

EFFECT OF INTERNAL AUDIT PRACTICES IN PREVENTION OF MATERIAL MISSTATEMENT ON FINANCIAL STATEMENTS OF UNIVERSITIES IN KENYA



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DECLARATION AND RECOMMENDATION

Declaration

I declare that this research project is my original work and has not been presented for examination in any university other than Egerton University for the award of diploma, degree or any other certificate.

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Recommendation

This research project has been presented for examination with my approval as the University Supervisor

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DEDICATION

I dedicate this research project to my late husband Burton who believed in me and encouraged me to take up the study. Special dedication goes to my daughters Mercy, Joy and Grace and son Bill Burton who provided the necessary encouragement and moral support during my study period.

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ABSTRACT

The internal audit function has become an important function in organizations adopting various audit practices to ensure financial reports of business entities communicate the relevant and reliable information to the members of the organization and the public. This study sought to determine the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya. Specifically the study sought to determine the effect of risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control in the prevention of material misstatement on financial statements of universities in Kenya. The study used the descriptive research design with a target population of the 74 universities in Kenya as listed by CUE 2018. Simple random sampling technique was used to sample the 36 universities under study with the head of internal audit function as the respondents. Primary data was collected by use of closed questionnaires and used the drop and pick method. Data was analyzed with the aid of SPSS (Version 23) software. Data was analyzed by use of descriptive statistics, correlation analysis, simple and multiple regression analysis. The results revealed a strong positive correlation between risk assessment and prevention of material misstatement ($r=.598$); a strong positive correlation between periodic internal audit reviews and prevention of material misstatement($r=.527$), and a positive correlation between internal audit monitoring and control ($r=.461$). From the regression analysis, risk assessment, internal controls analysis, periodic internal audit reviews, internal audit monitoring and control revealed a statistically significant effect in prevention of material misstatement respectively ($R^2=.357$, F-Statistics= $16.124 > 4.18$, $\beta = .620$, $P=.000 < .05$; $R^2 = .159$, F-Statistics = $5.470 > 4.18$, $\beta = .325$, $P= .026 < .05$; $R^2 = .278$, F-Statistics = $11.139 > 4.18$, $\beta = .388$, $P=.002 < .05$; $R^2 = .212$, F-Statistics = $7.812 > 4.18$, $\beta=.448$, $P=.009 < .05$).The combined effect of internal audit practices revealed a statistically significant effect on prevention of material misstatement ($R^2 = .442$, F-Statistics = $5.155 > 2.74$ and $P=.003 < .05$). The study concluded that internal audit practices had significant effect in prevention of material misstatement on financial statements of universities in Kenya. The study recommended that organizations to improve on their internal audit practices in prevention of material misstatement and further research be conducted on other factors not covered in the study to prevent material misstatement. The study is significant to those charged with governance who will find it useful in determining whether the existing audit practices conform to the relevant laws and regulation and are effective in operation.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACFE:	Association of Certified Fraud examiner
CEO:	Chief Executive Officers
CFRR:	Centre for Financial Reporting Reform
COSO:	Committee of Sponsoring Organizations
CUE:	Commission for University Education
IA:	Internal Auditing
IIA:	Institute of Internal Auditors
IPPF:	International Professionals Practices Framework
ISA:	International Standards of Auditing
KPMG:	Klynveld Peat Marwick Goerdeler
MOE:	Ministry of Education
NACOSTI:	National Commission for Science, Technology and Innovation
SDC:	Schools Development Committees
SPSS:	Statistical Package for Social Sciences
TIVET:	Technical Industrial Vocational and Entrepreneurship Training

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations have experienced constant changing economic conditions prompting them to continuously develop their processes in order to adapt, survive and grow. There has been an increase in the level of operations in organizations leading to the need for internal audit to monitor the changes. The internal audit department has a role of providing objective assurance and consulting services designed to add value and improve an organization's operations (Kamau, 2012). The internal audit department is very important inside a firm that it is regarded as the key element in the application of accounting systems which in turn, helps in evaluating the work of the organization. It is considered as the backbone of the business accounting as it is the section that records all businesses related to the sector. The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality (Al-Matari, 2014).

The Institute of International Auditors defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organizations operations (Institute of Internal Auditors, 2015). It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance .The guidelines of the internal audit department are provided for by the Institute of Internal auditors through its International Professionals Practices Framework (IPPF, 2016). The guidelines states that consistent with its mission, Internal Audit Department provides the management with information, appraisals, recommendations, and counsel regarding the activities examined and other significant issues. It further continues to state that that an effective internal audit activity can be extremely helpful in addressing fraud and that internal auditors can assist the management by determining whether the organization has adequate internal controls and fosters an adequate control environment. This is achieved by the internal audit function' constant review of the accounting and internal controls; detailed testing of transactions, accounting and operating procedures, review of the of compliance with the management policies and carrying out of independent investigations into affairs of the entity where frauds are suspected and communication of the same to the management (Mwindi, 2005). The presence of a strong internal control function can go a long way in supporting and promoting effective

organizational governance hence a robust monitoring and oversight of risk management (Obonyo, 2017).

The responsibility of detection and prevention of frauds and errors rests with the Management (Mwindi, 2005). However the management should put in place mechanism that will enable it to identify risks that affect the achievement of the organizations objectives (Langat, 2018). It has been noted that organizations which have internal audit functions have been seen to be better in performance than those organizations that do not have the internal audit function (Badara & Saidin, 2014). Taken together, the internal audit department provides a reliable, objective, and neutral service to the management, board of directors, and audit committee, while stakeholders are interested in return on investments, sustainable growth, strong leadership, and reliable reporting on the financial performance and business practices of a company (Ljubisavljević & Jovanović, 2011).

Internal audit practices such as risk assessment, internal control analysis and internal audit plans are widely used in countries like Malaysia and Nigeria (Nwanyanwu, 2017; Puttikunsakon, 2015). These have led to the success in performance of various organizations. Universities play an important role as leaders in teaching, learning, education and research technology. Universities provide students with the needed skills that enable them to compete globally on high level jobs in the respective workplaces and also in themselves employers (Sharma, 2015). Financial statements form the basis for decision making of organization and auditors inability to prevent material misstatements on the financial statement has a negative impact on the audit profession in general especially when incidences are discovered when the financial statements have been audited (Sayed et al., 2017). Further study into the internal audit practices is important for accuracy of financial statements

1.1.1 Internal Audit Practices

Audit practices are procedures established by auditors to ensure that financial reports communicate relevant and reliable information to members of an organization and the public (Nwanyanwu, 2017). These procedures include risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control which are affected by the competence of the audit committees and the change in the environment (Puttikusankon, 2015). The recent past has indicated a growing interest in research on internal audit procedures and the contribution of the internal audit function to the success of

organizations (Al- Matari et al., 2014; Chiggai, 2016; Omolaye, 2017; Puttikunsakon, 2015).

In 2018, the Government of Bihar developed a strategic plan for strengthening the Internal Audit in the Government of Bihar. The government adopted various reform measures to modernize fiscal and financial management such as passing of the Fiscal Responsibility and Budget Management Act, adoption of Government of India's General Financial Rules and decentralization of financial powers to respective departments with a view to increasing the pace of expenditure and implementation of plan schemes. The government came up with a project entitled Modernization of Budget and Financial Rules and Procedures to Centre for Good Governance (CGG), Hyderabad. Part of the mandate of the project was to modernize and provide a road map that would strengthen the internal audit function in the government. Among the terms of reference for the project were to review the existing systems and practices, scope, methodology, reporting arrangements, staffing skills. The expected outputs from consultants were an internal audit reform/modernization plan, a manual for internal audit incorporating modern approaches and techniques to internal audit and a training module for internal audit staff. The methodology used in this project involved to develop and strengthen the Internal Audit Function, development of strategic view of the IA by top management, covering not only compliance and regularity audit but depending upon the requirement, the wider role of ensuring efficiency of expenditures, especially planned reform initiatives in other areas; restructure audit practices to move to higher level audits; review IA function and staffing, and redesign the organizational structure and responsibilities and encourage IA involvement in the development of new financial and accounting systems to ensure that adequate controls are built into these systems.

In Nigeria the users of financial statements demand nothing less than a report that conveys accurate and reliable information relevant for decision making (Nwanyanwu, 2017). As a result internal audit practices are established by organizations to ensure that financial reports communicate relevant and reliable information to members of an organization and the public. Such practices should be able to indicate how well an audit detects and reports material misstatements, reduces information asymmetry between management and stockholders and thus assist to protect the interest of stockholders. This process involves instituting of strong internal controls, risk management and monitoring procedures of the laid down systems.

