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ROLE OF INTERNAL AUDIT FUNCTION IN PROMOTING EFFECTIVE CORPORATE GOVERNANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT
Internal auditing function was traditionally designed to safeguard firm's assets and assist in the production of reliable accounting information for decision-making purposes. Corporate failures in the past have raised concerns among the public over corporate governance. Similar studies have hypothesized that the internal audit function had influence on the corporate governance of an organization. The aim of this study was to determine the role of internal audit function in promoting effective corporate governance of Commercial banks in Kenya. This study adopted a descriptive research design. The study used stratified random sampling in identification of 89 respondents. Structured questionnaire was used to gather data from the respondents. Data collected was coded and analyzed with the aid of the Statistical Package for Social Sciences (SPSS) version 21 for descriptive statistics and inferential statistics. Presentation was by use of pie-charts, graphs and percentages which enhanced a meaningful description. The study established that all the independent variables that is positioning of the internal audit function, risk identification, measurement and prioritization approach adopted by the bank, internal audit independence and staffing of the internal audit department have a positive and significant influence on effective corporate governance. The study therefore concluded that the internal audit function plays a positive and significant role in promoting effective corporate governance of commercial banks in Kenya. This study recommends further studies on the role of other major players such as Central Bank of Kenya, the Government of Kenya, the bank's Board of Director, the bank's Board Audit Committee, banks Senior Management and the External Auditors.

Keywords: Corporate Governance, adequacy of staffing, risk identification, level of Internal Audit independence

INTRODUCTION
Internal auditing plays a critical role in the governance and operation of an organization. When effectively implemented, operated and managed, it was an important element in helping an organization achieves its objectives. Organizations that effectively use internal auditing were better able to identify business risks, process and system inefficiencies, take appropriate corrective action and ultimately support continuous improvement (Institute of Internal Audit, 2010). Historically, internal audit has been considered as a monitoring function, "organizational policeman and watchdog" (Karagiorgos, Drogalas, Gotzamaniz & Tampakoudis, 2010). According to Gunther & Moore (2002) internal auditing were conducted in diverse legal and cultural environment within organization that varied in purpose, size, complexity and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the Institute of Internal Auditors (IIA) international standards for the professional practice of internal auditing is essential in meeting the responsibilities of internal auditors and the audit activity. Internal audit function has helped keep bad things from happening, assure good things can happen and help management understand where their risks are, whether the risks are under control and whether the risks are worth taking. Internal auditors evaluate the controls that help

organizations manage risks to ensure controls are in place, working and cost-effective. Hass, Abdolmohammadi & Burnaby (2006), reviewed the American Internal Audit literature and established that the literature indicated a paradigm shift in the activities performed by internal auditors. They state that Internal Audit (IA) in the United States of America (USA) has shifted its orientation to a value-adding one. Before the enactment of the Sarbanes-Oxley Act (SOX) of 2002, IA services were focusing on detection rather than prevention. However, after the issuance of the Sarbanes-Oxley Act (2002), IA changed its emphasis to a compliance approach. In other words, the role of internal audit in corporate governance through its services to the board of directors has strengthened after the Sarbanes-Oxley Act. A review of European IA literature by Allegrini, Paape, Melville & Sarens (2006) and a review of the Asia Pacific IA literature by Cooper, Leung & Wong (2006) generally confirm a paradigm shift. The IA role has changed through three major stages.

Mihret & Yismaw (2007) studied IA effectiveness in public sector higher educational institutions in Ethiopia. The results indicated that IA was ineffective in terms of proficiency, planning, recommendations and limitations to the scope of work. Furthermore, the study revealed that audit quality and management support are the two most important factors influencing IA effectiveness respectively. According to Choudhury & Hoque (2006) corporate governance entails those legal and organizational structures that looked after the internal integrity of a corporation. It was thereby a bundle of contracts and rules under which it functions, was legitimated by legal enactment and protected by the legal tenets of any government and state. The implications of such legal obligations and protection may be limited nationally or extended internationally under agreed upon globalization rules. Corporate Governance, therefore, was referred to the manner in which the power of a corporation was exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Private Sector Initiative for Corporate Governance, 2012). Corporate governance developments both locally and around the world have reaffirmed the board's responsibility which ensured the effectiveness of their organizations internal controls framework. This development highlighted the key role that internal audit can play in supporting the board in ensuring adequate oversight of internal controls and in doing so form an integral part of an organization corporate governance framework (KPMG, 2003). Corporate governance is a major debate in the world due to the numerous corporate financial scandals and business failures. These corporate frauds following in the footsteps of the Asian financial crisis of the late 1990's are epitomized by the Enron, Worldcom, Global crossing and Tyco in the USA as well as Vivendi, Parmalat and others in Europe (KPMG, 2004). In the mid and late 1990s, several banks and other financial institutions in Kenya collapsed and went into oblivion with billions of shillings deposited by individuals, private companies and even state corporations. These scandals have shaken investors' confidence to the core and called into question the honesty and integrity among corporate boards and executive management.

Commercials banks in Kenya are licensed and regulated under the Banking Act Cap 488 and prudential regulations issued by the Central Bank of Kenya from time to time. There has been evidence to suggest that internal audit function played a key role in effective corporate governance within Commercial banks in Kenya. With appropriate support from the board and audit committee the internal audit is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls and ineffective corporate governance (Zekele, 2007). Basel committee's (2012), principles for enhancing corporate governance states that bank should have an internal audit function with sufficient authority, stature, independence, resources and access to the board of directors. Independent, competent and qualified internal auditors are vital to sound corporate governance. The committee further summarized the principles into three groups that are principles relating to: the supervisory assessment of the internal audit function; the relationship of the supervisory authority with the internal audit function and finally the supervisory expectation related to the internal audit function. Central Bank of Kenya (2006) has further emphasized that the board of directors shall set up an effective internal audit department, staffed with qualified personal to perform internal audit functions, covering the traditional function of financial audit as well as the function of management audit.

