between 10-15 years of experience. From the table, it is evident that the average number of years of experience is dependable for use in concluding the study at hand.

4.4.5 Respondents professional certifications

ACCA (5.4%), Banking and Credit management (2.7%), CIFA (5.4%), CPA (67.6%), CPSPK (2.7%), OCP (2.7%), and Higher National Diploma in Human Resource Management (2.7%) were the professional certifications that were reported. 10.8% of respondents at the time of data collection lacked any professional certification. From the results, it is evident that the respondents attained the average professional requirements for aid in conclusion of the study at hand. The results are displayed in Figure 4.5.

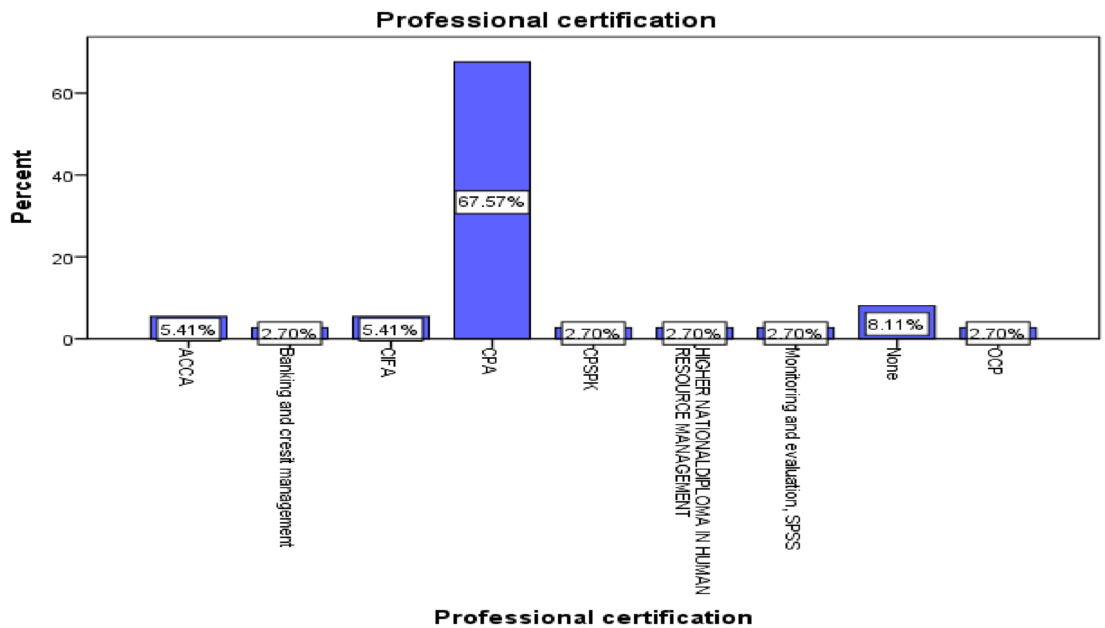

Figure 4.5: Percentage Professional Certification

4.5 Descriptive Statistics

The section of the report comprises the findings of the objectives and the hypotheses set for the research. The statistical analysis was done according to the construct variables and the four independent variables defined.

4.5.1 ISAs on financial performance

Table 4.13 below is a representation of the response obtained from the respondents according to the established Likert Scale.

Table 4.13: Extent to which Adoption of ISAs affect financial performance

	Frequency	**Percentage (%)**
Very great extent	13	35
Great extent	19	50
Moderate extent	6	15

According to the results, 50 percent of the respondents indicated that ISAs affect performance by a large extent, 35 percent indicated that ISA affect performance by a very large extent, and 15% indicated that ISA affect performance by a moderate level. The respondents established that that their firms' adoption and implementation of the different ISA affected their performance largely. Table 4.14 shows the bank responses on effects of adoption of ISAs on financial performance.

Table 4.14: Bank responses on effects of adoption of ISA on Financial Performance

Statement	Mean	Standard Deviation (SD)
ISA help to influence auditing effectiveness.	1.77	1.25
Compliance to standards increases value addition	1.90	1.21
The financial performance is influenced by ISA and audit-related services.	2.15	1.04
Internal auditors perform services linked to information other than financial reports.	2.0	1.12
Auditors do their duties objectively in accordance with acknowledged professional standards.	1.92	1.16
IAs use a systematic, disciplined approach contributing to risk, control, and governance	1.82	1.1
Average	1.92	1.02

1.00-1.49= Strongly Agree, 1.50-2.49=Agree, 2.50-3.49=Not Sure, 3.50-4.49=Disagree

4.50-5.00=Strongly Disagree

The research sought to investigate the level at which respondents agreed with the statements that relate to the effect of ISAs on financial performance of NSE-listed banks in Kenya. Majority of participants agreed with the statement that internal auditing standards help to influence auditing effectiveness(Mean=1.77,SD= 1.25) , compliance with professional standards is the most important contributor to internal auditors' added value (Mean=1.90,SD=1.21), financial performance of NSE-listed banks is influenced by auditing standards and audit-related services(Mean=2.15,SD=1.04), internal auditors provide services related to information other than financial reports, according to formal auditing requirements(Mean=2.0,SD=1.12), auditors do their duties objectively and in accordance with acknowledged professional standards (Mean=1.92,SD=1.16) and that internal audits use a systematic and disciplined method to examine and contribute to the improvement of risk management, control, and governance in the banking system (Mean=1.82,SD=1.1).The results showed that there was a general effect of adoption of ISAs on financial performance of NSE-listed banks in Kenya (Mean=1.92,SD=1.02).

4.5.2. Independence of Internal audit on Financial Performance

In the study, the primary factor affecting IA functions was the exerted influence by the management. In their response to the questions asked during the study, the majority indicated 'great extent' as being how high the independence of the IA could affect the financial performance of an organization. The extent is as shown in Table 4.15.

Table 4.15: Extent to which independence of IA affect financial performance

	Frequency(n)	**Percentage (%)**
Very great extent	7.6	20
Great extent	26.6	70
Moderate extent	3.8	10

According to the data, 70% of respondents stated that independence of IA affects performance to a large extent, 20% stated that independence of IA affects performance to a very great amount, and 10% stated that independence of IA affects performance to a moderate extent. This means that internal audit's independence has a significant effect on the performance of Kenya's NSE-listed banks. Bank responses on the effect of independence of IA is as shown in Table 4.16

Table 4.16: Bank responses on the effect of Independence of IA on Financial Performance

Statement	Mean	Standard Deviation (SD)
Internal auditors must be independent of an organization's employees and operational operations.	2.51	1.34
Overdependence on management for allocation of resources to the internal audit function affects the audit work	2.31	1.42
Management expectations of the duties of Internal audit affect their objectivity hence their judgments could be biased	2.67	1.2
Internal audit report tracking is cost-effective and adds value to the organization	2.0	1.28
Organizational independence of the internal audit function is crucial in the effectiveness of the internal audit function	1.8	1.3
Audit reports are given timely, and recommendations are implemented to arrest control lapses	2.0	1.0
Internal audit budgets, recruiting, firing, and pay are all decisions made by the bank's CEO and CFO.	2.21	1.15
Average	2.2	0.74

1.00-1.49= Strongly Agree, 1.50-2.49=Agree, 2.50-3.49=Not Sure, 3.50-4.49=Disagree 4.50-5.00=Strongly Disagree

The study's goal was to see how many respondents agreed or disagreed with the above statements about IA independence and the financial performance of Kenya's NSE-listed banks. The majority of respondents were neutral on whether internal auditor must be independent of an organization's employees and operational operations (Mean=2.51, SD=1.34) and that management expectations of the duties of internal audit affect their objectivity hence their judgments could be biased (Mean=2.67, SD=1.2). The respondents agreed with the statements that overdependence on management for allocation of resources to the internal audit function affects the audit work, IA report tracking is cost-effective and adds value to the organization, organizational independence of the IA function is crucial in the effectiveness of the IA function, audit reports are given timely, and recommendations are implemented to arrest control lapses and that IA budgets, recruiting, firing, and pay are all decisions made by the bank's CEO and CFO; (Mean=2.31,SD= 1.42), (2.0,1.28), (Mean=1.8,SD=1.3), (Mean=2.0,SD=1.0) &(Mean=2.21,SD=1.15) respectively .According to the study's findings, independence of IA has an influence on financial performance of NSE-listed banks (Mean=2.2,SD=0.74).

4.5.3 The Audit Committee and the Financial Performance

In its functioning as an advisory board, the audit committee contributes to the decisions made, which in turn influences the financial performance of the organization. The extent was as shown in Table 4.17

Table 4.17:Extent to which AC operations affect financial performance

	Frequency	**Percentage (%)**
Very great extent	7.6	20
Great extent	26.6	70
Moderate extent	3.8	10

According to the data, 70% of respondents reported a high level of concern, 20% indicated a very high level of concern, and 10% indicated a moderate level of concern. This means that the audit committee has a significant impact on the financial performance of the Kenyan NSE-listed companies. The Table 4.18 shows the distribution of the responses received regarding the extent to which the existence of ACs operations affect the financial performance of the banking institution.

Table 4.18:Extent to which audit committee operations affects financial performance

Statement	Mean	Standard Deviation (SD)
Lack of independent audit committees affect the performance of IAF	2.0	1.32
Independent audit committees oversee financial reporting and disclosures.	1.92	1.29
The financial expertise of the audit committees determines the quality in financial statements	1.97	1.06
Audit committees can interpret financial statements and understand financial estimates	1.76	1.01
The independence of an audit committee has an impact on a company's profitability, management, and investor views.	2.62	1.31
Gender diversity in board committees affect their oversight roles to the organization and this could impact investors' perceptions	3.18	1.23
Board ACs should at least have 3 non-executives directors with accounting knowledge to question of financial records by management	1.92	1.06
The audit committee is briefed regularly on significant risks facing the company and timely action is taken	1.92	1.04
The board audit committee is independent of the administration and the CAE has direct access to the chairperson	2.38	1.41
Audit committee support to the Internal audit department ensures a strong ICS is maintained in the company	1.62	1.02
Average	2.13	0.85

1.00-1.49= Strongly Agree, 1.50-2.49=Agree, 2.50-3.49=Not Sure, 3.50-4.49=Disagree 4.50-5.00=Strongly Disagree

The study respondents were asked their opinion on statements affecting the role of audit committees on the financial performance of NSE-listed banks. The respondents agreed that lack of independent audit committees affect the performance of IAF(Mean=2.0,SD=1.32), independent ACs oversee financial reporting and disclosures (Mean=1.92,SD=1.29),the financial expertise of the audit committees determines the quality in financial statements (Mean=197,SD=1.06) audit committees can interpret financially statements and understand financial estimates (Mean=1.79,SD=1.06),board ACs should at least have 3 non-executives directors with accounting knowledge to question manipulation of financial records by management (Mean=2.62,SD=1.31), the audit committee is briefed regularly on significant risks facing the company and timely action is taken (1.92,SD=1.06), the board audit committee is independent of the administration and the CAE has direct access to the chairperson (Mean=1.92,SD=1.04) and that audit committee support to the Internal audit department ensures a strong ICS is maintained in the Company (2.38) have a an effect on financial performance of NSE-listed banks in Kenya ,except that gender diversity in board committees affect their oversight roles to the organization and that this could impact investors' perceptions(Mean=3.18,SD=1.23). According to the study's findings audit committee operations has an effect on the financial performance of NSE-listed banks (Mean=2.13, SD=0.85).