In Kenya, the concept of Internal Audit and audit practices is not a new concept and has been practiced for many years in various organizations both in the public and private sector. The internal audit assures the board and management that the systems put in place are appropriate and function in preventing any risks. These practices vary from organization to organization based on the traditions and legislations of the organization and the approach by the top management (Chiggai, 2016). To ensure adequate measures are put in place that enable an organization prevent material misstatement on the financial statements, an organization needs to understand the risks that the organization is exposed to and the events that could lead to the occurrence of the risk. An appropriate risk assessment programme should be in place to assess the risks in order to determine their likelihood of occurrence, impact and risk tolerance. The risk information should be captured and communicated across the organization in a timely manner (IIA, IPPF, 2016).

Internal control analysis on organizations has to be conducted to determine the effectiveness of the internal control systems in prevention of material misstatement. The internal audit function conducts appraisals on actions of the management to correct situations against the planned outcomes in the organization. This is determined by the organizational structure levels under the related organizational laws, rules policies, practices and beliefs (Lees, 2008). The management should ensure that clear documentation of roles and responsibilities of staff are in place in relation to risk management. The internal control analysis programme should be assessed and updated on a continuous basis (Oguda et al., 2015).

The internal audit function has to maintain professional standard when carrying out an audit. Periodic internal audit reviews are applied as an indicator of the capacity of the audit (Aglolia et al., 2000). Periodic Internal audit reviews is the responsibility of the lead auditor to provide the necessary guidance to the audit team. This enables the audit team to gather and provide the adequate and complete evidence on the audit being conducted. Internal audit reviews involves better planning, reviewing of documented working papers, documentation quality working assessment (Kirogo et al., 2014).

To ensure that the processes put in place operate as intended, the internal audit function has to carry out the internal audit monitoring and control. This is an ongoing process within the audit process that is directed towards the management to ensure that processes are operating as intended. Internal audit monitoring and control includes regular management and supervisory activities and other actions personnel take in performing their duties. In

performing their duties, the internal auditors are able to identify better risk management policies and procedures for the organization and the information obtained shared across the organization (Chiggai, 2016).

1.1.2 Material Misstatement on Financial Statements

ISA (450) defines material misstatement as difference between the amounts, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Financial statements form a reliable tool for investors to make investments decisions and company stakeholders to appraise the company's performance (Al-Matari, 2014). Financial statements fraud differs from the other frauds in that the company itself is the instrument of the fraud and does not need to have any effect on the corporation's actual business.

Auditors' inability to assess fraud risks has become a serious concern particularly when most incidences of fraud are uncovered after financial statements are audited (KPMG, 2013). This has led to a decrease in public confidence and trust among audit regulators in relation to auditors' role in assessing risks of material misstatement. In response to the increasing complexity of this matter, the profession urges auditors to comply with the standards on professional skepticism while assessing the risks related to fraud (Sayed et al., 2017). Risk of material misstatement may exist both at the overall financial statements level and at the assertions level.

During the planning phase of the audit, the auditors perform risk assessment of risks of material misstatement at the financial statements and assertion level in order to decide about the audit strategy and approach (Dritsas & Petrakos, 2018). Assessment of risk of material misstatement involves auditors having to think, analyze and act professionally particularly during the process of providing assurance that the financial statement is free from fraudulent material misstatement. Auditors' failure to obtain adequate evidence to support their opinion may result in financial statements not giving a true and fair view of the firm performance and financial position.

According to the ISA 315, the risk assessment procedures includes enquiries of management, and of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error ,analytical

procedures, observation and inspection which form part of the assessment by the auditors. The audit of financial statements consists of evaluating the quality of assertions versus criteria which in the end results in auditors' opinion on the reliability of the financial statements (Amerongen, 2007). The auditors' opinion on the reliability of the financial statement can be affected by misstatements from errors or fraud. The auditor provides reasonable assurance that the financial statements under audit are free from any material misstatements. An effective and efficient audit requires proper assessment of risk and proper allocation of effort subsequent to risk assessment. Auditors are required to maintain professional skepticism, make additional checks and take longer time to gather audit evidence when performing an audit (Hussin et al., 2017).

There has been an increase in cases of fraud in institutions in Kenya. The most recent case of the dam scandals where the public is alleged to have lost ksh 19 billion in the scandal (Ogemba, 2019). According to Muse et al., (2014), the increase of fraud in the public sector requires immediate intervention. Kenya is leading the world in occupational fraud which is major corporate crime which is at 66%. This is twice the global average of 34% (Mahinda, 2012). The fraud is dominantly occurring in many government and non-government organizations. However these crimes are very difficult to detect, investigate and even mitigate as many managers are unwilling to divulge this information due to the consequences the institutions would suffer after such exposures (Omondi, 2013).

1.1.3 Universities in Kenya

In Kenya, Institutions of higher learning or universities are registered under the Universities Act No. 42 of 2016 (Section 55) and are mandated to uphold the equity and balance access to University and College education and develop suitable criteria to promote affirmative action and other strategies as may be approved by the government (Presidential Task Force, 2013). According to the Commission of Universities Education, 2018, Kenya has a total of 74 Universities which are spread throughout the Republic of Kenya. The core functions of these institutions includes operating as exploration hubs, training and offering knowledge within a configuration combining research and teaching, responsibility of conducting research in a variety of disciplines and nurturing the social and intellectual progress of the society (Martin & Tairo, 2006).

Fraud has led to many losses both in the public and private sector of the economy. Organizations are tackling a wide range of issues, escalating expenditure, procurement

irregularities, weak revenue streams, increased demand for services and weak governance (Ondari, 2015). These issues are worsened by fraud and corruption, which can cause financial losses, reputational damage and erode employee morale. Misappropriation of funds and corruption has made organizations not achieve their objectives due to the misuse of funds, wastage and inefficiency in managing resources entrusted to these organizations.

In Kenya, like elsewhere in the world, public universities have been complemented by private universities. Public universities get most of their funding from the government to meet their objectives. On the contrary private universities depend on endowments, tuition fees and direct funding from founders and sponsors. In the recent past both public and private universities have experienced cash flow problems which has affected their programmes (Waruru, 2017). For universities to achieve their mandate and operate effectively there is need to develop effective and efficient forensic practices. These practices help the universities to minimize their costs and maximize on their revenue. Through the forensic accounting practices, universities gain competitive advantage in addition to reducing wastage and losses that negatively affect the operational efficiency of the institutions (Musila, 2018).

1.2 Statement of the Problem

In the last decade, universities in Kenya have continued to experience serious cash flow problems. According to Rajab and Nyaundi (2018), the resources of the Universities have continued to dwindle with time. Out of the 74 universities in Kenya, 11 of the universities are insolvent and need the government bailout. This has been majorly blamed on the reduced capitation from the government and reduced students' enrollment. The Auditor General's report for 2016/2017 cited missing crucial transaction records, unexplained expenditures, violation of procurement regulations, unsurrendered imprest and abandoned projects (Awich, 2018). This necessitates the active participation of the internal audit function in every step of risk assessment, development of internal audit reviews and not just serving as mere consultant of organizations (Boritz et al., 2008; Musila, 2018). The university's financial statements are prepared on a going-concern assumption that the universities will continue to receive financial support from the government, bankers, creditors and donors.

The government through the Ministry of Education (MOE) for a long time has shown a lot of commitment in developing education, training and continuous allocation of resources to the education sector. Sustained resource allocations has led to notable resource success such as equal access to education by all learners, application of talents, exchange of experience

between teachers, learning from best practices and high learning productivity in the sector (Limuki, 2014). However major challenges such as the missing crucial transaction records and unexplained expenditures are still being experienced in the sector. The missing transaction records and unexplained expenditures eventually affect the reporting of financial items on the prepared financial statements. Financial fraud is increasingly dominant in the education among universities in Kenya (Gatere, 2016). However these financial crimes are difficult to detect, investigate and even mitigate because the senior organization personnel are unwilling to divulge the information due to the consequences the institutions would suffer from such exposure (Omondi, 2013). Available literature on internal audit practices through many scholars such as (Al-Matari, 2014; Badara & Saidin, 2014; Puttikunsakon, 2015) have shown how internal audit practices have been beneficial to various institutions. However these studies have been conducted in developed countries outside Kenya. Existing literature in the local context (Kasiva, 2012; Kirogo et al., 2014) showed that risk based audit positively affected the performance of organizations. The study by Obonyo (2017) on audit practices in state corporations recommended further study to be carried on other government ministries and the private sector as well to determine the effect of these practices on fraud management. Based on the reviewed literature, the study has identified that few studies have been found to focus on internal audit practices in prevention of material misstatement on financial statements in universities in Kenya. This is the gap this study is leveraged on. The study sought to answer the research question; what is the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya?