Empirical investigation indicated that for internal audit to function efficiently four critical factors had to be in place (Radu & Ramona, 2013). Firstly it had to be strategically positioned in order to contribute to increased business performance. This means the mission and role of internal audit should be defined within a wider governance framework and effectively communicated. Secondly internal audit should have strong risk identification and planning methodology to deliver a high quality service and use an appropriate technology to enhance the provision of internal audit services. Internal audit must thirdly be independent from all decisions factors involved in corporate governance, in this regard activities being audited must be independent from everyday internal processes, and must be able to exercise its assignment on its own initiative in all departments, establishments and functions of the organization. Finally the internal audit function must be adequately staffed with the right people to deliver on its mission and objectives. This study therefore sought to establish the role of internal audit function in effective corporate governance of commercial banks in Kenya.

Objectives

The general objective of the study was to evaluate the role of internal audit function in promoting effective corporate governance among commercial banks in Kenya.

The specific objectives guiding the study were:

i. To establish the positioning of internal audit function within commercial banks in Kenya.
ii. To evaluate the risk identification, measurement and prioritizations approach adopted by internal audit function of commercial banks in Kenya.
iii. To examine the level of independence of the internal audit function of commercial banks in Kenya.
iv. To establish the adequacy of staffing of internal audit function of commercial banks in Kenya.

THEORETICAL REVIEW

The theories discussed here are institutional theory, extreme value theory, agency theory and knowledge-based theory. Bjork (2004) asserted that institutions are social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines and artifacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous. Institutional and neo-institutional theory suggests that adoption of organizational practices and environmental alignment is an institutional process subject to the influence of three pressures or forces – coercive, mimetic and normative. This theory further suggests that these forces can encourage organizations to adopt similar strategic actions thereby leading to organizational homogeneity (Adebanjo, Ojadi, Laosirihongthong & Tickle, 2013). The interests of shareholders have been strengthened over time, especially through efforts by the government and professional bodies. More specifically, there has been increased pressure on management to ensure that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals. This study drew on institutional theory, which essentially points that organizational management and control structures tend to conform to social expectations (Christopher, Sarens & Leung, 2009).

Extreme value theory (EVT) yields methods for quantifying risk events and their consequences in a statistically optimal way. For a general equity book, for instance, a risk manager will be interested in estimating the resulting down-side risk, which typically can be reformulated in terms of a quintile for a profit-and-loss function (Embrechts, Resnick & Samorodnitsky, 2010). Extreme event risk is present in all areas of risk management in a commercial bank. Whether we are concerned with reputation, market, information technology, credit or operational risk, one of the greatest challenges to the risk management department is to implement risk management models which allow for rare but damaging events, and permit the measurement of their consequences. According to Bali (2007) rapid globalization of financial and product markets, innovations in the design of derivative securities, and examples of spectacular losses associated with derivatives over the past decade have made financial institutions recognize the growing importance of risk management. Extraordinary events such as stock market crashes, bond market collapses, and foreign exchange crises are major concerns in risk management and financial regulation.

The IIA (2013) practice advisory 2010-2 notes that the Chief Audit Executive (CAE) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. The CAE is responsible for developing a risk-based plan and takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the CAE uses his/her own judgment of risks after consultation with senior management and the board. Most risk models use risk factors such as impact, likelihood, materiality, asset liquidity, management competence, quality of and adherence to internal controls, degree of change or stability, timing and results of last audit engagement, complexity, and employee and government relations. These risk factors should guide internal audit risk identification process.

Adam (1994) noted that agency theory is part of the positivist group of theories which derives from the financial economics literature. It postulated that the firm consisted of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. According to Bonazzi and Islam (2006) in a corporation, the shareholders are the principals and the managers are the agents working on behalf of, and for the interests of, the principals. In agency theory, a well-developed market for corporate controls is assumed to be non-existent, thus leading to market failures, non-existence of markets, moral hazards, asymmetric information, incomplete contracts and adverse selection among others. Various governance mechanisms have been advocated which include monitoring of financial institutions, prudent market competition, and executive compensation, developing an effective board of directors, markets for corporate control, and concentrated holdings. Developing an effective board of directors remains an important and feasible option for an optimal corporate governance mechanism.

The Knowledge-based theory of the firm considers knowledge as the most strategically significant resource of the firm. Employees are the custodians of knowledge within an organization. The advocates of this theory argue that because Knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms were the major determinants of success in competition and superior corporate performance. According to Sveiby (2001), strategy formulation should start with the competence of people. People are seen as the only true agents in business; all tangible physical products, assets as well as the intangible relations, are results of human action and depended ultimately on people for their continued existence. There has been an increasing demand for education and skill since the mid-twentieth century (Gorga & Halberstam, 2007). For the IAF to be able to play its part in ensuring effective corporate governance, the department must have the right members of staff who are up-to the task. According to IIA (2012) the chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan. This study drew on institutional, extreme value, agency and knowledge based theories to examine the role of the internal audit function in promoting effective corporate governance within commercial banks in Kenya.