4.5.4 The ICS and financial performance

The investigation looked at five main factors when evaluating ICS: the monitoring operations, the risk management process, the information and communication system, and the control environment. Respondents were asked to rate the extent to which ICS relate to financial performance of NSE-listed banks in Kenya and the results is as shown in Table 4.19

Table 4.19: Extent to which Independence of Internal control systems affect financial performance

	Frequency	Percentage (%)
Very great extent	11.4	30
Great extent	20.9	55
Moderate extent	5.7	15

According to the study result on Table 4.19, Majority of the respondents (55%) stated that internal controls have an effect on the financial performance of NSE-listed banks to a great extent. Few respondents (15%) stated that the effect of internal controls on financial performance of NSE-listed banks is just to a moderate extent. Table 4.20 shows the average means of the bank responses on the ICS components effects on the financial performance.

Statement	Mean	Standard Deviation (SD)
Control Environment	2.08	0.86
Risk Management	1.93	0.99
Information communication system	1.91	1.01

Control Activities	1.87	0.99
Monitoring	2.02	1.01
Average	1.96	0.93

Table 4.20: Bank Responses on effects of Internal Control Systems on Financial Performance (average means of internal control components)

1.00-1.49= Strongly Agree, 1.50-2.49=Agree, 2.50-3.49=Not Sure, 3.50-4.49=Disagree 4.50-5.00=Strongly Disagree

According to the result in table---,the respondents agreed that controlled environment (Mean=2.08,SD=0.86),Risk management(Mean=1.93,SD=0.99),Information and communication system(Mean=1.91,SD=1.01),control activities (Mean=1.87,SD=0.99) and Monitoring (Mean=2.02,SD=1.01) ,all have an effect on financial performance of NSE-listed banks .The general response therefore reveals that ICS (Mean=1.96,SD=0.93) has an effect on the financial performance of NSE-listed banks in Kenya.

4.5.5 Financial Performance of the NSE Listed Banks

The financial performance of the banking institutions was measured using the ROE and ROA recorded from 2013 until 2017. When analysing according to the years, 2013 had the greatest mean of 4.8455 in comparison to 4.76 and 4.01 obtained in 2014 and 2016 respectively. The lowest value occurred in 2017, which was 3.2427. The recorded value was a drop of 1.60 in the 5 years. Despite the significant drop, it is noticeable that the large gap between the best and worst-performing banks narrowed down by 2017. Initially, the recorded range was 7.70, which became 5.68; thus, serving as an indication that the weaker institutions were establishing better regulations and client management strategies to ascertain a better performance through the years under study. This is as shown in table 4.21

Table 4.21: Statistics for ROA by Year

	2013	2014	2015	2016	2017
Mean	4.8455	4.7600	3.8755	4.0100	3.2427
Std. Dev	1.6002	1.6510	2.0548	1.7294	1.5895
Minimum	1.90	1.90	-1.34	.14	.63
Maximum	7.70	7.26	6.56	6.00	5.68

A further analysis considering the individual institutions revealed that the best performance, although not consistently, was by Equity Bank, the Kenya Commercial Bank, and the Standard Chartered Bank respectively. The worst performers were the Housing Finance Group and the National Bank which recorded a negative value in 2015. A bar plot showing the changes for every year is as in Figure 4.6.

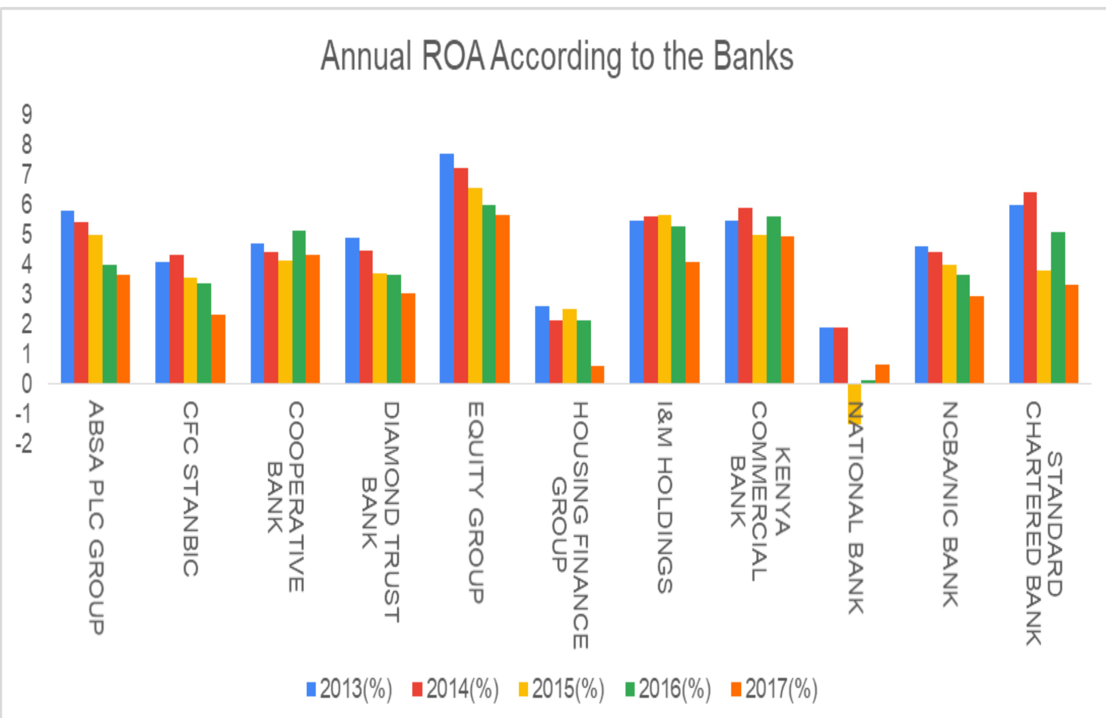

Figure 4.6: ROA by Company from 2013 to 2017

The analysis by banks further showed that Equity Group had an average performance of 6.640 with a corresponding 0.843 as the standard deviation. The SD was the second highest among all the recorded, which is an indication that in the five years, the performance of the group had been fluctuating much; hence, the observed difference. Kenya Commercial Bank was the second best with an average ROA of 5.404 and SD=0.422. The SD was also among the lowest value and that serves as an indication of consistency throughout the years. Although not directly visible from the graphs, the I&M Bank also had a remarkable average of 5.232 with a corresponding SD=0.657. Unlike other companies that dropped in terms of their performance, the I&M Bank displayed a level of consistency that others did not match. The Housing Finance Group and the National Bank recorded averages of 1.998 and 0.654 with SDs of 0.796 and 1.355 respectively. The SD for the National Bank and the Standard Chartered Bank with a value of SD= 1.335 was the highest. Among the institutions, the two firms had the greatest ranges due to the constant fluctuations observed in the recorded ROAs for the five years. This is as shown in Table 4.22.

Table 4.22: ROA for Banks According to the Years

Bank Name	**2013**	**2014**	**2015**	**2016**	**2017**	**Mean**	**Std. Dev**
ABSA PLC Group	5.80	5.44	5.01	4.02	3.68	4.790	0.910
CFC STANBIC	4.10	4.31	3.56	3.37	2.34	3.536	0.771
Cooperative Bank	4.70	4.43	4.14	5.15	4.31	4.546	0.394
Diamond Trust Bank	4.90	4.47	3.69	3.64	3.05	3.950	0.733
Equity Group	7.70	7.26	6.56	6.00	5.68	6.640	0.843
Housing Finance Group	2.60	2.12	2.52	2.12	.63	1.998	0.796
I&M Holdings	5.50	5.64	5.66	5.27	4.09	5.232	0.657

Kenya Commercial Bank	5.50	5.93	5.01	5.64	4.94	5.404	0.422
National Bank	1.90	1.90	-1.34	.14	.67	0.654	1.355
NCBA/NIC Bank	4.60	4.44	3.99	3.66	2.94	3.926	0.664
Standard Chartered Bank	6.00	6.42	3.83	5.10	3.34	4.938	1.335

For the ROE, the best performed year was 2014 when the mean ROE was 30.1727. The year with the greatest range of performance was 2015 with a value of 62.60, which also recorded the greatest standard deviation of 15.069. The worst performed year was 2017 with an average ROE of 20.7455. As observed with the ROA, the range between the best performed and the worst performed bank was smallest in 2013 and 2017 unlike in the 2014-2016 years. The better regulations employed in the management process seemed to influence the ROE as it did with the ROA. A diagrammatic representation of the yearly performance is shown in Figure 4.7 and 4.8.

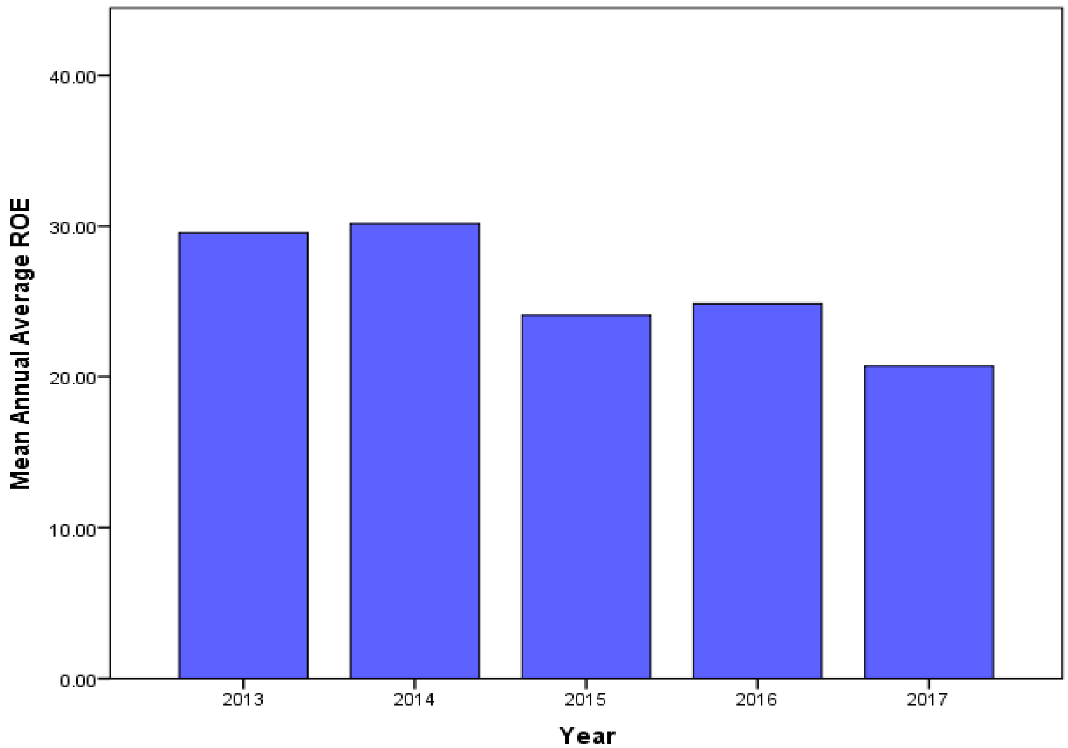

Figure 4.7: Annual Average ROE

When considering the performance according to the specific banks listed, the best performer was Equity Group with a mean of 42.68, Kenya Commercial Bank with a mean of 30.90, and ABSA PLC with a mean of 29.46. The worst performed banks were Housing Finance Group with a mean of 15.94 and the National Bank with a mean of 6.16. The differences in the ROE were not as wide as the values recorded for the ROA where the means had a range of 7.6. The ROE seems to be a better measure of the financial performance as the values do not fluctuate steadily; hence, lower standard deviations.