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to determine the effect of internal audit practices in prevention of material misstatements on financial statements of universities in Kenya.

1.3.2 Specific objectives

The study specifically sought to achieve the following objectives:

- i) To establish the effect of risk assessment in prevention of material misstatement on financial statements of universities in Kenya.
- ii) To determine the effect of internal control analysis in prevention of material misstatement on financial statements of universities in Kenya.
- iii) To establish the effect of periodic internal audit reviews in prevention of material misstatement on financial statement of universities in Kenya.

- iv) To determine the effect of internal audit monitoring and control in prevention of material misstatement on financial statements of universities in Kenya.
- v) To determine the combined effect of internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) in prevention of material misstatement on financial statements of universities in Kenya.

1.4 Research Hypotheses

To achieve the objectives, the study tested the following hypothesis:

- Ho1:** Risk assessment has no significant effect in prevention of material misstatement on financial statements of universities in Kenya.
- Ho2:** Internal control analysis has no significant effect in prevention of material misstatements on financial statements of universities in Kenya.
- Ho3:** Periodic internal audit reviews have no significant effect in prevention of material misstatement on financial statements of universities in Kenya.
- Ho4:** Internal audit monitoring and control does not have a significant effect in prevention of material misstatement on financial statements of universities in Kenya.
- Ho5:** Combined internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) do not have significant effect in prevention of material misstatement on financial statements of universities in Kenya.

1.5 Significance of the Study

First the study is of significance to the management of the respective universities. The study will help them to understand the concept of internal audit practices and how they can be applied to prevent material misstatement on financial statements. The study will help the management to identify the causes to the actions of material misstatement on financial statements and how to develop and enhance better practices that can assist in the identification and prevention of the occurrence of the misstatement on the financial statements.

Additionally, the study finding is used to add to the body of knowledge to determine the effect of internal audit practices in prevention of material misstatements on financial statements of universities in Kenya from which other researchers can make references to. The academicians who are involved in the accounting research will find the study useful in

identifying the gap in the existing research and therefore provide one of the working documents to further their research in their specific areas of study.

The information is useful in formulation of policies by the respective government authorities like parliament and the judiciary to prevent material misstatement and manage fraud and errors in the universities. Universities operate under the ministry of education and are therefore under the mandate of the government. The study will assist in implementing and enforcing the existing policies while formulating new ones.

Finally, for those charged with management, the study is useful in assessing of their internal audit practices to determine whether they conform to the relevant laws and regulations. The Management will also be able to put up better management structures to identify, manage if not minimize the occurrence of material misstatements on the financial statements in their institutions. For Financial Managers, the study will assist in aligning the practices with organizations missions and objectives.

1.6 Scope of the study

The study was carried out in the Republic of Kenya. The study was carried out for the period between June 2019 and June 2020 and was restricted to universities in Kenya. The universities included both private and public universities in Kenya. The study aimed at determining the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya. Specifically, the study sought to assess the effect of risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control in prevention of material misstatement on financial statements of universities in Kenya. The target population was the 74 universities in Kenya and the respondents were the head of audit functions.

1.7 Limitation of the Study

The researcher encountered some limitations that were a setback to the success of the study. The study was limited to the relationship between the prevention of material misstatement on financial statements of universities as the dependent variable and the internal audit practices as the independent variable. The study used primary data which was obtained by use of questionnaires. This posed a limitation in that the respondents who were the head of internal audit function were to provide accurate, unbiased and objective responses. The study was carried out on universities which limited the study on concentrating in the education

sector. In some instances the researcher faced non-cooperation from the respondents in revealing information on material misstatements on financial position as they perceived it would reveal the weakness in the management systems since the data collected was sensitive. This non-cooperation led to delays in the collection of the data. Some of the respondents also feared revealing information for fear of being victimized. The universities are spread throughout the country. Accessing them all physically to collect data was a limitation. During the period of data collection, the country experienced the Corona-Virus pandemic leading to the physical closure of the universities and the staff working away from the workplaces.

To manage the limitations, the researcher sought for an introductory letter from the university and a research permit from the National Commission for Science, Technology and Innovation (NACOSTI) to assure the respondents about the genuineness of the research being carried. When filling the questionnaire, the researcher laid emphasis on the accuracy of the information provided as it was to be used for the benefit of the institution. To address the delay in filling of the questionnaires, the researcher made follow-ups on the filling and collection of the questionnaires. For the respondents who feared being victimized, the researcher assured them of the confidentiality of the information provided and that the data collected was to be for academic purpose only. For the universities that could not be accessed physically in ample time, the researcher after introduction used the email to send the questionnaire to the head of internal audit and receive back the filled questionnaires. The same method was used to collect data during the Covid-19 pandemic period

1.8 Operational Definition of Key Terms

- Internal Audit:** Refers to an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.
- Internal Audit Practices:** In this study, the internal audit practices refer to the procedures established by auditors to ensure that financial reports communicate relevant and reliable information to members of the organization and the public. They include risk assessment, internal control analysis, internal audit reviews, internal audit planning and audit monitoring and control.
- Internal Audit Monitoring and Control** In this study refers to risk management appraisals, information Processing and sharing and risk management policies that are directed by management to ensure processes are working as intended.
- Internal Control Analysis** In this study refers to the examination of the effectiveness of organizations policies, systems of controls and ethical values.
- Material Misstatement** In this study refers to difference between the amounts, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework
- Management:** Refers to the administration of an organization, whether it is a business, not for profit making organization or government body.
- Periodic Internal Audit Reviews:** Refers to processes performed by the internal auditor as a quality control mechanism that shows the capacity or effectiveness of the of the internal audit functions.

Risk Assessment:

Refers to the identification and analysis of relevant risks which can impair the achievement of objectives, forming a basis for determining how the risks should be managed.

University:

Is an institution of higher learning providing facilities for teaching and research and authorized to grant academic degrees specifically. Such Institutions are established by an Act of Parliament and registered by the Ministry of Higher Education under the Universities Act.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers the previous studies related to the research problem. It studied what other authors have said about the relationship between internal audit practices in prevention of material misstatement on financial statements of universities in Kenya. The researcher shows the relationship between various variables under the study in the conceptual framework. Finally, the section provides a summary on the uniqueness of the current study.

2.2 Theoretical Literature

A theory is a set of statements or principles that are devised to explain a group of facts or phenomena, and should have repeatedly been tested or widely accepted and can be used to make predictions about a natural phenomenon. This section therefore provides a review of the relevant theoretical literature. The study was specifically guided by the Agency theory, the Fraud Triangle theory and the Stewardship Theory.

2.2.1 The Agency Theory

The Agency theory was developed by Jensen and Meckling (1976). The theory explains how to best organize relationships in which one party determines the work while the other party does the work. The theory argues that in this kind of a relationship one party (Principal) determines the work while another party makes decisions on behalf of the principal (Schroeder & Goldstein, 2011). The shareholders who are the less informed members of the organizations demand for accountability of the management behaviour who are the better informed members of the organization.

In some situations, the agent utilizes the resources of the principal. Although the agent is the decision maker, the agent incurs little or no risks from these decisions since all the losses will be the burden of the principal. The agent may therefore have different risk tolerance than the principal because of the uneven distribution of the risk (Teebom, 2018). This may lead to transaction cost dilemmas whereby the agency and principal are motivated by self-interest objectives that deviate and even conflict the goals of the principal. The Agency theory is therefore concerned with resolving problems that can exist in an agency relationship; that is, between principals such as shareholders and agents of the principals such as company executive. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to

verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk (Mokono & Nasieku, 2018). To be able manage the self-interest of the agents, rules and regulations have to be put in place by the principals that include strong internal controls with little or no room for discretion by the agents (Akpanuko, 2012).

The theory is applicable in this study since it argues that the university employees who are the agents need to develop appropriate internal audit practices that will help the university (employer or principal) to prevent material misstatements on the university financial statements. The management to also provide favorable working environment for the employees and build good working relations that will eventually contribute to the efficiency of the university operations.