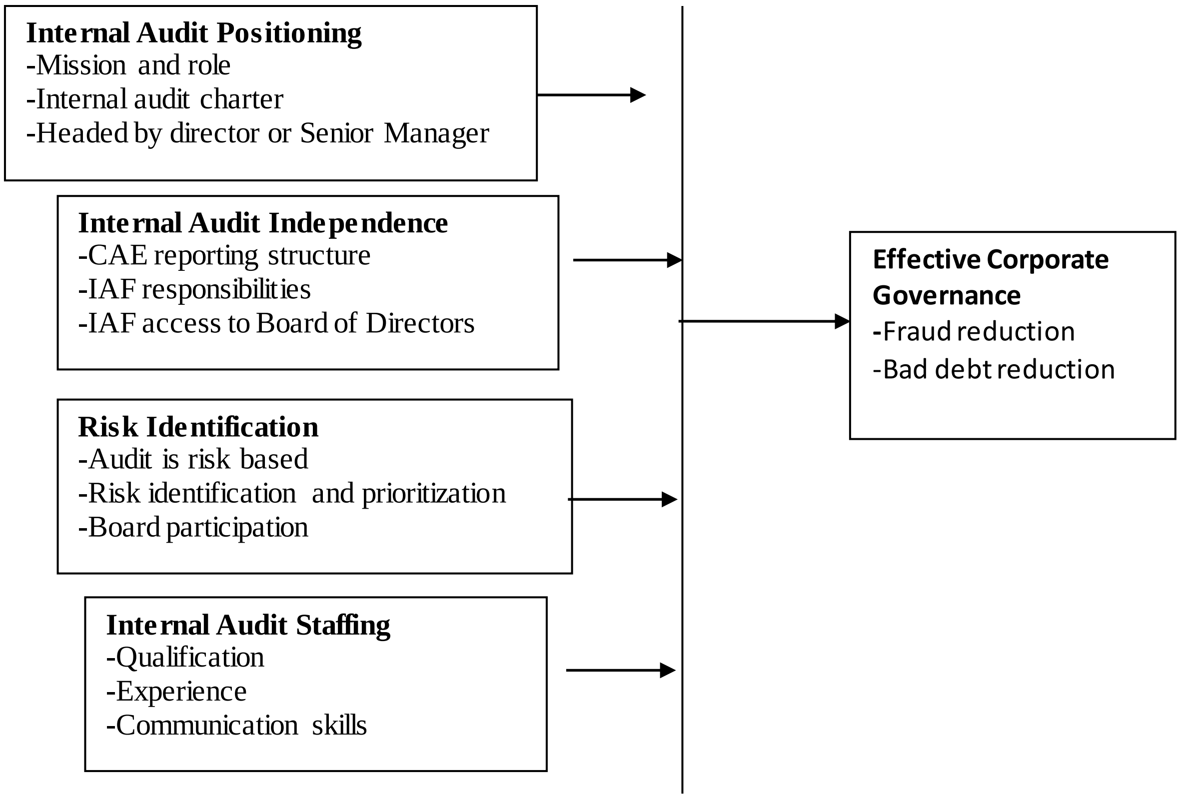

Fig. 1 Conceptual framework

RESEARCH METHODOLOGY

The study adopted the descriptive survey design. Descriptive research design involved describing the state of affairs as it exists (Robson, 2002) .Thus made it suitable for this study because the researcher was fairly knowledgeable about the aspects of the phenomenon, but little was known regarding their nature. Moreover, it explored on the existing status of two or more variables at a given position in time and whether a relationship exists between them, hence suitable for this study.

The population comprises of all staff in both management and clerical position working in the internal audit department at all of Commercial Banks in Kenya. To get the actual set of units from which a sample was drawn, the banks were categorized as per Central Bank of Kenya (CBK, 2012) bank market share analysis into large, medium and small as this determined the number of internal auditors it had. From the preliminary study conducted in November 2013, the average number of Internal Auditors in large banks was 15, in medium banks 8 and in small banks 4.

Table 1: Study population

Peer	Number of banks	Average Population Per Bank	Target Population
Large Banks peer Group	6	15	90
Medium Banks Peer Group	15	8	120
Small Banks Peer Group	22	4	88
TOTAL	43		298

Sample and sampling technique

The study used stratified random sampling to select 30% of the target population as advised by Mugenda and Mugenda (2003). The sample size of this study was therefore 89 internal auditors. Stratified random sampling is a probability sampling technique where the study divides the entire population into different subgroups or strata, and then randomly selects the final subjects from the different strata. Commercial banks in Kenya have been divided into Large, medium and small banks.

Table 2: Sample size

Peer	Target Population	Sampling Percentage	Sample size
Large Banks peer Group	90	30	27
Medium Banks Peer Group	120	30	36
Small Banks Peer Group	88	30	26
TOTAL	298		**89**

Data Collection Procedures

Primary data was collected using semi structured questionnaire. Prior to beginning the study the questionnaire was tested for objectivity, validity and reliability by conducting a pilot study on 9 staff from two commercial banks representing the sample that were not included in the final study. This enabled the study to make modifications and remove any ambiguities in questions and areas in the questionnaire and to evaluate the standard of the questionnaire.

Data Processing and Analysis

Data collected using the questionnaire was coded, variables named and classified to allow for statistical package handling and analysis with the aid of the SPSS version 21 for descriptive statistics (frequencies and percentages) and inferential statistics (regression analysis). Coding includes giving the question (or variable) a one word name, assigning a number to each possible answer on the questionnaire, determining how many digits are needed for the question, determining in which columns the data will be put and, optionally, assigning the question and answers labels. The questionnaires were numbered at the top right corner from 1 to 82 since the researcher was ultimately entering the data as numbers on one or more lines of text. There after data was entered into SPSS using Microsoft word and proof checked for any errors that may have lead to wrong results. The findings that were generated were captured in Microsoft excel and presented by use of pie-charts, graphs and percentages to enhance a meaningful description. The overall mean of the four aspects of the independent variables was obtained of all the 82 respondents. The regression analysis results obtained from the SPSS on the independent variables indicated the relationship between the variables either positively or negatively.

The regression model that was used in this study is;

$CG = a + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + e$

Where: CG = Effective Corporate Governance; a = Constant Term, X_1= Internal Audit Positioning

X_2= Risk Identification **;** $X_{3=}$ Internal Audit Independence; $X_{4=}$ Internal Audit Staffing, ẹ = Error Term

RESULTS AND DISCUSSION

Capital Base of Banks

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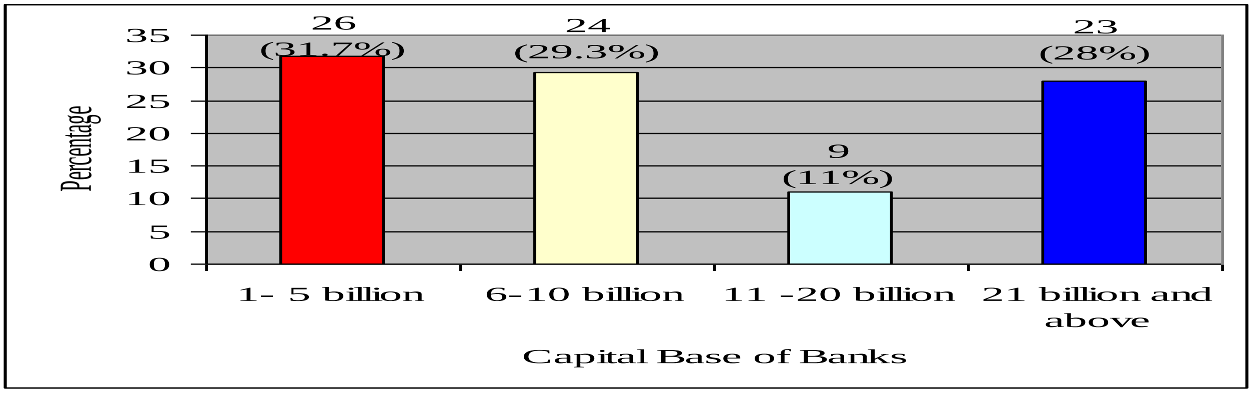
Slightly less than a third of the respondents indicated that their commercial banks had a capital base that ranged from 1 – 5 billion Kenya shillings. On the other hand, slightly more than a quarter of the respondents (29.3%) indicated that their banks had a capital base of 6-10 billion Kenya shillings whereas 28% of them indicated over 21 billion Kenya shillings.