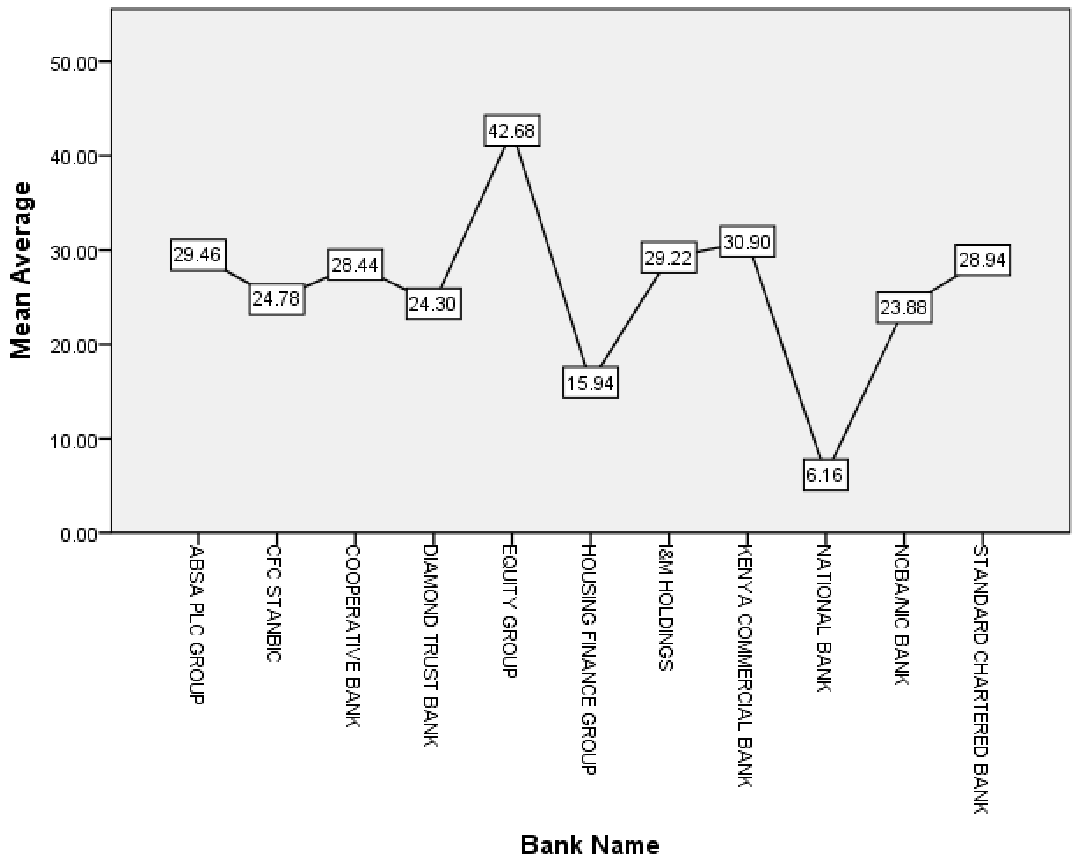

Figure 4.8: Average ROE by Banking Institution

4.6 Inferential Statistics

4.6.1 Correlation of ISAs adoption on Financial Performance

The Pearson correlation coefficient was used to determine the relationship of ISAs and Financial performance. A table of correlations showing the classification of the applications of the ISAs and the corresponding values for ROA and ROE is as shown in Table 4.23.

Table 4.23: Correlations for the relationship between the adoption of ISAs on Financial Performance

Measures of International Standards of Auditing	ROA Pearson Correlation(p-value)	ROE Pearson Correlation(p-value)
According to recognized auditing regulations, Internal auditors perform services linked to information other than financial reports.	-.034(.843)	-.005(.978)
Auditors perform their duties objectively and by acknowledged professional standards	-.043(.802)	.015(.932)
Internal audits use a systematic, disciplined method to examine development of risk management, control, and governance in the banking system.	-.046(.787)	-.031(.856)
Performing auditing work by the ISA has a major impact on auditing effectiveness.	.027(.869)	.022(.710)
The most essential element to an Internal auditor's added value is adherence to professional standards.	-.079(.643)	-.045(.792)
The financial performance of NSE-listed banks is influenced by ISAs and audit-related services.	-.183(.339)	-.256(.544)
N	38	38

From the table, higher values of correlations with ROE and ROA were recorded for the Standards of audits and audit-related services, which were 0.256 and 0.183 respectively. The lowest values of correlations with ROE and ROA were recorded for the Performing auditing work according to the ISA contributes significantly to influence the effectiveness of auditing, which were 0.022 and 0.027 respectively. ROE and ROA for Internal auditor’s added value after adherence to professional standards correlations were 0.045 and 0.079 respectively. ROE and ROA Internal audits use of a systematic and disciplined method for examination, control, and governance of risk management correlations were 0.031 and 0.046 respectively. Auditors perform their duties objectively and by acknowledged professional standards showed an interesting twist with ROE being relatively low and ROA being relatively high with 0.015 and 0.043 respectively. ROE and ROA Internal auditors perform services linked to information other than financial report correlations were 0.005 and 0.034 respectively. Each of the indicated measures showed that there was a weak positive linear effect of implementation of the ISA protocols on the financial performance. With the values of the correlation, it is evident that none of the sub-constructs has a significant linear effect on the measures used to determine the financial performance of the firms.

A computed ANOVA for both the dependent variables is as tabulated in Table 4.24, with F=1.021, p-value= 0.476 for ROA and F=0.935, p-value=0.548 for ROE. In conclusion, none of the measures was significant. This, as a result, also indicates that the results attained for the section were purely by chance and none of them would be obtained upon using the second sample of data even from similar banking facilities.

Table 4.24: ANOVA Table for ISA

		Sum of Squares	**df**	**Mean Square**	**F**	**Sig.**
ROA	Between groups	44.835	16	2.802	1.021	.476
	Within groups	54.916	22	2.746		
	Total	99.751	38			
ROE	Between groups	1307.159	16	81.697	.935	.548
	Residual	1746.978	22	87.349		
	Total	3054.137	38			

4.6.2 Correlation of independence of IA on Financial Performance

The Pearson correlation coefficient was used to determine the relationship of internal audit's independence and financial performance. A bivariate correlation between ROA, ROE and audit's independence are as shown in Table 4.25.

Table 4.25: Correlations for influence of Independence of Internal audit on Financial Performance

Measures of the Independence of Internal audit	**ROA Pearson Correlation(p-value)**	**ROE Pearson Correlation(p-value)**
Internal auditors reporting to the senior management affects their quality of work and their contribution to the organization	-.034(.843)	-.005(.978)
Overdependence on management for allocation of resources to the Internal audit function affects the audit work	-.043(.802)	.015(.932)
Management expectations of the duties of Internal audit affect their objectivity hence their judgments could be biased.	-.046(.787)	-.031(.856)
Internal audit report tracking is cost-effective and adds value to the organization	.028(.869)	.063(.710)
Organizational independence of the Internal audit function is crucial in the effectiveness of the Internal audit function	-.079(.643)	-.045(.792)
Audit reports are given timely, and recommendations are implemented to arrest control lapses	.502**(.039)	.489**(.044)
Internal audit budgets, recruiting, firing, and pay are all decisions made by the bank's CEO and CFO.	-.162(.339)	-.103(.544)
N	38	38

Note: ** value is significant at 0.05 level of significance

From the findings posted in the table, it was evident that an overexerting influence of the management on the auditing functions with correlations of ROE and ROA of 0.005 and 0.034 respectively has a negative outcome on the financial performance of the banking institutions involved. Overdependence on the management results in a negative outcome with correlations of ROE and ROA of 0.015 and 0.043 respectively as it undermines the independence of the Internal audit. Further, higher values of correlations of ROE and ROA of 0.045 and 0.079 respectively are shown in organizational independence of the internal audit function. This is crucial in the effectiveness of the IAF. There was a significant correlation on the Audit reports being given timely, and recommendations implemented to arrest control lapses with correlation values of 0.489 and 0.502 for ROE and ROA respectively. The values for internal audit report tracking adding value to the organization were 0.063 and 0.028 for ROE and ROA respectively. 0.103 and 0.162 were the correlation values for ROE and ROA respectively for Internal audit budgets, recruiting, firing, and pay as decisions made by the bank's CEO and CFO. With the values of the correlation, it is evident that the sub-constructs have a significant linear relationship with the measures used to determine the financial performance of the firms.

A regression line defining the relationship between the independence of the IA revealed an increasing relationship between the variable and the ROA and ROE. The results are tabulated in Table 4.26.

Table 4.26: Regression Coefficients for Independence of Internal audit

Dependent Variable	Parameter	B	SE	T	Sig.
ROA	Intercept	5.489	.825	6.652	.000
	Independence of Internal audit	.094	.051	1.838	.047
ROE	Intercept	32.773	4.597	7.129	.000
	Independence of internal audit	.483	.286	1.692	.038

a. R Squared (ROA) = .884
b. R Squared (ROE) = .763

An ANOVA run for the independence of the internal audit gave a significant output as shown by the posted correlations. A computed ANOVA for both the dependent variables is as tabulated in Table 4.27, with F=0.462, p-value= 0.047 for ROA and F=0.380, p-value= 0.038 for the ROE.