2.2.2 The Fraud Triangle Theory

The Fraud Triangle concept was developed by Donald Cressey (1953), after interviewing 200 prisoners who were convicted of embezzling their organizations of funds around the Midwest whom he termed as violators. Donald Cressey then came up with the famous hypothesis "Trusted Persons become trust violators when they conceive of themselves as having a financial problem which is non-sharable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users entrusted funds or property"(Cressey, 1953).

The Study by Cressey sought to find out why people commit fraud at any one given time. He discovered that for fraud to be committed then three components namely pressure, rationalization and opportunity must be present at the same time. According to Cressy (1953), Pressure is the first act of the triangle occurs where an individual has a non-sharable financial problem. These problems are normally personal and the individual feels ashamed to share. The individual resorts to questionable activities that may eventually lead to fraud (Muse et al., 2014). Secondly there must be opportunity to commit fraud which occurs when the violators identify an opportunity within the organization to commit the fraud. Such opportunity includes lack of internal controls and the technical skill to be used in order to define the opportunity (Wilkinson, 2013). Other factors include existence or lack of audit committee, related party transactions, whistle-blower policy, and a conflict of interest policy

and audited Financial Statements. Finally, rationalization is the last aspect of the Fraud Triangle where the violator's feels justified to carry out the crime. Rationalization is simply denying responsibility, denying injury and declaring that the victim did deserve the harm (Fox , 2017).

The theory is applicable to the study in that material misstatement on financial statements will be reduced significantly by addressing pressure, opportunity and rationalization by the organization. The internal auditor focuses on the areas that are likely to create opportunities for material misstatements and to address them in the course of the audit. The internal auditor has a basis for recommending the appropriate controls for prevention of material misstatement.

2.2.3 The Stewardship Theory

The Steward Theory was developed by Donaldson and Davis (1991) as an alternative of the agency theory. The theory argues that employees of an organization are expected to be good stewards of the corporate assets of the organization they work for. Davis et al. (1997) argued that managers who identify with the organizations they work for are highly committed to the organizational values and are more likely to serve the organizational goals. The managers therefore endeavor to minimize the risks and maximize the profits by developing appropriate strategies that lead to an increase in the shareholders wealth. To achieve this, the stewardship theory holds that an organization requires a structure that allows harmonization to be achieved most efficiently between directors and shareholders (Keay, 2017). Managers should prioritize the goals of the organization and provide employees with opportunities to participate in key decisions in order to minimize resistance. Organizations which have the appropriate organizational structures, motivated employees efficient and effective monitoring and control mechanisms enhances the financial position of an organization (Mweti, 2017). The managers and employees are expected to provide accurate information concerning their decisions and actions, justify the actions, omissions, risks and dependence, question and evaluate the reasons provided for what has been done (Keay, 2017).

The theory is applicable in this study in that the employees are expected to develop internal audit practices that will make the organization achieve its goals. The practices will enhance accountability and transparency in the universities. Making of ethical decisions and following the laid down practices will lead to reduction in material misstatement and make the employees and management more accountable.

2.3 Internal Audit Practices

This section conceptualizes the key concepts used in the study. These concepts include risk assessment, internal control analysis, periodic internal audit reviews and audit monitoring and control.

2.3.1 Risk Assessment

Risk assessment is defined as the identification and analysis of relevant risks which can impair the achievement of objectives, forming a basis for determining how the risks should be managed (KPMG Forensic, 2014). With the continuous change of the economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with the changes. Assessment of risk of material misstatement therefore involves auditors having to think, analyze and act professionally particularly during the process of providing assurance that the financial statement is free from fraudulent material misstatement (Hussin, 2017). At times the management cannot avoid the risks from occurring. In these situations, the management should determine whether to accept the risk, reduce it up to the acceptable levels, or avoid it (Gesare et al., 2016). There is a growing interest in risk management across the world due to a number of parallel events (Badara & Saidin, 2014). The Institute of Internal Auditors (IIA), (2016) depicts that risks are assessed in order to determine the likelihood of an event occurring, the impact, and risk tolerance level. Once identified, the risks are then classified as high, medium and low. Based on the accuracy of the assessment, risk tolerance level can then be determined. In order to determine whether risk management are effective, relevant risk information should be captured and communicated in a timely manner across the organization, enabling staffs, management and the board to carry out their responsibilities. Risk assessment procedures should include inquiries of management and other relevant individuals, analytical procedures, observation and enquiry (International Standards of Auditing (ISA 315), 2009). Risk assessment would affect audit designation that can save audit cost both in planning times and resources. Moreover, the risk of audit failure should be reduced (Puttikunsakon, 2015).

The entity's capability to prevent and detect fraud depends on a correct and complete assessment of fraud risks (Petraşcu & Tîeanu, 2014). The need for timely and ongoing assurance over the effectiveness of risk management and control systems is critical. Organizations are continually exposed to significant errors, frauds or inefficiencies that can lead to financial loss and increased levels of risk (Coddere, 2005). While planning their annual audit plan, internal auditors should

consider the assessment of fraud risk and review management's fraud management capabilities periodically. They should regularly and closely communicate with those responsible for risk assessments in the organization and also others in key roles throughout the organization, to ensure timely fraud risk management (Ojha, 2012). Organizations typically face a variety of fraud and misconduct risks and like a more conventional entity-wide risk assessment, a fraud and misconduct risk assessment helps management understand the risks that are unique to the organization's operations, identify gaps or weaknesses in control to mitigate those risks, and develop a practical plan for targeting the right resources and controls to reduce such risks (Kpmg Forensic, 2014).

2.3.2 Internal Control Analysis

Internal Controls are procedures composed and influenced by those accused of governance, management, administration, and other staff to give sensible certification about the accomplishment of an element's targets as to unwavering quality of the money related reporting, viability and effectiveness of operations and consistence with pertinent laws and directions (Mwindi,2005). Internal controls provide sensible yet not outright confirmation to a firm management and board of directors that the organization targets will be accomplished (Hayes et al., 2004). Internal controls are designed to provide reasonable assurance toward achieving firm's objectives, plans and strategies under the related laws, rules, polices and regulations. According to Abiola and Oyewole (2013), the concept of internal control is very important for proper management of an organization's risk, which may constitute barriers to the attainment of its set objectives if neglected. Poor controls lead to scandals, losses, failures and damage, to an organization's reputation and that where new ventures are undertaken without a means of controlling risks, then problems are likely. Therefore, the effectiveness of a company's internal control system is generally recognized as a prerequisite to the auditing process as it is considered the major determinant of the selection, timing and the extent to which auditing procedures should be applied or restricted.

2.3.3 Periodic Internal Audit Reviews

Internal Audit review process is an indicator of the capacity of the audit functions. An audit review refers to an evaluation of the financial books, conducted by the auditor, to determine if there are any chances of modifications or not. Assessing, improving and monitoring anti-fraud programs are key elements of an effective internal control structure. Comprehensive knowledge and understanding of the risks of fraud allow internal audit to adequately specify its tasks, objectives, and activities, focused on fraud risk assessment, prevention and detection

of fraud and ultimately, investigation of fraud (Đorđević & Dukic, 2015). The Internal Audit Function should therefore prepare a risk-based approach and apply the results of risk assessment as a tool to determine the audit methods and allocates audit resources needing to be used in order to achieve audit objectives (COSO, 2004). Periodic Audit reviews is the role of the superior in the audit team to ensure that each member is prepared to follow guidance and provides adequate and complete evidence to the audit team to draw conclusions based on the evidence in the prepared documents of the working papers (Agoglia et al., 2010). Organizations should periodically identify the risks of fraud in all areas and process of business then assessed in terms of impact and likelihood (Doody, 2008). The foundations of an effective fraud risk management program are rooted in a risk assessment, overseen by the board, which identifies where fraud may occur within the organization. Adequately established fraud risk management process therefore involves, first, periodic assessment of fraud risk exposure, in order to identify potential events whose occurrence the company should prevent (Dordevic & Dukic, 2015; Obonyo, 2017).

2.3.4 Internal Audit Monitoring and Control

Internal audit monitoring is an on-going process usually directed by management to ensure processes are working as intended. Monitoring is an effective detective control within a process. According to Fadzil (2015), in performing the audit work, the internal auditors should identify better risk management framework and risk management policy and also better procedures be installed in monitoring the applications of policies and procedures of the organization. This applies to audit programmes and audit reporting. Better audit programmes and reporting leads to installation of the procedures and application of policies in assessing the risk of the organization which further improves (Puttikunsakon, 2015). In addition to their monitoring role, internal auditors may also occupy an advisory role. In assessing the effectiveness and efficiency of operations, internal auditors must also possess a comprehensive understanding of their firms when evaluating internal controls across the organization and its divisions, operational units or functions (Internal Control –Integrated Framework; COSO, 2013). Internal auditors are also expected to provide internal reports to the management on how to improve operations based on a thorough understanding of those operations (Obonyo, 2017).