Figure 2: Distribution of the Respondents on the Capital Base of the Banks



Number of branches

A good percentage of the respondents (43.9%) indicated that their banks had branches that were not less than 50. However, slightly more than a third of them (36.6%) indicated that there banks had branches ranging from 1-20. This clearly shows that majority of respondents were from banks with more than 50 branches (Fig.3)

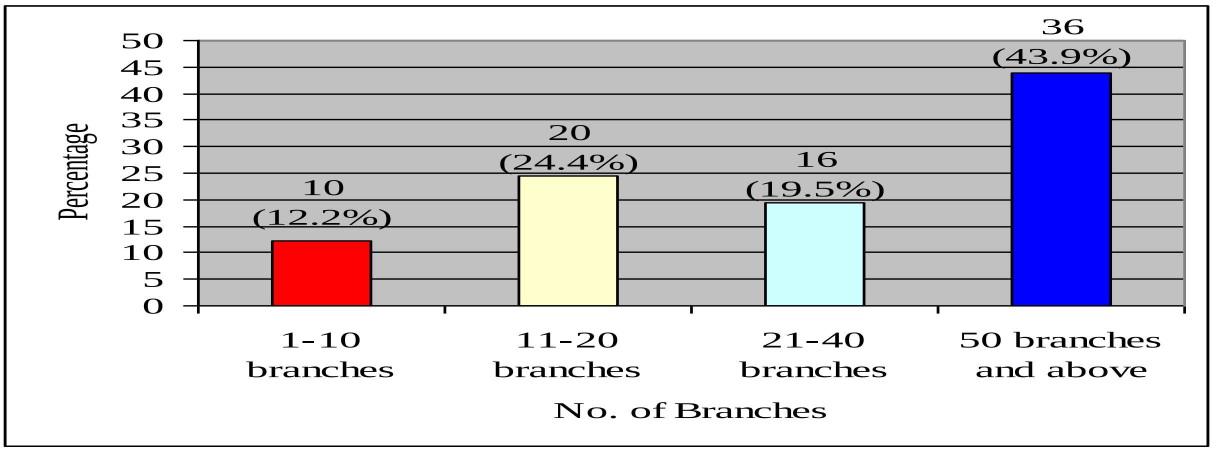


Figure 3: Distribution of the Respondents on the Number of Branches of their Banks

Bank Ownership

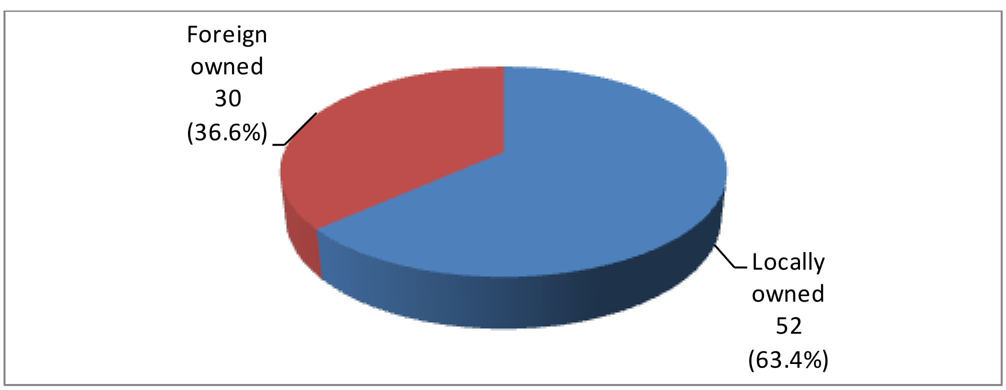


Figure 4: Distribution of the Respondents on the Category of Ownership of the Banks

The respondents were further asked to indicate the state of the ownership of their banks. This was classified into either foreign or locally owned (Figure 2). Majority of the respondents (63.4%) indicated that their commercial banks were locally owned. However, 36.6% of them indicated that their commercial banks were foreign owned.

Positioning of Internal Audit Function within Commercial Banks in Kenya

This study was set to establish the positioning of internal audit function within commercial banks in Kenya. To answer this objective, the respondents were asked to indicate the roles of various stakeholders in commercial banks in Kenya. These stakeholders included the Audit Board Committee (ABC), Chief executive Officer (CEO), Chief Finance Officer (CFO) among others. The distribution of responses is as summarized by Table 3.