Table 4.27: ANOVA for the Independence of the Internal audit

		Sum of Squares	Df	Mean Square	F	Sig.
ROA	Between groups	33.986	20	1.789	.462	.047
	Within groups	65.765	18	3.869		
	Total	99.751	38			
ROE	Between groups	910.796	20	47.937	.380	.038
	Within groups	2143.341	18	126.079		
	Total	3054.137	38			

Since the result was significant, it implied that the result would be similar even when using a different sample of banking institutions. Although the construct variables have different effects with the dependent variables, the overall factor independence of the

Internal audit has a weak positive effect on the ROA and ROE. The formulated equations are as below.

$Y_{ij} = \beta_{0j} + \beta_{2j}X_{i2} + \epsilon_{ij}$

$$ROA = 5.489 + 0.094 * independence\ of\ the\ internal\ audit$$

$$ROE = 32.773 + 0.483 * independence\ of\ the\ internal\ audit$$

4.6.3 Correlation Statistics of ACs' operations on financial performance

A table of Pearson correlations of the different measures for the independent committees and their effect on the financial performance measures (ROE and ROA). The results are shown in Table 4.28.

Table 4.28: Correlation for the effect of ACs' operations on financial performance

Measures of Audit Committee Operations	ROA Pearson Correlation(p -value)	ROE Pearson Correlation(p -value)
Lack of independent audit committees affect the performance of Internal audit function	-.140(.464)	-.090(.630)
Independent audit committees oversee financial reporting and disclosures.	.113(.793)	.079(.864)
Financial expertise of the audit committees determines the quality in financial statements	.286(.238)	.486(.316)
Audit committees have the ability to interpret financial statements and understand financial estimates	.053(.945)	.015(.719)
The independence of an audit committee has an impact on a firm 's profitability, administration, and investor views.	.320(.118)	.284(.166)
Gender diversity in board committees affect their oversight roles to the organization and this could impact on investors' perceptions	.235(.218)	.214(.246)

Board audit committees should at least have 3 non-executive directors with accounting knowledge to question manipulation of financial records by management	136(.732)	114(.744)
The audit committee is briefed regularly on significant risks facing the company and timely action is taken	.131(.536)	.105(.555)
The board audit committee is independent from management and the CAE has direct access to the chairperson	-.019(.909)	.037(.750)
Audit committee support to the Internal audit department ensures a strong internal control system is maintained in the company	.162(.559)	.118(.670)
N	38	38

The tabulated results show that the responsibilities of the auditing committee, when effectively handled have a positive influence on the financial performance of the organization. Generally, the correlations indicate weak positive effects among the variables. A lack of an independent committee correlates negatively with the ROA (-0.019) and has a weak positive correlation with the ROE (0.037). Notably, matters such as gender diversity (0.235, 0.214), independence of the committee (0.113, 0.079), and its continuous involvement in the decision-making activities of the company (0.131, 0.105) cause a positive outlook to the consumers and investors who then purchase its products to ensure a better financial position. The support accorded to the Internal audit department also has a weak positive correlation with the ROA (0.162) and the ROE (0.118). An independent audit committee is a prerequisite for an independent audit team whose actions are not determined by the management or any other external factors. Other factors under the audit committee contributing to the observed outcomes include the expertise of the committee (0.286, 0.486) and the composition of the board of the auditing committee (0.136, 0.114). The findings show that the auditing committee operations affect the financial performance, although weak as verified by the statistical analysis in correlation values.

A computed ANOVA for both the dependent variables is as tabulated in Table 4.29, with F=0.975, p-value= 0.510 for ROA and F=0.905, p-value= 0.571 for the ROE.

Table 4.29: ANOVA for financial performance and AC operations

		Sum of Squares	Df	Mean Square	F	Sig.
ROA	Between groups	40.956	16	2.730	.975	.510
	Within groups	58.795	22	2.800		
	Total	99.751	38			
ROE	Between groups	1199.125	16	79.942	.905	.571
	Within groups	1855.012	22	88.334		
	Total	3054.137	308			

4.5.4 Correlation Statistics on ICS on financial performance

A table of correlations of the different systems for the ICS and their effects on the financial performance measures ROE and ROA. The tabulation in Table 4.30.

Table 4.30: The correlations of ICS on financial performance

	C. Env	Risk Ass.	IC	Control	Monitoring	ROA	ROE
C. Env.	1	.910**	.951**	.920**	.929**	.376*	.389*
Risk M.		1	.930**	.896**	.870**	.426**	.435**
IC			1	.950**	.931**	.412*	.425**
Control				1	.926**	.348*	.365*
Monitoring					1	.380*	.383*
ROA						1	.977**
ROE							1

Note: C.Env-Control Environment, Risk M-Risk management, IC- Information communication, Control- Control Activities, Monitoring- Monitoring Activities

The tabulated figures demonstrate that there are marginally favorable relationships between the ROA and ROE and various ICS. The financial performance (ROE) of each examined banking institution is most strongly influenced at (0.435 and 0.425) by the risk management, information, and communication systems respectively. Additionally, at 0.365 and 0.348, the control actions have the least impact on the ROE and ROA.

The performance of the various construct variables of the ICS was examined using an ANOVA, and the results are significant as shown below. The results, which serve to establish the conclusion reached, were tallied. Given the model's significance, a multiple linear regression model based on the parameter estimates for the two variables must be built. The five components of the ICS made up the model, which was used to determine how much of an impact each variable is anticipated to have as in Table 4.31.

Table 4.31: ANOVA for ICS

Source	**Dependent Variable**	**Type III Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Corrected Model	ROA	16.321[a]	5	3.264	1.213	.026
	ROE	432.522[b]	5	86.504	1.023	.041
Intercept	ROA	187.087	1	187.087	69.51	.000
	ROE	6736.460	1	6736.460	79.65	.000
Controlled Environment	ROA	1.028	1	1.028	.382	.041
	ROE	32.604	1	32.604	.386	.039
Risk Management	ROA	1.376	1	1.376	.511	.008
	ROE	35.529	1	35.529	.420	.022
Information and Comm. System	ROA	.040	1	.040	.015	.004
	ROE	.754	1	.754	.009	.025
Control Activities	ROA	.004	1	.004	.002	.019
	ROE	.376	1	.376	.004	.047
Monitoring Activities	ROA	1.360	1	1.360	.505	.023
	ROE	34.074	1	34.074	.403	.003
Error	ROA	83.430	31	2.691		

	ROE	2621.615	31	84.568		
Total	ROA	707.373	38			
	ROE	26940.300	38			
Corrected Total	ROA	99.751	36			
	ROE	3054.137	36			

a. R Squared = .664 (Adjusted R Squared = .629)
b. R Squared = .742 (Adjusted R Squared = .053)

The equation therefore is:

$$performance = \beta_1 * controlled\ envrironment + \beta_2 * risk\ assessment + \beta_3 * ICT\ system + \beta_4 * control\ activities + \beta_5 * monitoring\ activities + \beta_0.$$

The parameter estimates show the type of ICS contribution made by the construct variables as shown in Table 4.32

Table 4.32: Estimation of Parameters for the ICS Regression Line

Dependent Variable	Parameter	B	Std. Error	t	Sig.
ROA	Intercept	5.316	.638	8.338	.000
	Controlled Environment	.088	.142	.618	.041
	Risk Management	.179	.251	.715	.008
	Information and Communication System	.018	.151	.122	.004
	Control Activities	.007	.175	.040	.019
	Monitoring activities	.162	.227	.711	.023
ROE	Intercept	31.902	3.574	8.925	.000
	Controlled Environment	.495	.797	.621	.039
	Risk Management	.912	1.407	.648	.022
	Information and Communication System	.080	.845	.094	.025
	Control Activities	.065	.981	.067	.047
	Monitoring activities	.809	1.274	.635	.030

The constructed lines are in the following equations:

$$ROA = 0.088 * controlled\ environment + 0.179 * risk\ assessment + 0.018 * ICT\ system + 0.007 * control\ activities + 0.162 * monitoring\ activities + 5.316$$

$$ROE = 0.495 * controlled\ envrironment + 0.912 * risk\ assessment + 0.08 * ICT\ system + 0.065 * control\ activities + 0.809 * monitoring\ activities + 31.902$$

The fact that all correlation values are significant shows that the study's findings are valid and can be extrapolated to the entire population of banking institutions.

4.7 Non-moderated IAPs on financial performance

The non- moderated Internal audit practices are practices that are not subjected to the CBK regulations.

The defined model is as follows.

$Y_{ij} = \beta_{0j} + \beta_{1j}X_{i1} + \beta_{2j}X_{i2} + \beta_{3j}X_{i3} + \beta_{4j}X_{i4} \dots + an\ \beta_{pj}X_{ip} + \in_{ij}$,

where the dependent variables are the ROA and ROE used to measure the financial performance of the banking institutions under observation. The first regression equation checks the influence of the individual factors in the absence of the regulations imposed by the Central Bank of Kenya. An analysis of variance was done, and the results of the model are as shown in the Table 4.33.

Table 4.33: ANOVA for Non-moderated Variables

Source	Dependent Variable	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	ROA	20.175[a]	4	5.044	2.028	.114
	ROE	595.389[b]	4	148.847	1.937	.128
Intercept	ROA	104.170	1	104.170	41.890	.000
	ROE	3706.301	1	3706.301	48.237	.000
ISA	ROA	2.990	1	2.990	1.202	.281
	ROE	100.892	1	100.892	1.313	.260
Independence	ROA	4.957	1	4.957	1.993	.168
	ROE	184.320	1	184.320	2.399	.131
Audit committees	ROA	.621	1	.621	.250	.621
	ROE	25.049	1	25.049	.326	.572
Internal Controls S.	ROA	.823	1	.823	.331	.569
	ROA	18.007	1	18.007	.234	.632
Error	ROE	79.576	32	2.487		
	ROA	2458.749	32	76.836		
Total	ROA	707.373	38			
	ROE	26940.300	38			
Corrected Total	ROA	99.751	36			
	ROE	3054.137	36			

a. R Squared (ROA) = .202 (Adjusted R Squared = .103)
b. R Squared (ROE) = .195 (Adjusted R Squared = .094)

For both ROA and ROE, there were no significant values for the constructed models in the between subject estimates. Additionally, the R-squared values were relatively low at 20% and 19.5% for ROA and ROE respectively suggesting a minimal contribution of the factors in determining the outcomes of ROA and ROE when functioning independently. The parameter estimates of the different variables included in the general linear model are as shown in the Table 4.34.