2.4 Prevention of Material Misstatement

Auditors' failure to detect risk from material misstatements within financial statements has a negative impact on the audit profession in general. Auditors' inability to assess fraud risks has become a serious concern particularly when most incidences of fraud are uncovered after financial statements are audited (KPMG, 2013). Due to the damage caused by fraud an ounce of prevention does equal a pound of cure therefore the risk of material misstatement can be reduced through a combination of prevention measures (Mohamed, 2014).

Opportunity is an important factor to consider when preventing fraud. Elimination of opportunities to commit fraud greatly reduces the fraud. Preventing fraud is much cheaper for companies than detecting it later because there is little chance that losses may be recovered once the fraud has already occurred (Obonyo, 2017). According to the Association of Certified Fraud Examiners (ACFE, 2012) companies without fraud prevention measures have experienced losses approximately 45% greater than those which do have.

Parties that are instrumental in the prevention of misstatement on financial statements involve the regulators and the business entity itself. According to the Auditing Standard, SAS 99, auditors and the management have the responsibility of establishing controls and procedures for protecting of the organization assets. This involves creating and maintaining a culture of honesty and high ethics among employees, evaluating the risks of fraud and implementing risk mitigation in relation to the financial statements and developing an appropriate oversight process by internal and external parties towards the financial statement fraud. (Mohamed, 2014). Effective internal control structure and internal audit functions have been proved to be effective mechanisms for prevention of financial misstatements. Internal auditors are responsible for assisting the management to design, maintain and monitor the internal control systems. The financial statement misstatement prevention and management therefore covers four areas namely the elements of governance, people methods and practices.

2.5 Empirical Studies

These are studies that have been conducted in different countries by different scholars and other financial service practitioners. The studies carried out on the variables include:

2.5.1 Risk Assessment and Prevention of Material Misstatement

Mohamed (2014) carried out a study on Financial Statement Fraud risk Mechanism and Strategies: the case studies of Malaysian Commercial Companies. The main objective was to determine the potential means available to company managers, auditors and regulators of preventing and reacting to financial statement fraud. The data was collected by means of direct interviews with company managers, auditors and regulators. The findings of the study were management integrity, internal controls systems can help reduce the probability of financial statement fraud. However a company may also be an instrument and not a victim and makes it essential that penalties enforced by regulators are used to deter and react to cases where these frauds are detected.

Badara and Saidin (2014) carried out a study on the empirical evidence of antecedents of internal audit effectiveness from the Nigerian perspective. Variables under study constituted; risk management, effective internal control system, audit experience, cooperation between internal and external auditors and performance measurement. Data of the study was collected by use of questionnaires in which 500 questionnaires were sent to internal auditors, audit committee and chairman of local government or their representatives within the sampled local government in Nigeria. The study used stratified random sampling, in which samples were drawn from six geo-political zones in Nigeria; data were analyzed using Statistical Package for Social Science (SPSS) version 21. The result findings of the analysis revealed that, all antecedents have a significant positive relationship with internal audit effectiveness.

Olatunji and Adekola (2017) examined the impact of auditors captured by risk assessment, system audit and verification of financial report on banking fraud control in Southwest Nigeria. The study employed survey design. The variables under study included risk assessment management, systems audit and financial report verifications. Data was collected by use of a set of questionnaire which was administered on the selected banks in Southwest Nigeria. Multiple regression technique and ANOVA were used for the analysis. The results indicated that the level of fraud control in Nigerian banks during the period covered was low; the result revealed that risk assessment management, system audit and verification of financial reports adopted by the banking industry in Southwest Nigeria limit the fraudulent activities among the Nigerian banks. The study concluded that risk assessment, system audit and financial report verifications are carried out to determine the effectiveness and impact of auditors on fraud control in Nigerian banks which reveals that auditors' roles need to be

improved to enhance fraud control in banking industry. The study recommended that auditors should increase the scope of their activities on the efficiency of banks internal control system, risk assessment and system audit as this will enhance the detection of fraudulent activities. Also, management of banks should ensure strict compliance with their respective internal control system.

Kirogo et al. (2014) carried out a study to establish the effect of risk assessment on financial performance in insurance firms in Nakuru town, Kenya. Descriptive survey was employed. The variables under study included risk assessment, audit plans, risk management and audit standards. The target population comprised of 52 management employees in 27 insurance firms in Nakuru town. Census was employed to select the sample size in the study. Data was collected using a structured questionnaire with questions on a 5-point Likert scale. The Statistical Package of Social Sciences software was used to assist in data analysis. The study concluded that risk based auditing through risk assessment positively affected the financial performance of insurance companies in Nakuru Town. Risk assessment enables the insurance companies to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability and enhanced financial performance of insurance companies. The study recommended the adoption effective risk based audit practices such as risk assessment to enhance effective and efficient financial performance.

Obonyo (2017) sought to establish the effect of Internal Audit Practices on Fraud Management in state corporations in Kenya. The study examined the following variables: fraud policy, periodic assesment , fraud detection and fraud prevention. The main objective of the study was to establish the extent to which internal audit practices contributes to success of fraud risk management in State Corporations in Kenya. The target population was all state corporations in Kenya; Stratified random sampling was used to sample the state corporations under study. Structured questionnaires were used to collect data which was then coded and analyzed. 40 state corporations were sampled for the study .The study concluded that internal audit practices; fraud policy, periodic assessment of fraud risk exposure, fraud prevention and fraud detection when combined contributes to success of fraud risk management in state corporations in Kenya. The researcher recommended that State Corporations should promote fraud policy as part of their key policies in terms of governance and strengthen their measures as a way of facilitating internal audit in the organization. To ensure successful fraud risk management, state corporations must analyze and assess periodic fraud risk exposure in the

organization as a way of promoting internal audit that may positively impact on the institutions success on fraud risk management; State corporations to put in place appropriate measures of fraud prevention that may help effective and efficient internal audit that supports on the success fraud risk management and lastly that state corporations must assess all the internal and external environment to help in fraud detection and enable the organization administer and post a successful fraud risk management

2.5.2 Internal Control Analysis and Prevention of Material Misstatement

Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design on bank's ability to investigate staff fraud and staff life style and fraud detection in Nigeria. Data were collected from 13 Nigerian banks using a four point likert Scale questionnaire and analyzed using percentages and ratios. The study found that Internal Control design influences staff attitude towards fraud such that a strong internal control mechanism is deterrence to staff fraud while a weak one exposes them to fraud and creates opportunity for staff to commit fraud.

Muhunyo et al. (2018) studied the effect of Internal Control Systems on Financial performance of Public Institutions of Higher Learning in Nairobi, Kenya. The study variables were control activities, risk assessment, control environment, information and communication and monitoring on financial performance of institutions of higher learning in Nairobi City County. The study used descriptive research design. This study took a sample study approach with its target population being the different categories of staff in different departments of Public Institutions of Higher Learning in Nairobi City County, Kenya. A sample of 96 employees was used. Primary data was collected from sample population using open and closed ended questionnaires. Descriptive statistics was used in the data analysis and information presented in statistical forms. The study realized that the control environment, risk assessment, control activities and information and communication as indicators of internal control systems have a significant influence on the financial performance of the institutions of higher learning in Nairobi City County, Kenya. The study recommends that internal control systems among the institutions need to be improved and accountability of organizational resources be upheld.

Oguda et al. (2015) sought to ascertain the effect of internal controls on fraud prevention and detection in district treasuries of Kakamega County in Kenya. The variables under study were control environment, risk management, control activities and information communication and

monitoring. Purposive sampling method was used to select Treasury Staffs while simple random sampling method was used to select Heads of Departments to respond to the data collection instruments. The study used closed questionnaires designed for treasury staff and their clients and was administered by the researcher through drop and pick method. Data collected was analyzed using both descriptive and inferential statistics using Statistical Package for the Social Science (SPSS). Findings of the study revealed that there was a statistically significant and positive relationship between the adequacy of internal control systems and fraud prevention and detection in district treasuries in Kakamega County. The study recommended that effective and efficient internal control policies and procedures should be put in place to prevent and detect fraud within district treasuries and other institutions.