Table 3: Distribution of the Respondents in relation to the influencers of the Internal Audit Function

	A B C		**C E O**		**C F O**		**Others (specify)**	
	F	**(%)**	**F**	**(%)**	**F**	**(%)**	**F**	**(%)**
Who defines the mission and role of internal audit function?	72	87.8	10	12.2				
Who evaluates the value contribution of the internal audit function?	31	37.8	51	62.2				
Who reviews and approves the internal audit budget?	23	28.0	53	64.6	6	7.3		
Who hires, remunerates and fires the Chief Audit Executive?	27	32.9	45	54.9	2	2.4	9	9.8

When asked to indicate who defined the mission and role of internal audit function, majority of the respondents (87.8%) indicated this was the role of the Audit Board Committee. A few of them (12.2%) however also indicated that the CEO was involved in the process of defining the mission and role of internal audit function in the bank. This is consistent with Mihret & Yismaw (2007) who recommended that the internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management. On the evaluation of the value contribution of the internal audit function, majority of the respondents (62.2%) indicated that the CEO in their commercial bank evaluated the contribution of the internal audit function. On the other hand, 37.8% of the respondents indicated that this role was being done by the ABC. From the findings we can deduce that Internal Audit Function evaluation by management lead by the CEO is important in ensuring it plays its role in promoting effective corporate governance. Cohen and Sayag's (2010) study had noted that there are very high correlations between perceptions of top management support and Internal Audit effectiveness. Majority of the respondents (64.6%) indicated that the CEO is the one who reviewed and approved the internal audit budget in their commercial banks. However, slightly more than a quarter of them (28.0%) indicated that the review and approval of the internal audit budget was the role of the ABC. This is consistent with Abu-Azza (2012) where it was noted that there is no direct communication between internal audit and the board of directors hence identifying potential threats to internal auditor effectiveness. The respondents (54.9%) indicated that in their commercial banks, the CEO hired, remunerated and fired the Chief Audit Executives. However, slightly more than a third of them (32.9%) indicated that the role of hiring, remunerating and firing the chief audit executives belonged to the Audit Board Committee. This finding agrees with Abu-Azza (2012) finding that internal audit departments do not report to a sufficiently high level in organizations, that is, internal audit departments report to chief executive officers rather than to the board of directors. Only when asked specifically by the chief executive officer to discuss reports with the board will internal audit function do so.

With regard to the mission and role of internal audit function, a mixed response was obtained. This is whereby a good percentage of the respondents (48.8%) strongly agreed that the mission and role of internal audit function are defined within a wider governance framework and are effectively communicated. Moreover, 41.5% of them also agreed with the statement. Majority of the respondents were positive to the statement by either strongly agreeing (24.4%) or agreeing (56.1%) that internal audit has been funded in a way that promotes objectivity and consistency in the quality of services it provides across the organization. This was however not the case among a few of them (17.1%) who were undecided on the matter. The finding was however inconsistent with Abu-Azza (2012) study in Libya were it was noted that there is insufficient budget allocation to enable Libyan internal audit departments to operate adequately which may potentially limit the scope of internal audit work.

Table 4: Extent of Agreement on the Positioning of Internal Audit Function in Banks

	SA		A		UD		D		SD	
	F	(%)	F	(%)	F	(%)	F	%	F	(%)
The mission and role of internal audit function are defined within a wider governance framework and are effectively communicated.	40	48.8	34	41.5	4	4.9	2	2.4	2	2.4
Internal audit has been funded in a way that promotes objectivity and consistency in the quality of services it provides across the organization	20	24.4	46	56.1	14	17.1	-	-	-	-
Internal audits ratings of individual units are used to rank their performance at end of the year.	9	11.0	14	17.1	41	50.0	12	14.6	6	7.3

Half of the respondents (50%) were undecided on whether the internal audits ratings of individual units are used to rank their performance at end of the year. Slightly more than a quarter of the respondents (28.1%) were positive to the statement by strongly agreeing and agreeing whereas a few of them either strongly disagreed (7.3%) or disagreed (14.6%) to the matter. The finding is in agreement with Alzeban & Sawan (2013) whose study found out that manager sometimes do not use the recommendation of internal audit departments. In terms of internal audit function position in commercial banks, it may be concluded that indeed banks in Kenya have strategically placed the internal audit function to ensure that it adds value to the organization by assisting the board of directors in providing effective corporate governance. However a few threats to positioning exist.

The Risk Identification, Measurement and Prioritization Approach Adopted By Internal Audit Function of Commercial Banks

Slightly more than half of the respondents (57.3%) indicated that it was the responsibility of the CEO to identify risk and mitigate them. Slightly less than a quarter of them (24.4%) however indicated that this was the role of the Audit Board Committee (ABC). On who’s responsible for ranking, prioritization and analysis of risks, slightly more than half of the respondents (52.4%) indicated the CEO’s whereas a few of them (19.5%) indicated that this was the responsibility of the ABC. Half of the respondents (50.0%) indicated that it was the responsibility of the CEO to carry out risk measurement activities in their respective commercial banks. However, slightly more than a quarter of them (28.0%) indicated that there were other stakeholders involved in executing this process besides the CEO, CFO and the ABC. With regards to the development of a formal risk assessment model, 47.6% of the respondents indicated that it was the responsibility of the CEO to develop the formal risk assessment model for commercial banks.

However, almost a third of them (32.9%) indicated there were various other stakeholders in the commercial banks who were involved in the development of formal risk and assessment models besides the CEO, CFO and the ABC.

Table 5: Risk Identification and Measurement and prioritization

	A B C		C E O		C F O		Others (specify)	
	F	(%)	F	(%)	F	(%)	F	(%)
Who's responsible for risk identification and mitigation?	20	24.4	47	57.3	-	-	15	18.3
Who's responsible for ranking, prioritization and analysis of risks?	16	19.5	43	52.4	-	-	23	28.0
Who's responsible for risk measurement activity?	18	22.0	41	50.0	-	-	23	28.0
Who's responsible for developing a formal risk? Assessment model?	14	17.1	39	47.6	2	2.4	27	32.9

The above findings on risk identification, measurement and prioritization correlate with those of Christopher, Sarens & Leung (2009) who recommended in their study that input from the CEO and CFO be solicited, given their ability to identify high risk areas and whose survey results indicate that, in 65 per cent of the cases, the CEO and/or CFO provide input for the internal audit planning. Their results suggested that, in almost one third of the cases, the CEO (32 per cent) and the CFO (29 per cent) have a strong impact upon the planning.

