

# Effects of Internal Auditing on Performance of Sub County Treasuries: A Case Study of Mirangine Sub County Treasury, Nyandarua-County

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**Abstract:** *The study examined the impact of internal audit function on the performance of Sub County treasuries. The study adopted a descriptive survey design. The study population was drawn from the treasury department at Mirangine Sub County. The target population of the study was 30 respondents. Data was collected by the use of self administered questionnaires. Data collected was analyzed quantitatively and qualitatively. Descriptive statistics was used in data analysis. The study has found that internal audit function strengthens Sub County treasuries' internal control system which actually enhances efficiency. It has also been noted that internal auditors should maintain independence and objectivity in this case they will be able to point out the weakness and strengthen Sub County treasury department. Additionally internal audit function is able to assist managers on the governance process to promote development, communication and implementation of Sub County treasuries, policy and monitoring performance. Furthermore internal audit is able to access the effectiveness of the risk control through controlling, preventing, detecting or directing hence ensuring stability of Sub County treasuries. Lastly internal audit issues reports which are followed up and they act as advisers and consultants to the management and thus have a positive impact.*

**Keywords:** Performance, Treasuries, Sub County, Internal auditing

## 1. Introduction

The internal audit department is one of the departments within the state department of treasury and finance. It supports accounting officers in the government ministries and departments in the effective discharge of their responsibilities by measuring, evaluating and reporting on the effectiveness of the internal control systems, implemented by the accounting officers (Robert, 2002). Its main goals include among others appropriate assessment of risk and adoption of strategies to manage risks to within acceptance levels and compliance with applicable policies, procedures, laws and regulations. The internal audit systems was in operation in governments prior to independence but was discontinued because of economic commission report of 1962. The system was re-introduced in 1984 when it became apparent that its absence had contributed greatly to laxity in the management of public resources, compliance with the relevant laws, regulations, procedures and lack of effective internal control systems (Whittington & Pany, 2006).

In 1995, internal audit departments were recognized and renamed audit inspectorates (Robert, 2002). The auditors were detached from the management clustered in units from where they used to conduct audit inspections. However the new approach was found to be expensive. There was need to strengthen financial management to improve the economy, efficiency, effectiveness and accountability in the use of public resources. Due to this need, in 1997, the internal audit function was restructured and decentralized to become an integral part of management (Whittington & Pany, 2006).

Today, the internal audit function is geared towards assessing and advising on risk management, control and governance in various departments in the sub counties. This

is done in order to provide quality assurance and consulting services designed to add value to government operations (Robert, 2002). It also acts as an independent review function set up within the civil service as stipulated in the government financial management Act 2004 Section 9(i) as a service to all levels of management. The internal auditor general is responsible for effective review of all aspects of risk management and control throughout the civil service. According to Rolling (2005) internal auditors are authorized to audit all activities of the government ministries and departments and to carry out special audits within the line ministries. They also have full and complete access to all records and physical properties of the government. This means that internal audit department helps to determine whether the risk management systems, control environment and governance processes are adequate and functioning in a manner that ensures programs are delivered in an efficient and effective manner, objectives are achieved, resources are adequately protected, used economically and effectively applied against stated objectives and priorities, legislative, regulatory and contractual requirements are recognized and met (Robert, 2002). It is therefore expected that the primary responsibility for auditors is to establish and support adequate control environments in their organizations. They ensure that appropriate and adequate arrangements exist by planning, organizing and directing the performance of staff and to ensure that goals and objectives are accomplished in the most effective, efficient and economical manner.

## 1.2 Statement of the Problem

With allocation of public funds to the development and recurrent expenditure in the lowest administrative units of governance, it is not uncommon to find some financial scandals in the government departments. Particularly in

government departments in Kenya, it is common knowledge that sound and prudent internal auditing may enable organizations to carry on with businesses in an efficient and orderly manner and to accuracy of accounting records in order to help in preventing and detecting errors and frauds. The performance of Sub County treasuries has always been in doubt. The cause for this poor performance can be seen in terms of inefficiency and lack of commitment on the part of the public servants. It is due to these inadequacies in the Sub County treasuries that a need arose for examining how internal control systems can enhance the performance of the government treasuries in the Sub County.

**Objective of the Study**

To examine the extent to which internal control systems affect performance of Sub County treasuries

**2. Literature Review**

**2.1 Internal Control System and Performance of Organizations**

The role of internal auditing can be identified as involving three elements namely evaluation and improvement of risk control, internal control and governance processes. These elements are referred to as the “Three Pillars” of internal auditing (Manasseh, 2004). Risk control, internal control and governance encompass the policies and procedures established to ensure the achievement of objectives and include the appropriate assessment of risk, the reliability of internal reporting and accountability processes, compliance with applicable laws and regulations and compliance with the behavioral and ethical standards set for public organizations and employees.