Table 4.34: Regression Coefficients Non- moderated variables

Variable	Variable	Regression coefficient	95% CI	P-value
	Audit	1.04	-0.06-2.14	0.063
	Idep.	-0.80	-1.75-0.16	0.099
	ICS	-0.18	-1.51-1.16	0.786
	ISA	-0.91	-1.67-(-0.17)	0.018
ROA	Constant	5.97	4.34-7.60	0.001
	Audit	6.31	0.26-12.38	0.041
	Idep.	-4.07	-9.35-1.18	0.125
	ICS	-1.45	-8.81-5.91	0.691
	ISA	-5.23	-9.38-(-1.07)	0.015
ROE	Constant	-35.5	26.57-44.52	0.001

The regression model for the non-moderated parameter estimate is:

$$Y_{ij} = \beta_{0j} + \beta_{1j}X_{i1} + \beta_{2j}X_{i2} + \beta_{3j}X_{i3} + \beta_{4j}X_{i4} \ldots + an\ \beta_{pj}X_{ip} + \epsilon_{ij}$$

$$ROA = 5.97 + 1.04 * (Audit\ committee) - 0.80 * (Independence) - .18 * (Information\ and\ Communication) - 0.91 * (ISA)$$

$$ROE = -35.5 + 6.31 * (Audit\ committee) - 4.07 * (Independence) - 1.45 * (Information\ and\ Communication) - 5.23 * (ISA)$$

4.8 The Moderating effect of the CBK regulations on the relationship on Internal audit Practices and Financial Performance.

Evaluating the effect of the CBK regulations was done using the structural equation modeling, which is a generalization of the multiple linear regressions involving the different elements investigating the effect of IAPs on the financial performance of the organization (Nimon &Reio,2011). The study looked at the effect of moderated IAPs on financial performance of NSE listed banks in Kenya.

The defined model is as follows.

$$Y_{ij} = \beta_{0jm} + \beta_{1j}X_{i1m} + \beta_{2j}X_{i2m} + \beta_{3j}X_{i3m} + \beta_{4j}X_{i4m} \dots + an\,\beta_{pj}X_{ipm} + \epsilon_{ij},$$

where the dependent variables are the ROA and ROE used to measure the financial performance of the banking institutions under observation. The above equation aims at testing whether the subjection of the CBK regulations on the IAPs affect the performance of the NSE-listed banks in Kenya. The results obtained are as shown in the Table 4.35.

Table 4.35: Analysis of Variance for moderated IAPs

Source	**Dependent Variable**	**Type III Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
Corrected Model	ROA	6.243[a]	4	1.561	.641	.037
	ROE	295.849[b]	4	73.962	.964	.041
Intercept	ROA	341.963	1	341.963	140.542	.000
	ROE	12901.108	1	12901.108	168.216	.000
Audit committee* CBK regulation	ROA	4.268	1	4.268	1.754	.195
	ROE	141.612	1	141.612	1.846	.184
Independence*CBK regulation	ROA	1.723	1	1.723	.708	.407
	ROE	67.247	1	67.247	.877	.356
ICS*CBK regulation	ROA	1.264	1	1.264	.519	.476
	ROE	59.596	1	59.596	.777	.385
ISA*CBK regulation	ROA	.032	1	.032	.013	.909
	ROE	11.766	1	11.766	.153	.698
Error	ROA	75.429	31	2.433		
	ROE	2377.507	31	76.694		
Total	ROA	708.723	38			
	ROE	26902.354	38			
Corrected Total	ROA	81.672	35			
	ROE	2673.356	35			

a. R Squared (ROA) = .762
b. R Squared (ROE) = .611

The constructed model for both the dependent variables satisfies the significance test done against a 0.05 level of significance. The p-values for both models are 0.037 and 0.041, which are lower than 0.05. Since the model is significant, then one can proceed to interpret the parameter estimates. The parameter estimates of the different variables included in the general linear model are as shown in the Table 4.36.

Table 4.36: Regression coefficients for moderated variables

Parameter Estimates							
DV	**Parameter**	**B**	**SE**	**t**	**Sig.**	**95% CI**	
						LB	**UB**
ROA	Intercept	4.005	.338	11.855	.000	3.316	4.695
	Audit*CBK	.157	.118	1.324	.195	-.085	.398
	Indep*CBK	-.081	.097	-.841	.007	-.278	.116
	ICS* CBK	.035	.049	.721	.476	.135	.064
	ISA* CBK	.022	.190	.115	.009	-.365	.409
ROE	Intercept	24.602	1.897	12.970	.000	20.73	28.471
	Audit*CBK	.902	.663	1.359	.184	-.452	2.255
	Independence. D	-.507	.542	-.936	.046	-1.61	.598
	ICS. D	.242	.274	-.882	.385	-.801	.318
	ISA. D	.418	1.066	.392	.038	-1.76	2.592

From the parameter estimates, the constructed model is as below.

$$Y_{ij} = \beta_{0jm} + \beta_{1j}X_{i1m} + \beta_{2j}X_{i2m} + \beta_{3j}X_{i3m} + \beta_{4j}X_{i4m} \ldots + an\ \beta_{pj}X_{ipm} + \epsilon_{ij}$$

$$ROA = 4.005 + 0.157 * (Audit\ committee * CBKregulation) - 0.081 * (Independence * \mathrm{CBKregulation}) + 0.035 * (\mathrm{Information\ and\ Communication} * \mathrm{CBK\ regulation}) + 0.022 * (\mathrm{ISA} * \mathrm{CBKregulation})$$

$$\mathrm{ROE} = 24.60 + 0.902 * -0.507 * (\mathrm{Independence} * \mathrm{CBKregulation}) + 0.242 * (\mathrm{Information\ and\ Communication} * \mathrm{CBK\ regulation}) + 0.418 * (\mathrm{ISA} * \mathrm{CBKregulation})$$

Since the model is significant for both ROA and ROE, it is sufficient evidence that the regulations issued by the CBK have a statistically significant effect on the effect of IAPs on financial performance of the banking institutions. Additionally, this serves also as an indication that any type of effect of the regulation’s observable on the moderated IAPs affected the financial performance of the institution and is not due to chance. The independence of the IA seemed to have a weak negative influence on the financial performance while the others contributed positively. As shown in the table, the p-values in the parameter estimate tables, the ISA and independence of the IA had values 0.007 and 0.009 respectively for the ROA model. The same variables had values 0.046 and 0.038 for the ROE model. In both cases, the values were <0.05; hence, significant. The outcome proved that a similar result can be observed another time even when using a different sample with the same characteristics as the current population

4.9 Discussion of the Findings

The results of the study, as established by the bivariate correlation statistics, the descriptive analysis, and the constructed regression model, prove to perform an integral duty in finding out the financial performance of the institutions.

4.9.1 ISAs and Financial Performance

One of the primary reasons for implementing the ISAs is to ascertain that the functions of the auditing department occur efficiently, which in turn improves the processes of making certain various decisions of the management team (Chalu, 2020; Haapamäki & Sihvonen, 2019). Some of the constructs considered when considering the contribution of the ISAs include execution of auditing duties as per the ISAs, conforming to the set professional standards, the role of the standards in affecting the performance of commercial banks, the added roles of the Internal auditors, and their manner of conduct when carrying out the designated duties. Besides these, the IA also contributes to the expansion of management of risks, control, and control using a methodical and systematic approach in the banking institutions. With proper implementation of the required standards, it becomes easier for the involved firm to identify existing weaknesses and improve upon them for better financial health. Boolaky and Soobaroyen (2017) associate the success of any implemented ISA with the underlying institutional factors. The inclusion of the variable is essential as it enables the adoption of an explanation based on conformity to the planning, production, and management techniques employed by the institution (Boolaky & Soobaroyen, 2017). With this, there is evidence that although the ISA is fundamental for the auditing department, the inclusion of the condition of the firm under investigation is key when establishing the capability to determine better financial performance.

4.9.2 Independence of Internal audit and Financial Perfomance

In an organization, different elements in the management process influence the capability of the internal auditing team to perform their functions effectively. Some of the issues that the department has absolute control over when functioning independently include risk determination planning; direct communications with the CAE on audit findings; approval resolutions concerning the appointment or removal, remuneration, and annual performance review of the CAE. Among the considered variable constructs, an internal audit team that reports continually reports to the management, and depends much on their leadership before performing duties, registered negative results in terms of the financial performance. Stewart and Subramaniam (2010) argue that when the audit team has many functions of its own, absolute control without interference from the management guarantees utmost performance. Further, their research also agrees to the possibility of worse ruin whenever the management set expectations, as some turned out to be unrealistic (Stewart & Subramaniam, 2010). Additionally, sufficient working time and remuneration are a necessity to motivate those working in the banks. While independence is a necessity, a good working environment comprising good remuneration and effective time management improves the quality of the work done for better performance. The conducted research also revealed that the independence of the IA had a positive relationship on the performance of the organization based on the formulated models. The defined regression model and bivariate correlations proved that there was a weak negative relationship between the variable and the measures of financial performance used in the research. The result implied that there exists a chance that the independence of the internal audit may not have a meaningful effect on the financial performance.

Rodgers and Al-Fayi (2019) agree to the possibility of such independence having a less meaningful effect due to the situation in the business environment. An unstable or underdeveloped business environment makes it difficult to establish the exact situation despite accurate auditing. Chambers (2014), De Beelde (2006), Mihret and Yismaw (2007) contravene the results by stating that the independence of the Internal audit is key to ensuring better corporate management and planning. Further, establishing an independent Internal audit will help ensure internal control, better management of corporate affairs, and prudent financial planning within the institutions under study (Nyaga, Kiragu, & Riro, 2018). The independence of the team is significant in improving the quality of the Internal audits performed, as revealed by a study conducted among the Yemeni banks. There was a significant positive relationship between the performance of the banks and the effectiveness of the independent audit functions (Hazaea, Tabash, Khatib, Zhu, & Al-Kuhali, 2020). The implication, in this case, is that the result could have been influenced by several external factors existing within the company.

4.9.3 ACs Operations and Financial Performance

The existence of an independent audit committee is one sure means of ascertaining the presence of the independence of the IA in any firm. The committee functions as a communication channel to the individuals in top management positions to prevent them from exerting their influence directly to the Internal audit team. The committee also looks into the composition and expertise of the team, which enhances the performance of the team and the firm in the end. The presence of independent audit committees is important for the growth of the IA through the acquisition of the needed staff and process improvement for better performance. While the results showed a non-significant relationship for sub-constructs of the AC operations,there was a significant effect of the AC characteristics and the financial performance with the significance being <0.05. Chen, Lin, Lu and Zhou (2020), disagree with the results by stating in their research that the audit committee characteristics if independent helps gain financial expertise necessary for the handling of the companies' statements, better management that ensures inclusion. Additionally, the independent committee is effective in establishing internal controls that will be beneficial for maintaining the system for effective function.