Table 6: Distribution of Respondents on Bank Risk Identification Process

	SA		A		UD		D		SD	
	F	(%)	F	(%)	F	(%)	F	(%)	F	(%)
Board and management determine, assess manage and monitor risks. (The 'risk maturity' of the organization).	41	50.0	37	45.1	4	4.9				
There exists a risk register (also known as a 'risk profile'), which lists all significant risks and the extent to which this may be relied upon for audit planning	26	31.7	47	57.3	7	8.5	2	2.4		
There is a compilation of an audit universe, which lists those audits aiming to provide assurance that all inherent risks above the risk appetite are being properly managed	30	36.6	45	54.9	5	6.1	2	2.4		
There is conduct of individual audits, which conclude on whether inherent risks above the risk appetite are being controlled to reduce them to within the risk appetite	22	26.8	37	45.1	17	20.7	2	2.4	4	4.9

The Level of Independence of the Internal Audit Functions of Commercial Banks

All of the respondents (100.0%) indicated that the Audit Board Committee was the ones who approved the internal audit charter while an overwhelming majority of the respondents (90.2%) indicated that the head of internal audit report functionally to the ABC in the commercial banks. A few of them (9.8%) however indicated that the head of internal audit reported to the CEO. This finding correlates with Njeru (2013) observation that the audit board committee approves the internal audit charter and reports functionally to the board audit committee. On who approved the internal audit plan, slightly more than half of the respondents (59.8%) indicated that the CEO was the one who approved the internal audit plan in their respective commercial banks. On the other hand, 40.2% of them indicated that the approval of the internal audit plan was done by the ABC. This finding follows that of Christpher, Sarens & Leung (2009) who had noted that it is only in 26 per cent of the companies where the audit committee or the board of directors approves the internal audit budget. According to IIA Standards, audit plan approval by the board is the best way to guarantee the independence of the internal audit function. Majority of the respondents (78.0%) indicated that the Audit Board Committee reviewed the annual progress of the audit activities in relation to the plan. The respondents were further asked to indicate whether they Strongly Agreed (SA), Agreed (A), Undecided (UD), disagreed (D) or strongly disagreed to various statements regarding to the bank internal audit function independence. Their responses are as presented by Table 7

Table 7: Role of Various Stakeholders in Enhancing the Independence of Internal Audit Function

	A B C		**C E O**		**C F O**	
	F	**(%)**	**F**	**(%)**	**F**	**(%)**
Who approves the internal audit charter?	82	100.0	-	-	-	-
To whom does the head of internal audit report functionally?	74	90.2	8	9.8	-	-
Who approves the internal audit plan?	33	40.2	49	59.8	-	-
Who reviews the annual progress of the audit activities in relation to the plan?	64	78.0	10	12.2	8	9.8

The respondents (50.0%) strongly agreed with the statement that the board and management determine, assess manage and monitor risks (Table 8). This is the 'risk maturity' of the organization. This was further supported by 45.1% of them who agreed with the statement. Slightly more than half of the respondents (57.3%) agreed with the statement that there exists a risk register (also known as a 'risk profile'), which lists all significant risks and the extent to which this may be relied upon for audit planning. Slightly less than a third of them (31.7%) were also in support of the statement by strongly agreeing. A good percentage of the respondents (54.9%) agreed that there is a compilation of an audit universe, to be used for prioritizing audits aimed at providing assurance that all inherent risks above the risk appetite are being properly managed. This was further supported by 36.6% of them who strongly agreeing to the latter. Majority of the respondents either strongly agreed (26.8%) or agreed (45.1%) that there is conduct of individual audits, which conclude on whether inherent risks above the risk appetite are being controlled to reduce them to within the risk appetite. It can be concluded that indeed the risk identification, measurement and prioritization approach adopted by commercial banks is given much priority by the management who are also involved directly in the process. This finding was in line with Omwono & Odoyo (2014) who found in their study that the core role of internal audit in relation to enterprise risk management is to provide assurance to the organization about the effectiveness of risk management. When internal auditing extends its activities beyond this core role, it should apply certain safeguards, including treating the engagements as consulting services and, therefore, applying all relevant Standards. The responsibility for enterprise risk management therefore lies with management headed by the chief executive officer.

Table 8: Distribution of the Respondents Extent of Agreement Regarding To the Bank Internal Audit Function Independence

	SA		A		UD		D		SD	
	F	(%)	F	(%)	F	(%)	F	(%)	F	(%)
The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.	47	57.3	31	37.8	2	2.4	2	2.4		
The audit committee addresses with the Chief Audit Executives (CAE) all issues related to internal audit independence and objectivity.	33	40.2	43	52.4	4	4.9			2	2.4
The audit committee meets periodically with the CAE without the presence of management.	7	8.5	20	24.4	8	9.8	40	48.8	7	8.5
Internal Audit provides recommendation for improvements in those areas where opportunities and deficiencies are identified.	34	41.5	40	48.8	6	7.3	2	2.4		

. The respondents (57.3%) strongly agreed that the internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee (Table 8). This was further supported by slightly more than a third of them (37.8%) who agreed to the statement. The respondents (52.4%) indicated that the audit committee addresses with the Chief Audit Executives (CAE) all issues related to internal audit independence and objectivity, 40.2% of the respondents were also positive to the statement. In line with the findings made in this study, is an earlier study carried out by Sigowo (2009) where the independence of the audit function was guaranteed since there were audit committees at the Board level that safeguarded independence of the internal audit departments. On whether the audit committee meets periodically with the CAE without the presence of management, a varied response was obtained. Majority of the respondents were negative to the statement by either strongly disagreeing (8.5%) or disagreeing (48.8%). However, 24.4% of them agreed to the statement. This finding is inconsistent with Christpher, Sarens & Leung (2009) who had noted in their study that two-thirds (68 per cent) of the responding CAEs had regular private contact with the audit committee chair or individual members. When asked to indicate their extent of agreement on whether the internal Audit provides recommendation for improvements in those areas where opportunities and deficiencies are identified, a positive response was obtained. This is whereby majority of the respondents either strongly agreed (41.5%) or agreed (48.8%) to the statement. This finding was consistent with Sigowo (2009) who found out that the internal audit function spent most of their time in doing corporate governance test, assessing internal controls, risk management and ensuring compliance

The Adequacy of Staffing of Internal Audit Function of Commercial Banks

The respondents (52.4%) indicated that in their bank the number of internal audit workforce ranged between 6-10 employees. However, slightly less than a quarter of them (24.4%) indicated that the employees ranged from 1-5 employees. When asked to indicate the academic qualifications of the staff members in the banks who operated in the internal audit function, all of the respondents indicated that all their staff members had a Bachelors degree. (Figure 5)