Mekono and Nasieku (2018) carried out a study that focussed on the factors affecting internal auditors' performance in public universities in Kenya. The objectives of the study were to determine how the working environment, the challenges to the independence of internal auditors and the impact of the level of technical competency affects the performance of internal auditors in public universities in Kenya. The variables under study were working environment, internal auditor's independence and internal auditors competence on the performance of internal auditor in public universities in Kenya. Descriptive research design was applied, with a target population of the chief internal auditors from 31 chartered public universities in Kenya which are registered by the Higher Education Ministry. Census technique was applied given the sample size of 31. Primary data was used for analysis. The study found out that the internal auditors working environment, internal audit independence and authority, internal auditor's technical competence impacted on the performance of internal audit function. The study recommended that auditors should consider complying with professional standards as the most important contributor to internal auditing performance. The management in the public universities should keep organizing seminars and workshops where the internal auditors would be trained frequently by experts either internally or externally.

2.5.3 Periodic Internal Audit Reviews and Prevention of Material Misstatement

WeeGoh (2009) studied 208 firms on audit committees, boards of directors, and remediation of material weaknesses in internal control. The study measured the effectiveness of the audit committee by its independence, financial expertise, size, and meeting frequency, and the

effectiveness of the board by its independence, size, and meeting frequency, and by the duality of the chief executive officer (CEO) and chair positions (CEO duality). The study also examined other factors that can affect firms' timeliness in the remediation of material weaknesses, such as the severity of material weaknesses, firms' profitability and the complexity of firms' operations. The study revealed that the proportion of audit committee members with financial expertise is positively associated with firms' timeliness in the remediation of material weaknesses. Secondly, firms with larger audit committees are more likely to remediate material weaknesses in a timely manner and that a more independent board is less susceptible to the undue influence of management and more likely to exert pressure on management to remediate material weaknesses.

Puttikunsakon (2015) examined the effects of best internal audit practices impact on organization success of ISO 9000 manufacturing firm in Thailand. The variables under study were executive vision; employee involvement and external environment change are treated as the antecedents of best internal audit practices. The data were collected by a questionnaire survey from the 1,187 internal audit executive of each ISO 9000 manufacturing firm from Thai listed firms, which 186 responses are returned completely. The results indicate that best internal audit practices clarity positively relates to organizational risk reduction, operational excellence and fraud detect effectiveness. The results indicated that those are supported as the outcomes of best internal audit practices. The results that volatile business environment both internal and external is the key effect to acquire best internal audit practices. Finally; the moderating effects, the results indicate that external environment change and audit committee competency has the positive effect on the best internal audit practices, particular internal audit plan, internal audit review and internal audit monitoring. The study recommended that in order to contribute more theoretically to best internal audit practices, future research should be considered other moderating variables such as the enforcement marks to enhance the relationships among variables. Moreover, future research could be conducted on different samples and on a larger scale to widen the generalization of its findings.

Badara and Saidin (2014) carried out a study on the empirical evidence of antecedents of internal audit effectiveness from the Nigerian perspective. Variables under study constituted; risk management, effective internal Control system, audit experience, cooperation between internal and external auditors and performance measurement. Data of the study were collected by use of questionnaires in which 500 questionnaire were sent to internal auditors,

audit committee and chairman of local government or their representatives within the sampled local government in Nigeria. The study used stratified random sampling, in which samples were drawn from six geo-political zones in Nigeria; data were analyzed using Statistical Package for Social Science (SPSS) version 21. The result findings of the analysis revealed that, all antecedents have a significant positive relationship with internal audit effectiveness.

Kasiva (2012) carried out a study on appropriate risk based audit practices on financial performance in commercial banks in Kenya. The purpose of the study was to determine the impact of risk-based audit on financial performance in commercial banks in Kenya. The variables under study: were risk based auditing through risk assessment, risk management, annual risk based planning, internal auditing standards and internal auditing. The target population for the study constituted of 44 respondents who were finance officers, internal auditors, the credit officers, relationship officers/managers and accountants at commercial banks in Kenya. The study administered questionnaires which included structured and unstructured questions to all the respondents. This study adopted Correlation research design. From the findings, the study concluded that risk based auditing through risk assessment, risk management, annual risk based planning, internal auditing standards and internal auditing staffing should be enhanced. This would enable the firm to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. The study further argued that fraud risk assessment is one area that deserves significant reliance on internal audit work. In this light, it is reasoned that due to the fact that internal auditors are more privy with the operations of the firm they work for than external auditors, are particularly suited to carry out fraud risk assessment. Proper planning improves efficiency, accuracy, completeness, timeliness, convenience and clarity. Credible audit reports, auditor independence to identify and rectify audit errors, effective implementation of audit recommendations, financial management and compliance with accepted audit standards, effective internal audit staff and independent audit committee influence financial performance in commercial banks.

2.5.4 Internal Audit Monitoring and Control and Prevention of Material Misstatement

Zhuwau and Shumba (2015) carried out a study on the Impact of Management non-implementation of audit recommendations in Zambia. The variables under study were the need for audit, the frequency of the audits, and audit independence. Quantitatively, primary

data were collected using questionnaires and personal interviews directed to government appointed and parent elected School Development Committees (SDC) members, respectively. Secondary data from existing literature complemented primary data. Chi-square tests were used to analyze data to establish relationships existing between diverse variables. The researcher used descriptive statistics where the study prompted answers on sub-research questions in determining the management non implementations to audit recommendations to risks. The study recommended further research into the effective implementation of the audit recommendations.

Olatunji and Adekola (2017) examined the impact of auditors captured by risk assessment, system audit and verification of financial report on banking fraud control in Southwest Nigeria. The study employed survey design. The variables under study included risk assessment management, systems audit and financial report verifications. Data was collected by use of a set of questionnaire which was administered on the selected banks in Southwest Nigeria. Multiple regression technique and ANOVA were used for the analysis. The results indicated that the level of fraud control in Nigerian banks during the period covered was low; the result revealed that risk assessment management, system audit and verification of financial reports adopted by the banking industry in Southwest Nigeria limit the fraudulent activities among the Nigerian banks. The study concluded that risk assessment, system audit and financial report verifications are carried out to determine the effectiveness and impact of auditors on fraud control in Nigerian banks which reveals that auditors' roles need to be improved to enhance fraud control in banking industry. The study recommended that auditors should increase the scope of their activities on the efficiency of banks internal control system, risk assessment and system audit as this will enhance the detection of fraudulent activities. Also management of banks should ensure strict compliance with their respective internal control system.

Chiggai (2016) investigated the effect of internal audit system on organization performance with focus to regulatory bodies in Kenya. The variables under investigation were the control environment, risk evaluation, internal auditing and control activities and their influence on performance of regulatory bodies in Kenya. The main objective of the study was to analyze the effect of internal audit system on organization performance with focus to regulatory bodies in Kenya. The target population of the study was employees of from 265 regulatory bodies. The study employed stratified sampling technique in coming up with a sample size of

53 respondents where one respondent was targeted in each organization. The primary data collection method was used in collecting information through use of a questionnaire. The collected data was analyzed using regression analysis and descriptive statistics using SPSS version 20 and presented through percentages, means, standards deviations and frequencies. The study recommended risk assessment appraisal ought to be directed at the level of individual organizations and over the wide range of exercises and auxiliaries of the merged associations. The study also recommended that internal controls ought to be viable when analyzing outline can to a great degree valuable to guarantee a shielding assets and favorable exchanging climate particularly bookkeeping approach, administration arrangement, and operational strategy.

Kabare (2014) examined the effect of risk based auditing on financial performance in commercial state corporations in Kenya. The research was conducted through a descriptive survey research design. A risk based audit approach was designed to be used throughout the audit to efficiently and effectively focus the nature, timing and extent of audit procedures to those areas that have the most potential for causing material misstatements in the financial report. . From the findings, the study established that risk management, annual risk based audit planning, internal auditing standards and internal auditing capacity significantly affected the financial performance of the state Corporations in Kenya. The study recommended that the management of the state corporations in Kenya should embrace the ISAs to guide the ethical work of internal auditors, enhance risk management practices and support the internal audit function by providing the necessary resources and fully implementing its recommendations.

Mathenge (2011) carried out a study aimed at establishing the effect of internal audit functions on fraud detection among insurance companies operating in Kenya. The objectives of the study were to establish the effect of Proactive Fraud Audit, Compliance to Policies, Risk Management, Control of Operation and Financial Reporting on fraud detection among insurance companies in Kenya. The study adopted a descriptive research designs to establish the statistical relationship between variables of the study. The study adopted a census approach where information was collected from all the 41 Insurance companies in Kenya. The primary data was collected using a structured questionnaire consisting of close-ended and open-ended questions. The Variables under study were Proactive Fraud audit, Compliance to Policies, Risk Management, control of Operations and Financial Reporting

and fraud detection among insurance companies in Kenya. The analysis was done using Statistical Packages for Social Sciences (SPSS Version 21). The study concluded that insurance companies were likely to gain competitive edge in the changing business environment if they developed proactive fraud audit systems, compliance systems, risk management systems, internal control systems and financial reporting systems.