Choi et.al (2004) confirms the high influence of the independent committee on the financial performance due to its capability to identify problems within the organization. Due to its capability to influence independence in the functioning of the Internal audit, the audit committee ensures the representation of skills in the leadership positions for easier functioning (Ali & Handayani, 2018; Alzeban, 2018). Archambeault et.al (2008) and Sharma et al. (2009) confirm the findings with caution on the inclusion of the number of directors or individuals in high leadership positions that can compromise the independence of the team. The absence of independence makes it difficult to trace the financial aspect accurately; hence, interferes with the reporting and measuring the performance accurately (Asiedu & Deffor, 2017). Other factors determined to have a strong effect on the functioning of the committees include gender diversity. Oradi and Izadi(2019), affirm that, gender diversity is a key attraction to investors and the customers. A higher expertise among the auditors; and the continuous involvement of the committee in the running of the organization are additional factors having a strong effect on the functioning of a committee (Bravo & Reguera-Alvarado, 2019; Mardessi & Fourati, 2020). Given their capability to reinforce the condition of the internal auditors, the ACs function immensely in improving the financial performance of the institution.

4.9.4 ICS and Financial Performance

The study evaluated ICS by taking into consideration five different elements, including the control environment, risk management, information and communication system, control activities, and monitoring activities. The ability to identify and manage the incidence of fraudulent actions, measuring the effectiveness of the auditors, encouraging ethics, and the formulation of operating standards were some of the elements examined while evaluating the control environment. Better financial performance indicators were reported in a well-established setting with the ability to identify fraudulent activity.. From the conducted research, the stipulated rules and policies formed, proved to be significant in influencing a positive financial performance as measured by the ROA and ROE.

Werner and Gehrke (2019) confirm the role played by the internal controls.The research affirms that internal controls give the administration a reasonable assurance so that a company can attain its goals. Further, the internal controls are key to ascertain a better performance in the finance institutions given the height of expertise employed in monitoring the activities of the firm to the final detail (Koutoupis, Pazarskis, & Drogalas, 2018).

The capability to exercise full control of any possible negative outcomes simplifies the work of the management team who do not have to review the control processes after checking the internal controls. Westhausen (2017), although agreeing to the controls as being important especially in fraud control, concluded that the overinvolvement of the management is likely to compromise the measurement of the different factors under consideration. Whittington and Pany (2001) agree with Westhausen by stating that the environment of control highly relies on the top management staff to ascertain the achievement of the required objectives. With features such as moral principles, the sincerity of persons assigned with developing, establishing, and conducting the controls, the managers, audit committees, and the management system, the firm will enjoy a longer term without issues regarding financial crime.

4.9.5 CBK Regulations Moderating effect on the Relationship between IAP and financial performance

The regulations stipulated by the CBK are regulations that need to be followed to sustain a stable banking system that is privy to ensuring efficiency is sustained. Using the guidelines as a moderation made the changes in the different elements of interest visible.

When the relationship was moderated, three variables seemed to have a positive and significant effect on the dependent variables ROA and ROE. In the absence of moderating variable, only the independence of the Internal audit and the ICS remained significant. Without the inclusion of the CBK regulations, the ISAs were insignificant when determining the performance of the banks. In the model, the ISA is significant in the presence of the regulations set by the CBK. The findings of the research agree with research conducted by Chalu (2020), who confirm the importance of the ISAs in achieving the organization's objectives.

Castro et. al, (2020) also share similar sentiments after research performed on the impact of the application of the ISAs on financial institutions in Brazil. The researchers established that the effective implementation of the ISAs plays a pivotal duty in the promotion of improving the performance of the institutions. CBK (2013) looks at the moderator as a means to deal with the external factors in the environment that make it difficult to perform the analysis in detail. The factors could be from within the institution or from the external environment. The capability of the regulations to regulate the random factors stabilizes the performances of the banks, which have a bigger duty to play in the macroeconomic business environment due to their lending activities (Muithya, Muathe, & Kinuya, 2021; Wakarindi, 2018). Stabilizing the business environment simplifies the challenges making it difficult for financial institutions to achieve their set objectives. Kamau (2020) appreciates the existence of the CBK regulations, which confirms the outcome of the research, especially due to the ability to create bare minimums within which financial institutions like banks should operate. With this in mind, firms having trouble with their controls and management should rely more on the issued regulations as a sure means of controlling the external environment.

4.10 Hypothesis testing

H_{o1}: there is no significant effect between adoption of international standards of auditing and financial performance of NSE-listed banks in Kenya, was accepted. In conclusion, the implementation of the ISAs does not have a substantial influence on the financial performance of the NSE-listed banks in Kenya. As a consequence, none of the measures were significant. This, as a result, also indicates that the results attained for the section were purely by chance and none of them will be obtained upon using the second sample of data even from similar banking facilities.

These findings differ with Chalu (2020), who opine in the importance of the ISAs in achieving the organization's objectives. Castro et. al (2020) also share similar sentiments after research undertaken on the implementation of the ISAs effects on financial institutions in Brazil. The researchers established that the effective implementation of the ISAs plays a pivotal duty in the promotion of improving the performance of the institutions. However, the cited studies, included the moderating variable effect, hence significant. One of the primary reasons for implementing the ISAs is to ascertain that the functions of the auditing department occur efficiently, which in turn improves the processes of making certain various decisions of the management team.
(Haapamäki & Sihvonen, 2019).

H_{o2}: there is no significant effect between independence of the Internal audit and financial performance of NSE-listed banks in Kenya, was rejected. This establishes that the independence of the IA was one of the contributing factors to a change in the financial performance of the banks under consideration. Since the result is significant, it implies that the result will be similar even when using a different sample of banking institutions. The research agrees to the possibility of worse ruin whenever the management set expectations, as some turned out to be unrealistic (Stewart & Subramaniam, 2010).

Rodgers and Al-Fayi (2019) contravene to the possibility of such independence having a less meaningful effect due to the situation in the business environment. Chambers (2014), De Beelde (2006), Mihret and Yismaw (2007) agree with the results by stating that the independence of the IA is key to ensuring better corporate management and planning. Further, establishing an independent Internal audit will help ensure internal control, better management of corporate affairs, and prudent financial planning within the institutions under study (Nyaga, Kiragu, & Riro, 2018). There was a significant positive relationship between the performance of the banks and the effectiveness of the independent audit functions (Hazaea, Tabash, Khatib, Zhu, & Al-Kuhali, 2020).

H_{o3}: there is no statistically significant relationship between operations of the audit committees and financial performance of NSE-listed banks in Kenya was accepted. Therefore, the conclusion was that the performance of the audit committees does not influence the financial performance of the firms. Chen, Lin, Lu and Zhou, (2020) contravene with the results by stating in their research that the oversight role played by the moderated audit committee helps gain financial expertise necessary for the handling of the companies' statements, better management that ensures inclusion. The committee's competence, gender diversity, size, and quantity of independent auditors have a weighty impact on the profitability of firms (Wakaba, 2014). None of the deduced relationships is significant at 0.05 level of significance; hence, only occur by chance.

H_{o4}: there is no statistically significant relationship between internal controls measures and financial performance of NSE-listed banks in Kenya, was rejected. The financial performance of the banking institutions listed with the NSE in Kenya is found to be significantly impacted by internal controls, according to the findings. Since every correlational value is meaningful, the study's findings cannot be regarded as the result of chance and can be extrapolated to the entire population of banking institutions. Werner and Gehrke (2019) confirm the role played by the internal controls according to their research that suggests that internal controls give the administration a reasonable assurance so that a company can attain its goals. Further, the internal controls are key to ascertain a better performance in the finance institutions given the height of expertise employed in monitoring the activities of the firm to the final detail (Koutoupis, Pazarskis, & Drogalas, 2018). The capability to exercise full control of any possible negative outcomes simplifies the work of the management team who do not have to review the control processes after checking the internal controls. Westhausen (2017), although agreeing to the controls as being important especially in fraud control, suggests that the overinvolvement of the management is likely to compromise the measurement of the different factors under consideration. Therefore, the conclusion was that the performance of the internal controls influences the financial performance of the firms.

H_{o5}: the CBK regulations do not moderate the relationship between Internal audit practices and financial performance of NSE-listed banks in Kenya, was rejected.

4.11 Summary

It is evident that the inclusion of the CBK regulations has made an impact on the Internal audit practices, and specifically the ISAs. In the previous analysis, the ISAs did not have a significant effect on the financial performance under the measure. In the second analysis, the ISAs is a significant influencing factor, which implies that the inclusion of the variable is essential to improving the functions of Internal audits. The success of any implemented ISA is associated with underlying institutional factors. The inclusion of the variable is essential as it enables the adoption of an explanation based on conformity to the planning, production, and management techniques employed by the institution (Boolaky & Soobaroyen, 2017). The capability of the CBK regulations to regulate the random factors stabilizes the performances of the banks, which have a bigger duty to play in the macroeconomic business environment due to their lending activities (Muithya, Muathe, & Kinuya, 2021; Wakarindi, 2018). Stabilizing the business environment simplifies the challenges making it difficult for financial institutions to achieve their set objectives. Kamau (2020) appreciates the existence of the CBK regulations which confirms the outcome of the research. With this, there is evidence that although the ISA is fundamental for the auditing department, the inclusion of the condition of the firm under investigation is key when establishing the capability to determine better financial performance.

CHAPTER FIVE

SUMMARY CONCLUSION, AND RECOMMENDATIONS

5.1 Summary

The findings, conclusion, recommendations, and opportunities for additional research are summarized in this chapter

5.1.1 International Standards of Auditing and Financial Performance

The first objective established that international standards of auditing on their own have a relationship to the performance of the organization greatly. From the findings, 50% indicated a great extent, 35% of the respondents indicated largely, whereas 15% of the respondents indicated a moderate extent. Some of the elements seen as comprising the international standards include adhering to the international and professional standards during practice, monitoring the banks' adherence to the standards, and the role of the standards in ascertaining risk management, control, and governance of the internal affairs. Additionally, the data collected from the sample size all agreed that complying establishes that compliance with the laid up international standards of auditing is an important contributing factor with the internal audit. These formal standards of auditing acknowledge that the Internal audit also gives services relating to information other than the audit reports. Further, the research showed that internal auditors are supposed to undertake their responsibility while being goal-oriented and while complying with the generally accepted auditing standards for professional practice and standards for audits.

A further inferential analysis done using the ANOVA revealed that the stated findings were not statistically significant but when moderated the ISAs affected financial performance. A computed ANOVA for both the dependent variables had F statistic and p values with F=1.021, p-value= 0.476 and F=0.935, p-value=0.548 for ROA and ROE. In conclusion, none of the measures was significant. This, as a result, also indicates that the results attained for the section were purely by chance and none of them will be obtained upon using the second sample of data even from similar banking facilities. The implication is that the results can easily change with a change in the sample size used for the study. These results agree with the attribution theory and confirms it that the attitudes of the firm affect financial performance.