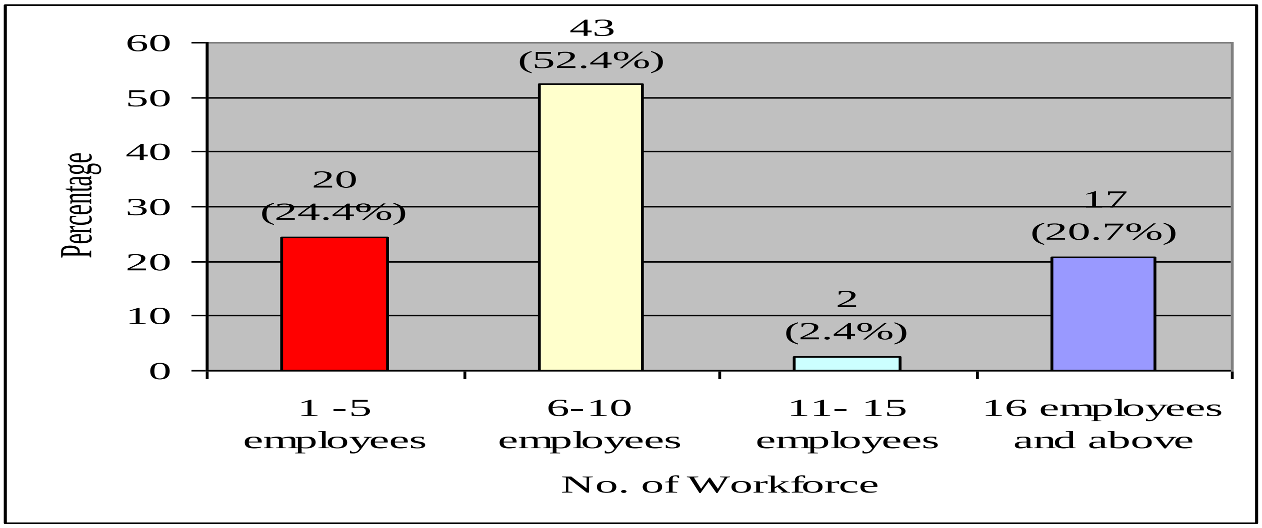


Figure 5: Distribution of the Respondents on the Number of Internal Audit Workforce

Certified Public Accountants (CPA)

The respondents were asked to indicate the number of internal auditors who were certified public accountants.

Table 9: Distribution of the Respondents on the Number of Employees who are Certified Public Accountants

Range	Frequency	Percentage of Internal Auditors with CPA
1-5	20	94
6-10	43	86
11-15	2	100
16-Above	17	92
Total	**82**	

From the findings, majority of the respondents stated that internal audit employees in the commercial banks are Certified Public Accountants.

Certified Internal Auditors (CIA) or Certified Information Systems Auditor (CISA)

Under each range the respondents indicated that the percentage of CIA's or CISA's was less than half. Only 20% of respondents with internal auditors ranging between 1-5 employees were either CIA's or CISA's. For the respondents with employees ranging between 6-10 it was 37%, for those ranging between 11-15 it was 32% while for those ranging from 16 and above employees it was 33%. The finding agree with those of Abu-Azza (2012) who had earlier noted that internal audit staff were well-educated (held a bachelor‘s degree in accounting) and a few hold professional qualifications but not many staff among them were accredited as CIA. Therefore, without internal audit professional qualifications, internal audit function contribution towards effective corporate governance is limited. The respondents were further asked to indicate their extent of agreement in relation to their bank's staffing of the internal audit function. Table 4.8 presents a summary of their responses.

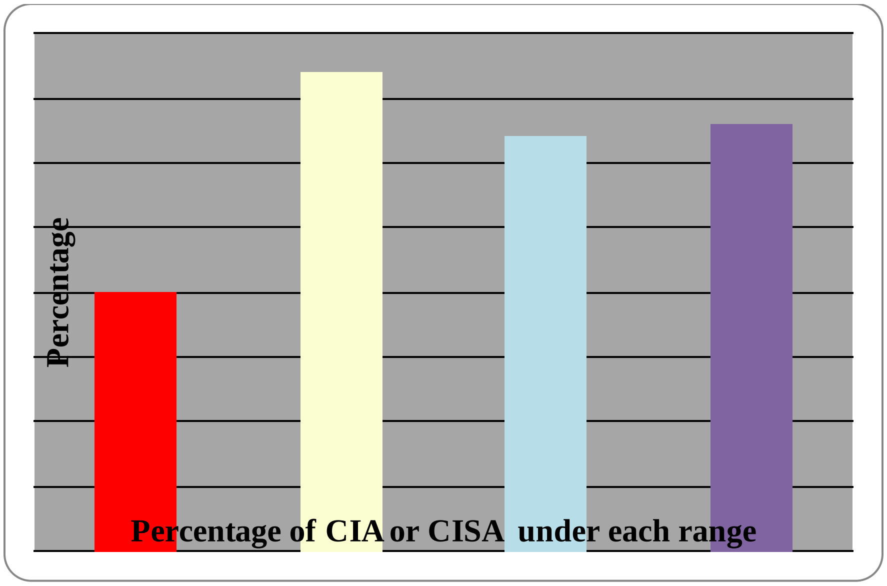


Figure 6: Distribution of the Respondents on the Number of Certified Internal Auditor or Certified Information Systems Auditor.

Table 10: Distribution of the Responses on the Staffing of the Internal Audit Function in Commercial Banks

	SA		A		UD		D	
	F	(%)	F	(%)	F	(%)	F	(%)
The internal auditors adhere to the IIA's Code of ethics, Internal Auditing Standards	4	4.9	27	32.9	27	32.9	24	29.3
Internal audit activity has the right number of staff, tools and other resources it needs to perform its activities	36	43.9	36	43.9	4	4.9	6	7.3
Members of the team participate in professional development training and programs	27	32.9	42	51.2	9	11.0	4	4.9

On whether the internal auditors adhere to the IIA's Code of ethics and Internal Auditing Standards, a mixed response was obtained. This is whereby 32.9% of the respondents agreed, while the other 32.9% of them were undecided. An overwhelming majority of the respondents were positive by either strongly agreeing (43.9%) or agreeing (43.9%) to the statement that internal audit activity has the right number of staff, tools and other resources it needs to perform its activities. When asked to indicate whether members of the team participate in professional development training and programs, slightly more than half of the respondents (51.2%) agreed whereas 32.9% of them strongly agreed (Table 10).