2.6 Summary of Literature Review and Research Gap

The literature review indicated different variables and theories used as internal audit practices in the prevention of material misstatement on financial statements. Most of the studies carried out in Kenya have concentrated on different variables as an independent variable and organizational performance as the dependent variable. In addition most of the studies have been carried out in the banking, Insurance and other public sectors. (Badara & Saidin, 2014; Mohamed, 2014; Puttikunsakon, 2015) have showed how internal audit practices have been beneficial to various institutions. However these studies have been conducted in other countries outside Kenya. Existing literature in the local context (Kasiva, 2012; Kirogo et al., 2014) showed that risk based audit positively affected the performance of organizations. The study by Obonyo (2017) on internal audit practices in state corporations recommended further study to be carried on other government ministries and the private sector as well to determine the effect of these practices on fraud management. Mokono and Nasieku (2018) examined the factors affecting internal auditor's performance in public Universities. Few studies have been found to address the Internal Audit Practices in prevention of material misstatement on financial statements. This has led to differing outcomes from the studies. The study sought to embrace the internal audit practices as a means of prevention of material misstatement on financial statements to concentrating on one variable at a particular time on the operations of the universities. The Summary of the Literature review indicating the gaps is as indicated below:

Table 2.1 : Summary of the Literature and Knowledge Gaps

AUTHOR	RESEARCH TOPIC	RESEARCH FINDINGS	RESEARCH GAP	FOCUS OF CURRENT STUDY
Obonyo (2017)	Effect of Internal Audit Practices on Fraud Management in State Corporations in Kenya	The findings were that internal audit practices; fraud policy, periodic assessment of fraud risk exposure, fraud prevention and fraud detection when combined contributes to success of fraud risk management in state corporations in Kenya	The study was carried out in all State corporations in Kenya and focused on fraud management but not universities	The study focused on Internal Audit practices in prevention of Material Misstatement on financial Statements in Universities and embraced other audit practices in prevention of material misstatements on Financial statement
Badara and Saidin(2014)	Empirical evidence of antecedents of internal audit effectiveness from the Nigerian perspective	The result findings of the analysis revealed that, all antecedents have a significant positive relationship with internal audit effectiveness.	The study focused on the Empirical evidence of Antecedents of Internal Audit Effectives from the Nigerian Perspective.	The current study focused on the Internal Audit Practices in prevention of Material Misstatement on financial statements of Universities in Kenya
			Study carried out in Nigeria and may not be generalized in Kenya	Results to be generalized in Kenya

Puttkumsakon (2015)	The effects of best internal audit practices impact on organization success of ISO 9000 manufacturing firm in Thailand	The results indicate that best internal audit practices clarify positively relates to organizational risk reduction, operational excellence and fraud detect effectiveness. The results indicated that those are supported as the outcomes of best internal audit practice	The study focused best internal audit practices impact on organization success of ISO 9000 manufacturing firms in Thailand	The current study focused on the Internal Audit Practices in prevention of Material Misstatement on financial statements of Universities in Kenya.
Kirogo, Ngahu and Wagoki (2014)	The effect of risk assessment on financial performance in insurance firms in Nakuru town, Kenya.	The study concluded that risk based auditing through risk assessment positively affected the financial performance of insurance companies in Nakuru Town. Risk assessment enables the insurance companies to detect risks on time and	The study is limited in scope as it is focused on risk based auditing. The Focus is also on financial performance in Insurance firms as the target population which is a different scope as compared to prevention	The study focused on all the internal audit practices which include the risk assessment and management, Internal control analysis, Periodic Internal audit reviews and internal audit monitoring and control in prevention on material misstatement on financial statements of Universities in Kenya

		concentrate on high risk areas leading to increased transparency and accountability and enhanced financial performance of insurance companies.	of material misstatement on Financial statements in universities in Kenya	
Mokono & Nasieku (2018)	Factors affecting internal auditors' performance in public universities in Kenya.	The study recommended that auditors should consider complying with professional standards as the most important contributor to internal auditing performance	The focus of the study was on factors affecting the Internal auditor performance in Public Universities	The current study focused on the Internal audit practices on prevention of material misstatement of universities in Kenya
Kasiva (2012)	Appropriate risk based audit practices on financial performance in commercial banks in Kenya	The study findings were that fraud risk assessment is one area that deserves significant reliance on internal audit work. In this light, it is reasoned that due to the fact that internal auditors are more privy with	The study focused on the risk based audit practices on Financial Performance. The target population was Commercial Banks	The study focused on all the aspects of internal audit practices in universities in Kenya

		the operations of the firm they work for than external auditors, are particularly suited to carry out fraud risk assessment.		
Mohamed (2014)	Financial Statement Fraud risk Mechanism and Strategies: the case studies of Malaysian Commercial Companies.	The findings of the study were management integrity , internal controls systems can help reduce the probability of Financial statement fraud .	The study was carried out in Malaysia. The findings may not be generalized in Kenya. The Target populations was the managers and regulators and was carried out on commercial company's	The study was carried out in Kenya and in particular in universities hence the findings will be generalized to other institutions in Kenya

2.7 Conceptual Framework

The conceptual framework shown in figure 2.1 below represents the relationship between risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control and prevention of material misstatement on financial statements of universities in Kenya.

Independent Variable

Internal Audit Practices

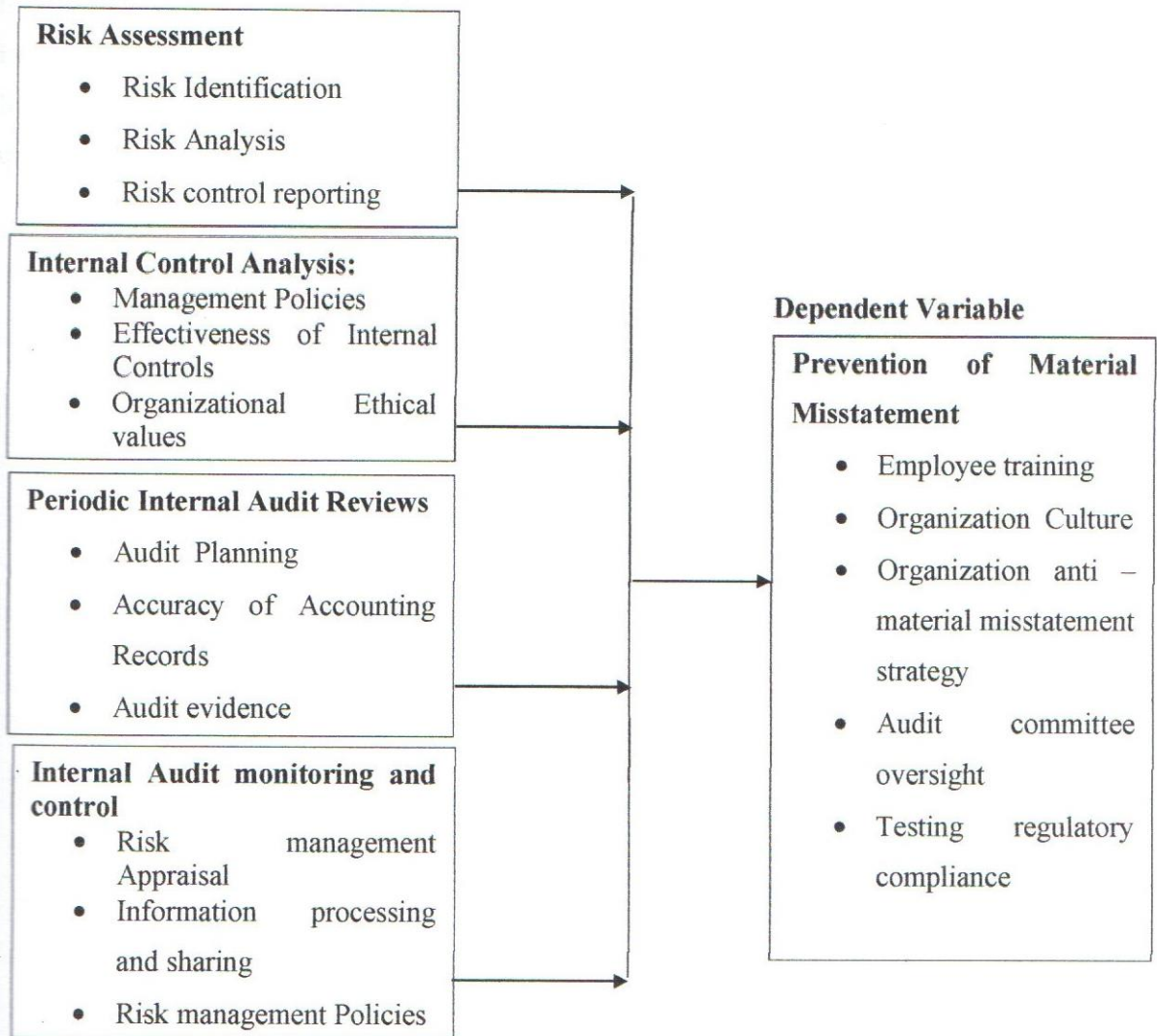


Figure 2.1: Conceptual framework

Source: Researcher (2020)