**2.2 Effects of Internal Auditing on Governance**

The value of the modern day internal auditing lies in the ability to help management achieve its objectives. According to Manasseh (2004) improved attitudes towards internal audit are built on a belief that internal audit functions are creating value to their organizations and reflect the strategic thinking and orientation of the board and management to achieve the objectives of the organization. However, every decision and program carries with it an element of risk of non-achievement due to uncertainties associated with the implementation of programs. According to Millichamp (2002) public sector governance has very broad coverage including how an organization is managed, its corporate and other structures, its culture, its policies and strategies and the way it deals with its various stakeholders.

The broad nature of public sector governance necessitates an effectiveness internal auditing function in order to meet the demanding responsibilities imposed by stakeholders. Internal audit can help to improve governance process by focusing on how values are established to ensure effective and efficient control and management of public sector entities (Millichamp, 2002). Such a value system requires an open government that is transparent in its dealings with a high sense of ethical behavior and fairness. The complexity of the public sector operating environment requires that the internal audit structural design, approach, practice and scope

re reformed to ensure open, accountable and prudent decision-making within all public sector organizations.

Internal auditors’ role in governance is broadly identified to be two-fold. Firstly, internal auditors provide independent, objective assessment on the appropriateness of the organization’s structure and the operating effectiveness of governance activities. Secondly, they act as catalysts for change, advising or advocating improvements to the organizations governance structure and practices (Meigs & Meigs, 2019). According to Standard 2130, internal audit activity should assess and make appropriate recommendations for improving the governance process to promote appropriate ethics and values within the organization, ensure effective organizational performance management and accountability and effectively coordinate the activities of and communicating information among the board, external and internal auditors and management.

**3. Methodology**

This study adopted a descriptive research design. This method was preferred because it allowed the use of open ended and closed ended questions. The target population of the study was 30 respondents drawn from Mirangine Sub County. Data was collected by the use of self administered questionnaires to obtain primary data. Data collected was analyzed quantitatively and qualitatively. Quantitative data was analyzed using frequencies and percentages while qualitative data was analyzed based on content analysis.

**4. Results**

Quantitative data was analyzed through the use of descriptive statistics and the output presented in Table 1.

<i>Response</i>	<i>Very low</i>	<i>Low</i>	<i>Moderate</i>	<i>High</i>
Auditing is part of internal control systems	(1%)	(16%)	(27%)	(56%)
Governance is part of internal control systems	(21%)	(18%)	(10%)	(51%)
Governance affects the performance of Sub County Treasuries	(10%)	(13%)	(17%)	(60%)
Internal Audit Affects Performance of Sub County Treasuries	(13%)	(9%)	(19%)	(59%)

The study sought to examine the extent to which internal control systems affected the performance of Sub County treasuries. The study also sought to establish whether the production of reliable financial statement was the general objective of the Sub County treasuries. The respondent rated internal audit as part of internal control system as follows; very low (1%), low (16%), and moderate (27%), high (56%). These findings suggest that majority of the respondents highly rated internal audit as a function of internal control. This indicates that internal audit was considered as an important part of internal control in the management of Sub County Treasuries. However, slightly moderate response rate suggested that the management needed to assess the risks presented in the financial reporting statements systems particularly those that might lead to

financial statements' unreliability. The respondents rated governance as part of the Sub County treasuries as follows:- very low (21%), low (18%), moderate (10%), high (51%). This indicates that governance in the Sub County treasuries was highly rated. Concerning the effects of governance on the performance of Sub County treasuries as a result of internal audit was rated as follows: very low (10%), low (13%), moderate (17%), high (60%). In addition the responses in regard to whether internal audit affected the performance of Sub County Treasuries was rated as follows: very low (13%), low (9%), moderate (19%), high (59%). This also implied that majority of the respondents indicated that internal audit affected the performance of organization since it provided discipline and structure that included integrity, ethical values and competence of the organization and the staff as previously pointed out by Robert (2002). These findings were in agreement with previous results which pointed out that there were some challenges such as risk control, activity control, environment control, information and communication control and monitoring control that could affect the internal control system regarding the performance of Sub County Treasuries. According to Whittington and Pany (2006) risk control may had an impact on the performance of Sub County Treasuries. Therefore management needed to assess the risks presented in the financial reporting statement systems which were likely to lead to financial statement being unreliable.

## 5. Conclusions and Recommendations

### 5.1 Conclusion

The study concludes that internal control systems were part of internal control management in Sub County Treasuries. It is also concluded that internal control system helped assess the risks presented in the financial reporting statements systems particularly those that might lead to financial statements' unreliability. Internal control system also affected the performance of organization since it provided discipline and structure that included integrity, ethical values and competence of the organization and the staff.

### 5.2 Recommendation

To address issues related to risk in the organization, there should be an effective system of communication of information in all levels of the organization. This system should allow for feedback and avoid confusion, distortion and conflict between the employees and other stakeholders. Measures which need to be implemented in the organization to achieve efficiency or maximum effectiveness of internal control systems should be encouraged. The management should increase emphasis on the application of the systems in all operations through establishing a policy of holding meeting and parties, more frequently with all parties involved. More training programs should be improved to train and educate the supervisors in human behaviour management and public relations. This will ensure reduction of the conflict between employees and supervisors due to strict supervisions thus minimize supervision frustration. The employees and committee members should also be trained through seminars on the existence and importance of internal control systems to their work.

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