Regression Analysis

Regression analysis is a statistical tool for the investigation of relationships between variables. The researcher seeks to ascertain the causal effect of one variable upon another. In this study the researcher used regression to investigate the relationship which existed between the dependent variable and independent variables. Multiple linear regressions has been used to model the relationship taking the following structure: A model summary was generated using SPSS version 21 to calculate R, R Squared and adjusted R Squared as captured in Table 4.9.

Table 11: Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	Sig Fig
1	.79(a)	.624	.619	0.29	0.001

a Predictors: (Constant) : Internal audit positioning, risk identification , internal audit independence, internal audit staffing
Dependent: Effective Corporate Governance

From the regression analysis, R is the correlation between the observed and predicted values of dependent variable implying that there was significant positive correlation of 0.79 between Internal audit positioning, risk identification, internal audit independence, internal audit staffing and effective corporate governance. R-Squared is the proportion of the variance in the dependent variable of effective corporate governance that was explained by variations in the internal audit positioning, risk identification , internal audit independence, internal audit staffing. This implied that there was a variance of 62.4% between variables in general. Adjusted R^2 is called the coefficient of determination which indicates how effective corporate governance varies with variation in Internal audit positioning, risk identification, internal audit independence, internal audit staffing. The study established that there existed a significance positive variation between Internal audit positioning, risk identification , internal audit independence, internal audit staffing and effective corporate governance as r= 0.619, P=0.001 < 0.05.

ANOVA for Role of Internal Audit Function in promoting effective Corporate Governance

Table 11: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.642	8	.537	4.771	0.01(a)
	Residual	7.511	74	.049		
	Total	7.153	82			

a Predictors: (Constant) Internal Audit Positioning, Risk Identification , Internal Audit Independence, Internal Audit Staffing
Dependent: Effective Corporate Governance The study established that there existed a significant goodness of fit between variable as F=4.771, P=0.01< 0.05. The calculated F=4.771 far exceeds the F-critical of 2.843.This implied there the level of variation between independence and dependent variable was significant at 95% confidence level.

Coefficients Estimate of the Variance
Table 12: Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.201	.467		4.120	0.01
	Internal Audit Positioning	0.838	.635	0.515	4.034	0.01
	Risk Identification	0.749	.426	0.612	4.313	0.02
	Internal Audit Independence	0. 678	.322	0.445	3.906	0.03
	Internal Audit Staffing	0.567	.131	.509	2.769	0.04

a Predictors: (Constant) Internal Audit Positioning, Risk Identification , Internal Audit Independence, Internal Audit Staffing
Dependent: Effective Corporate Governance

$Y = 4.201 + 0.838X_1 + 0.749X_2 + 0.678X_3 + 0.567X_4$

From the above regression model, it was found that effective corporate governance in Commercial banks in Kenya would be at 4.201 holding, internal audit positioning**,** risk identification**,** internal audit independence and internal audit staffing constant at zero (0). The study established that there existed a significant positive relationship between internal audit positioning and effective corporate governance as r= 0.838, t=4.034, P= 0.01<0.05. The regression results indicated that there existed s significant positive relationship between risk identification and effective corporate governance as r=0.749, t=4.313, P=0.02<0.05. The finding supported findings by Rubach & Picou, (2005) who found that effectiveness of risk identification and control influence achievement of effective corporate governance in firms. The study found that there existed a significant relationship between internal audit independence and effective corporate governance in the commercial banks as r= 0.678, t=3.906, P= 0.03<0.05. The study found that increased in internal audit independence would lead to significant effective corporate governance in commercial banks. The support findings by Christopher, Sarens and Leung (2009) who found that internal auditor independence of the internal audit function through its relationship with management and the audit committee.

The study established that there existed a significant positive relationship between internal audit staffing and achieving of effective corporate governance as r=0.567, t=2.769, P= 0.04<0.05. This clearly indicated that there existed a positive relationship between role of internal audit function and effective corporate governance. The findings were similar to Sigowo (2009) findings, aimed at exploring the role of internal audit function in promoting good corporate governance in Savings and Credit Cooperative Organizations (SACCO's). The findings were similar to Sarbanes Oxley Act (2002) indicated that increased importance of the internal audit function result into corporate governance reinforced by indirectly through legislation.

CONCLUSION

The study concludes that a positive and significant relationship exists between positioning of internal audit function and effective corporate governance within commercial banks in Kenya. The relationships of the internal audit function, particularly with the audit board committee and senior management, in terms of support and appropriate reporting lines are crucial in contributing to the role of internal audit in effectiveness corporate governance. Internal auditors should have a unique position to play an important role of scrutinizing governance practices, reporting routines, the implementation of risk-management policies and internal control

. This study established that internal audit functions were generally independent since the Audit Board Committee approved the internal audit charter, the head of internal audit report functionally to the Audit Board Committee and that the internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee. The findings however also established that there are some threats to internal audit activity.

The study concludes that a positive and significant relationship exist between internal audit staffing and effective corporate governance of commercial banks in Kenya. For the internal audit function to promote corporate governance it must have right people to deliver its mission/objectives by considering the following: Internal audits core competencies should directly relate to its mission, role and scope of work. The study established that internal audit function plays a positive and significant role in effective corporate governance of commercial banks in Kenya. It is also clear that there are other players in ensuring effective corporate governance of commercial banks in Kenya.

The study also established that the critical success factors needed for the proper functioning of the internal audit department are present in Kenyan banks that have allowed them to play their role in ensuring effective corporate governance.. This study found out that the CEO reviewed and approved the internal audit budget, hired, remunerated and fired the Chief Audit Executives. The study also established that management does not use the internal audit ratings of individual units to rank their performance at the end of the year. This study therefore recommends that the Board Audit Committee should takes up the role of approving the internal audit budget, hiring, remunerating and firing the Chief Audit Executives.

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