5.1.2 Independence of Internal audit and Financial Performance

The second objective established that there was a statistically significant relationship between the Internal audit's independence and financial performance. According to the data, 70% of respondents said they were to a large extent, 20% said they were to a very great amount, and 10% said they were to a moderate extent. The overreliance on management as a team to offer instructions to the internal audit team was one of the factors that played a key role in determining the research's findings. The study concludes that the independence of internal audits has a significant impact on auditor and financial performance. Audit reports are given timely, and recommendations are implemented to arrest control lapses showed significant higher values of correlations with ROA and ROA with r and p values at 0.502(0.39) and 0.489(0.044). The R squared values for ROA and ROE showed a good fit with 0.884 and 0.763 values respectively. An ANOVA run for the independence of the internal audit gave a significant output as shown by the posted correlations.

A computed ANOVA for both the dependent variables showed F statistic values at $F=0.462$, p-value= 0.047 for ROA and $F=0.380$, p-value= 0.038 for the ROE. Internal auditing should be independent of an institution's personnel and operational activities, according to the research. Furthermore, the internal audit division of a public company should be separate from the operations it oversees and monitors, as well as the day-to-day internal control processes. The result was substantial, and the independence of the audit was a determining factor of the financial performance, according to the inferential analysis utilizing the ROE and ROA as the dependent variables. The findings agree with the agency theory about the principal agent relationship including the remuneration of internal auditors and independence of audit that affects the financial performance of NSE-listed banks in Kenya.

5.1.3 Audit Committee Operations and Financial Performance

The study bank responses concluded that ACs were important in deciding the outcomes of a company's financial success. When viewing the results, 70% of respondents indicated a large extent, 20% of respondents indicated a very large extent, and 10% of respondents indicated a moderate extent. However, a further inferential analysis done using the ANOVA revealed that the stated results were not statistically significant. The findings revealed that there was no statistically significant effect of audit committee operations on the financial performance of NSE-listed banks in Kenya. The F statistic and p-values were at $F=0.975$, $p= 0.510$ and $F=0.905$, $p= 0.571$ for the ROA and ROE respectively. The implication is that the results can easily change with a change in the sample size used for the study. These results contravene the agency theory and confirm the contingency theory that the sample size which is an external factor affects the financial performance of a company and not the agency relationship.

5.1.4 Internal Control Systems and Financial Performance

The fourth objective examined the effect of the internal controls systems on the financial performance of the NSE-listed banks. When viewing the data, 30% of respondents indicated a significant extent, 55% indicated a very significant extent, and 15% indicated a moderate extent. The financial performance (ROE) of each examined banking institution is most strongly influenced (by 0.435 and 0.425 respectively) by the risk management, information, and communication systems. Additionally, out of 0.365 and 0.348, the control actions have the least impact on the ROE and ROA. The ability to identify and manage the incidence of fraudulent actions, measuring the effectiveness of the auditors, encouraging ethics, and the formulation of operating standards were some of the elements examined while evaluating the control environment. The observed significance suggests that the outcome will still be significant even in the face of other external influences. These findings agree with the contingency theory that proposes external factors or the control environment having an effect on the leadership and performance of an organization.

5.1.5 CBK Regulations Moderating effect on IAP and Financial Performance

The final objective looked into the effect of the Central bank of Kenya regulation on the internal audit practices of the internal audit and the overall influence on the financial performance of the NSE-listed banks in Kenya. The respective R squared values for ROA and ROE were at 0.762 and 0.611 respectively which showed a good fit. The constructed model for both the dependent variables satisfies the significance test done against a 0.05 level of significance with the p-values for both models at 0.037 and 0.041 for ROA and ROE, which are lower than 0.05.

The simplified Structural equation model (SEM) revealed that the ISAs became a significant factor in determining the financial performance when working in conjunction with the CBK regulations. From the SEM model, independence, ISAs and the internal control factors contributed positively to the observed outcomes. The observations imply that the CBK regulations positively relate to the business environment to improve the overall function of the internal audit. These findings agree with the contingency theory that proposes that the environment or external factors affect the leadership of an organization and that there is no standard way of leading

5.2 Conclusions

Financial performance in this study was measured through the use of return on assets (ROA) and return on equity (ROE). The ROA measures how effectively the NSE-listed banks use the assets available to them in enhancing the shareholder's returns from the investment made. The ROE measures how effectively the NSE-listed banks use a company's annual return (net income) available to them in enhancing shareholder's returns from the investments made. These measures (ROA&ROE) look at profitability in terms of margins from the NSE-listed banks' products and services delivered to the markets and effective operations that realize higher returns. These measures are indications of financial leverage based on high profits made from the NSE-listed banks' assets and income.

The study concludes that moderated ISAs led to improvement of financial performance of NSE-listed banks in Kenya. The study established that compliance with the laid up international standards of auditing is an important contributing factor with the internal audit. These formal standards of auditing acknowledge that the internal audit also gives services relating to information other than the audit reports. Further, the research showed that internal auditors are supposed to undertake their responsibility while being goal-oriented and while complying with the generally accepted auditing standards for professional practice and standards for audits which leads to improved financial performance.

The study also concludes that the independence of internal audit led to improvement of the financial returns for the NSE-listed banks. The study participants noted that separating the audit functions and operational management of the NSE-listed banks, high degree of independence with no interference from clients or influence from top management resulted in improved financial performance. The policy guidance stating the audit functions, determining fee charged for services, staff remuneration and where there is constant review of the policies led to improved financial performance in the NSE-listed banks in Kenya.

The study concludes that audit committee did not have a significant effect on the financial performance of the NSE-listed banks. The study revealed that even in the presence of the CBK regulations as a moderator, while ISAs had a significant effect on the financial performance of NSE-listed banks in Kenya, audit committee operations did not affect performance. This could be due to the various limitations and especially COVID-19. However, bank responses showed that having long tenures in the audit committee allowed members improve their skills and experiences to discharge their duties, hiring made on merit, having both genders in the committee, regular trainings and the audit committee directly communicating to shareholders resulted in improved financial performance.

Further conclusions were such that internal controls and their elements resulted in enhanced financial outcomes for these NSE-listed banks. Risk management involved aspects including the guidelines and measures set to identify and assess any risks that threaten the attainment of firm objectives, conducting analysis for firm risks and the response measures, and assessing operational risks which led to improved financial performance. Risk management with elements like consideration for potential fraudulent cases and information and communication, including monitoring and control activities resulted in improved bank performance. The study concluded that internal control aspects resulted in the improved financial performance of these NSE-listed banks. The study respondents noted that segregation of duties and use of passwords for employee access and frequently changing the passwords resulted in high financial performance. Other internal control systems like controlling organizational assets by getting authorization from the few identified individuals and using the assets for the benefit of the organization led to the high financial performance of these NSE-listed banks.

5.3 Recommendations

The recommendations in policy and practice and recommendations for further studies are discussed in these sections.

5.3.1 Recommendations for Policy and Practice

The implication of this study's findings and conclusions is such that moderated internal audit practices aspects of ISAs, internal audit independence, and internal control operations improved the financial performance of these NSE-listed banks. The audit committee operations did not have an effect on the financial performance of the NSE-listed banks. Therefore, this study recommends the adoption and employment of moderated ISAs to keep improving the NSE-listed bank's financial performance. These banks should adopt internal control system aspects since it had the strongest link to financial performance. The internal control systems encompass elements of operational risk, the potential for fraud, internal and external risk factors, and measures put for identification and assessment of these risks.

The study recommends ensuring independence of internal audits which improved financial performance but to a slight extent. The internal auditors' members should be hired on merit, receive regular training, and include a reporting channel identified that will protect independence and objectivity. Further study recommendations are on auditors' independence where there is no interference from clients or influence from top leadership and separation of duties. There should be policies to guide audit functions and things like remunerations and fees charged to improve NSE-listed banks' performance.

The study also recommends on adoption and employment of internal control measures like segregation of duties, restricted access through using access passwords that are frequently changed. It also involves the management setting a system for control firm assets and obtaining authorization before use of assets and strictly using firm assets for its benefit. The NSE-listed banks should formulate policies to guide its internal audit function and practices by guiding the firms on selection and appointment of audit committee members, have regulations and penalties for those in breech on independence of the auditors. Organizations should also have regulations and guiding lines on managing risks and setting up of internal controls for improved performances. CBK, CMA and NSE should take leads in guiding banks to embrace internal audit function as a means of improving its performance.

5.3.2 Recommendation for Further Studies

The National Bank, whose owner is the government, was included in the study's focus on both the public and private sectors. It is now appropriate to carry out comparable research solely with information from the public sector. A study on the impact of internal controls on investment bank financial performance in Kenya would be fascinating; this would provide a broader view of how adoption of ISAs affects not only commercial banks but also investment banks in Kenya. It will aid both commercial and investment bank management in improving the banking system as a whole. Another study can look at institutions like schools to determine the source of their problems, how they affect student and teacher performance, and how well-executed IA structures have an impact. The research above only studied a few IAPs. A recommendation to study other internal audit practices apart from independence, audit committee, internal controls, and the ISAs on the financial performance of the NSE-listed banks in Kenya is imperative and another field that can be explored. Due to the COVID-19 limitations, research on moderated internal audit practices effects on financial performance of NSE-listed banks in Kenya without this limitation is also recommended.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

Researcher's Introductory letter

Date: ________________________________

Dear Respondent,

This survey is for the purpose of gathering information for academic study on "Effects of moderated Internal audit practices on financial performance of banks in Quoted in the NSE". The research paper is in partial fulfillment of the conditions for the conferment of a Ph.D. degree in Business Administration from the Murang'a University of Technology. Please take comfort in knowing that any information you provide in this questionnaire will be held in strict confidentiality and used solely for research purposes. Please accept my sincere gratitude for your time and assistance.

Yours faithfully,

Ruth Mwende Mokono

Student, Ph.D., Business Administration

Registration Number BE500/5220/2018

APPENDIX II: RESEARCH LICENSE

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 806083

Date of Issue: 09/November/2021

RESEARCH LICENSE

This is to Certify that Miss.. RUTH MOKONO MWENDE of Murang'a University of Technology, has been licensed to conduct research in Kisii, Muranga, Nairobi on the topic: THE EFFECT OF MODERATED INTERNAL AUDIT PRACTICES ON THE FINANCIAL PERFORMANCE OF NSE LISTED BANKS for the period ending : 09/November/2022.

License No: NACOSTI/P/21/13949

806083

Applicant Identification Number

Director General

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

APPENDIX III: QUESTIONNAIRE

This questionnaire is usually designed to collect data. The research will focus on collecting data on the topic "to assess the moderated relationship between the Internal audit practices and financial performance of NSE listed banks in Kenya." The data shall be used for academic purposes only. Confidentiality and integrity will also be adhered to. The respondents (Internal audit department, finance/accounting departments, and the representation of audit committee personnel) are highly encouraged to respond to the statements in this questionnaire most truthfully and objectively possible. Your help and involvement in making this study a success would be much appreciated. Please check the box next to the right answer or fill in the blanks with the needed information. Please be specific and detailed.

SECTION A: DEMOGRAPHIC INFORMATION

1. LEVEL of EDUCATION:
   Undergraduate: ☐
   Masters: ☐
   Doctor of philosophy: ☐
   Any Other: ……………………………………………….

2. PROFESSIONAL CERTIFICATION: CPA: ☐
   ACCA: ☐
   Any Other: …………………………………

3. NO. OF YEARS IN THE NSTITUTION: Less than 3 years: ☐
   3 - 9 years: ☐
   10 - 15years: ☐
   16 - 20 years ☐
   Over 20 years ☐

4. POSITION OF RESPONDENT: Head of Internal audit ☐
   Internal auditor ☐
   Finance (Accountant) ☐
   Member of the Audit committee ☐
   Any other _________________

5. YEARS OF EXPERIENCE
Less than 3 years: ☐
3 - 9 years: ☐
10 - 14 years: ☐
15 - 20 years ☐
Over 20 years ☐

SECTION B: THE ADOPTION OF INTERNATIONAL STANDARDS OF AUDITING

On a scale of 1 – 5 state whether you agree with the following statements whereby 1-strongly agree, 2- Agree, 3- Moderately agree, 4- Disagree, and 5- strongly disagree.

	To what extent does adoption of ISA relate to financial performance?	**1**	**2**	**3**	**4**	**5**
1.	International standards of auditing help to influence auditing effectiveness.					
2.	Compliance with professional standards is the most important contributor to Internal auditors' added value.					
3.	The financial performance of NSE-listed banks is influenced by standards of auditing and audit-related services.					
4.	Internal auditors provide services related to information other than financial reports, according to formal auditing requirements.					
5.	Auditors do their duties objectively and in accordance with acknowledged professional standards.					
6.	Internal audits use a systematic and disciplined method to examine and contribute to the improvement of risk management, control, and governance in the banking system.					

SECTION C: INDEPENDENCE OF INTERNAL AUDIT

On a scale of 1 – 5 state the extent to which you agree with the following statements whereby 1-strongly agree, 2- Agree, 3- Moderately agree, 4- Disagree, and 5- strongly disagree.

	To what extent does Internal audit independence relate to financial performance?	**1**	**2**	**3**	**4**	**5**
1.	Internal auditors must be independent of an organization's employees and operational operations.					
2.	Overdependence on management for allocation of resources to the Internal audit function affects the audit work					
3.	Management expectations of the duties of Internal audit affect their objectivity hence their judgments could be biased					
4.	Internal audit report tracking is cost-effective and adds value to the organization					
5.	Organizational independence of the Internal audit function is crucial in the effectiveness of the Internal audit function					
6.	Audit reports are given timely, and recommendations are implemented to arrest control lapses					
7.	Internal audit budgets, recruiting, firing, and pay are all decisions made by the bank's CEO and CFO.					

SECTION D: THE AUDIT COMMITTEE OPERATIONS

On a scale of 1 – 5 state the extent to which you agree with the following statements whereby 1-strongly agree, 2- Agree, 3- Moderately agree, 4- Disagree, and 5- strongly disagree.

	To what extent does audit committee operations relate to financial performance?	**1**	**2**	**3**	**4**	**5**
1.	Lack of independent audit committees affect the performance of IAF					
2.	Independent audit committees oversee financial reporting and disclosures.					
3.	The financial expertise of the audit committees determines the quality in financial statements					
4.	Audit committees can interpret financially statements and understand financial estimates					
5.	The independence of an audit committee has an impact on a company's profitability, management, and investor views.					
6.	Gender diversity in board committees affect their oversight roles to the organization and this could impact investors' perceptions					
7.	Board ACs should at least have 3 non-executives directors with accounting knowledge to question manipulation of financial records by management					
8.	The audit committee is briefed regularly on significant risks facing the company and timely action is taken					
9.	The board audit committee is independent of the administration and the CAE has direct access to the chairperson					
10.	Audit committee support to the Internal audit department ensures a strong ICS is maintained in the Company					

SECTION E: INTERNAL CONTROL SYSTEMS

On a scale of 1 – 5 state the extent to which you agree with the following statements whereby 1-strongly agree, 2- Agree, 3- Moderately agree, 4- Disagree, and 5- strongly disagree.

Internal Control	1	2	3	4	5
Control Environment					
Rank the assertions about the Control Environment on a Likert scale ranging from strongly agree to strongly agree, with 1 indicating strongly agree, 2 indicating agree, 3 indicating moderately agree, 4 indicating disagree, and 5 indicating strongly disagree.					
i) Detection of fraud and fraudulent practices are inherently difficult to identify, and they have a negative influence on a bank's performance.					
ii) Strategies that can increase auditor performance are required for efficient fraud detection.					
iii) All shareholders are regarded with honesty and integrity for the benefit of the organization.					
iv) Management's commitment to ethical standards in the financial system's operation.					
v) International standards on auditing and audit-related services have an impact on commercial bank performance.					
vi) Internal audits in the banking industry use a methodical and systematic method to examine and contribute to the development of risk management, control, and governance.					
Risk Assessment					

Rank the assertions in the Risk Assessment on a Likert scale ranging from strongly agree to strongly disagree, with 1 indicating strongly agree, 2 indicating agree, 3 indicating moderately agree, 4 indicating disagree, and 5 indicating strongly disagree.					
	1	**2**	**3**	**4**	**5**
i) The bank's objectives have been determined by management.					
ii) Management identifies risks that affect the achievement of the bank objectives.					
iii) Management uses a set of criteria to determine which bank risks are the most critical.					
iv) Management has put mechanisms in place to manage key risks that might lead to the bank's collapse.					
v) The bank's management has set criteria for evaluating which risks are the most dangerous.					
vi) Departmental risks at the banks are routinely escalated and reported to management in order to aid in their resolution before they become a loss.					
vii) To prevent fraudulent transactions from being processed, all instructions received from bank clients are thoroughly examined (i.e., signature verification) before being carried out.					
Information and Communications System					

Rank comments about the Information and Communication System on a Likert scale ranging from strongly agree to strongly disagree, with 1 indicating strongly agree, 2 indicating agree, 3 indicating moderately agree, 4 indicating disagree, and 5 indicating strongly disagree.					
	1	**2**	**3**	**4**	**5**
i) Management has selected individuals responsible for coordinating the various processes inside the bank to guarantee adequate communication on internal controls.					
ii) Internal controls, such as responsibility, allocation of duties, are known and respected by all employees.					
iv) The reporting system for financial structures spells out all of the bank's duties for each section/unit.					
Control Activities					
Rank the assertions about Control Activities on a Likert scale ranging from strongly agree to strongly disagree, with 1 indicating strongly disagree, 2 indicating disagree, 3 indicating moderately agree, 4 indicating agree, and 5 indicating strongly agree.					
	1	**2**	**3**	**4**	**5**
i) Appropriate efforts are taken to correct misbehavior in the operation of our Accounting & Finance Management System.					
ii) Only authorized personnel have access to the bank system.					
iii) Access to accounting records in the bank is restricted to workers who have been assigned responsibility for them.					
iv) The banks' accounts are reconciled every day to guarantee that there are no outstanding issues that might cause the bank to lose money.					

v) All bank procedures have control frameworks in place (maker, checker, verifier)					
vi) The bank's adoption of ICS is regularly observed by administration.					
vii) Staff (via evaluations) and bank systems are both subjected to frequent reviews of operational performance.					
viii) Management offers subordinate officers with input on the system's operation.					
Monitoring					
Rank Monitoring statements on a Likert scale ranging from strongly agree to strongly disagree, with 1 indicating strong agreement, 2 indicating agreement, 3 indicating moderate agreement, 4 indicating disagreement, and 5 indicating strong disagreement.					
	1	**2**	**3**	**4**	**5**
i) Independent process inspections and assessments of controls activities are performed on a regular basis.					
ii) Internal reviews of application of internal controls in units \are undertaken frequently.					
iii) The bank personnel reconcile the bank's accounts on a daily basis.					
iv) Management is held responsible for the timely assessment of audit reports and resolution of any non-compliance concerns found in those reports to the audit committee.					

v) The management control approach is sufficient for investigating anomalous bank operations.					

SECTION F: CBK REGULATIONS

These assertions are from CBK Prudential Regulation; score them on a Likert scale of 1 to 5, with 1 indicating strongly agree, 2 indicating agree, 3 indicating moderately agree, 4 indicating disagree, and 5 indicating strongly disagree.

	1	**2**	**3**	**4**	**5**
i) The established rules are strictly followed.					
ii) Because of the laws, fraudulent actions are kept to a minimum.					
iii) CBK takes severe measures against anyone who violates any restrictions.					
iv) Adherence of the laws set positively contributes to the financial performance of the organization.					

Are CBK prudential regulations enough to curb all commercial banks' irregularities?

APPENDIX IV: DATA COLLECTION WORKSHEET

1. RETURN ON ASSETS (ROA)

YEAR		2013	2014	2015	2016	2017
S/NO	**NAME**					
1	ABSA PLC Group					
2	CFC Stanbic					
3	Co-operative bank					
4	Diamond trust bank					
5	Equity group					
6	Housing Finance Group					
7	I&M Holdings					
8	Kenya commercial bank Group					
9	National bank					
10	Nic bank					
11	Standard chartered bank					

2. RETURN ON EQUITY (ROE)

YEAR		2013	2014	2015	2016	2017
S/NO	**NAME**					
1	ABSA PLC Group					
2	CFC Stanbic					
3	Co-operative bank					
4	Diamond trust bank					
5	Equity group					
6	Housing Finance Group					
7	I&M Holdings					
8	Kenya commercial bank Group					
9	National bank					
10	Nic bank					
11	Standard chartered bank					

APPENDIX VI: NAIROBI SECURITIES EXCHANGE LISTED BANKS IN KENYA

1.	Barclays Bank of Kenya
2.	CFC Stanbic Holdings
3.	Diamond Trust Bank Group
4.	Equity Group Holdings Limited
5.	Housing Finance Company of Kenya
6.	I&M Holdings Limited
7.	Kenya Commercial Bank Group
8.	National Bank of Kenya
9.	National Industrial Credit Bank
10.	Standard Chartered of Kenya
11.	Cooperative Bank of Kenya
12.	Bank of Kigali

APPENDIX V: PUBLICATIONS

The following papers have been published from this research;

Mwende, R. M., Machogu, C., Njogu, G. W., & Otieno, D. C. (2021). Drivers of Enhanced Internal Auditor's Performance of NSE Listed Banks in Kenya. http://repository.mut.ac.ke:8080/xmlui/handle/123456789/5483

Mwende, R. M., & Njogu, G. W. (2021) The Effect of Internal Control Systems on the Financial Performance of NSE Listed Banks. International Journal of Business and Management Sciences. https://www.ijbms.org/index.php/ijbms/article/view/77