The main objective was to determine the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya. Specifically the study sought to determine the effect of risk assessment, internal control analysis, periodic internal

audit reviews and internal audit monitoring and control in prevention of material misstatement on financial statements of universities in Kenya. Risk Assessment affected the prevention of material misstatement on financial statements through risk identification, risk analysis and risk control and reporting. The internal control analysis had an effect in the prevention of material misstatement on the financial statements through the instituted management policies, effectiveness of internal controls and organizational ethical values. In addition, the periodic internal audit reviews had an effect in the prevention of material misstatement on financial statements through the audit evidence obtained, audit planning and the accuracy of the accounting records. Finally internal audit monitoring and control affected the prevention of material misstatements on financial statements through risk management appraisal, information processing and sharing and the risk management policies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter consists of methodology that was used to undertake the study. It discusses the study research design, target population, sample size, data collection instruments and the sampling procedure for the study as well as data analysis.

3.2 Research Design

This study used a descriptive research design. The design aimed at examining the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya. This method depicts the state of affairs as it exists and the researcher can only report on what has happened or is happening (Creswell, 2014). This method is therefore analytical and describes each variable in detail. In addition the descriptive design determines who, what, where and how a phenomenon which characterizes this study (Blumberg et al., 2014).

This study sought for views from the respondents to determine the effect of internal audit practices in prevention of material misstatements on financial statements of universities just the way they existed and reported on what is happening in the universities. This design attempted to collect data from members of the population and described the existing phenomenon with reference to internal audit practices on the prevention of material misstatements on financial statements of universities in Kenya This made the design appropriate for this study.

3.3 Target Population

The target population for this study was all universities in Kenya. According to the Commission for Universities' Education (CUE, 2018), Kenya has a total of 74 universities as shown in Appendix IV. The universities are spread within the Republic of Kenya. This formed the unit of analysis. The respondents were the head of department of the internal audit function in each university. This gave a total of 74 respondents.

3.4 Sampling Technique and Sample Size

The target population for this study was 74 respondents who were the head of the internal audit function in each university. The sample size was obtained by use of the Nassiuma (2000) formulae as indicated below:

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Where n= Sample size

N= The Target Population

C= The Coefficient of Variation

e =Margin of error which is fixed between 2-5%

According to Nassiuma (2000), Coefficient of Variation of $20\% \leq C \leq 30\%$ and an error term between 2-5% is acceptable. The study sample was therefore calculated at 25% coefficient of variation and a 3% margin of error. The twenty five per cent coefficient of variation was used to ensure that the sample was wide enough to justify the results being generalised for the universities. The sample size was therefore calculated as follows:

$$n = \frac{74 \times .25^2}{.25^2 + (74-1) \cdot 0.03^2} = \frac{4.625}{0.1282} = 36 \text{ Universities.}$$

The sample size was 36 universities. Simple random sampling technique was used to sample the universities under study. Simple random sampling was used since population members are similar to one another and have an equal chance of being selected hence giving an accurate representation.

3.5 Data and Data Collection Instruments

In this study, primary data was collected using closed ended questionnaires as the main data collection instrument. Closed questionnaires provided more structured responses. For better administration, the researcher used the drop and pick method. A five point likert scale, ranging from strongly agree to strongly disagree was used to measure the importance the respondents attached to the independent variables (Brace, 2012) The questionnaire had six sections A- F. A will related to demographic data while B-F was used to collect data on the study variables. The questionnaires solicited ideas related to the research problem from respondents addressing the research objectives.

3.5.1 Validity of Research Instruments

Validity of a research instrument is the ability of the instrument to measure well what it purports to measure (Taherdoost, 2016). It refers to how well the data collection and data analysis of the research captures the reality being studied. . For this study face validity was

chosen based on the questionnaire being administered. Face validity has been defined as the measure of how representative a research project is at face value and whether it appears to be a good project. The data must be unbiased and relevant to the characteristic being measured. To determine the face validity of the research instrument, the researcher sought for the assistance from the supervisor and other lecturers in the department of Accounting Finance and Management Science. This was a panel of experts that is familiar in the way this type of validity could be assessed. The experts have the knowledge to examine the items and determine what the specific item is intended to measure (Phelan and Wren, 2016). For the validity of the questionnaire to be demonstrated, the researcher ensured that all the items in the questionnaire were based on the objectives of the study and were written in clear and precise words to avoid ambiguity and confusion among respondents. The questionnaire was drawn in consultation with the supervisor and was based on the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya.

3.5.2 Reliability of Research Instruments

Reliability refers to the extent in which the same instrument yields the same results over and over again (Kothari, 2010). To test for reliability, the research questionnaire was subjected to a pilot study to determine its reliability. The pilot study was conducted in four universities which constituted 10% of the sample size. The universities under the pilot study did not take part in the main study to avoid contamination (Mugenda & Mugenda 1999). The Cronbach Alpha (α) Coefficient was used to analyse the responses using the SPSS computer package. According to Saunders et al. (2009), a minimum threshold of .7 is acceptable. From the analysis, the overall alpha obtained is as shown in table 3.1.

Table 3.1: Reliability Coefficients

Variable	Cronbach's Alpha	No of Items	Conclusion
Risk assessment	.758	6	Reliable
Internal Control Analysis	.956	6	Reliable
Periodic Internal audit Review	.807	6	Reliable
Internal Audit Monitoring Control	.957	6	Reliable
Prevention of Material Misstatement	.860	8	Reliable
Internal audit practices and prevention of material misstatements	0.948	32	Reliable

3.6 Data Collection Procedures

An introductory letter was obtained from the Egerton University Graduate School and a research permit from the National Commission for Science, Technology and Innovation (NACOSTI). Permission was sought and obtained from the Management of the respective Universities. The researcher administered the questionnaires to the respondents at their work place using the drop and pick method and via email. The respondents were given a period of three weeks to fill the questionnaires.

3.7 Data Analysis and Presentation

Data collected using questionnaires were edified for completeness and consistency. As recommended by (In, 2017), the data collected should be sorted and coded to ensure that the responses are grouped according to the objectives. The coded data was analyzed with the aid of SPSS (Version 23) software. The result obtained from the SPSS was grouped according to the various themes or variables. Data was analyzed by use of descriptive and inferential statistics. Descriptive statistics shows the measure of central tendencies and dispersion using mean, standard deviation, maximum and minimum. A written explanation was provided to interpret data, draw conclusions and make recommendations. The inferential statistics was used to show the relationship between the variables. Pearson correlation was used to establish the strength of the independent variable on the dependent variable. Regression (Simple and multiple) analysis was used to establish the effect of the independent variable on dependent variable. The regression analysis was also used to test the hypothesis at 95% confidence level (level of significance $\alpha = .05$). Simple regression was used for objective one to four while multiple regression was used for the combined effect objective five. The multiple regression was used because it can accommodate more than two independent variables to predict the dependent variable. The analyzed data was presented in form of tables, pie charts and graphs. Such presentation makes an article easy to understand, sustains the interest of the readers and efficiently presents large amounts of complex information (In, 2017). Questionnaires were structured to measure the independent variables such as risk assessment, internal controls analysis, periodic internal audit reviews, and internal audit monitoring and control.

3.7.1 Model Specification

The study had five objectives. Simple regression was conducted on the first four objectives while a multiple regression was conducted on the fifth objective.

The first objective was to establish the effect of risk assessment in prevention of material misstatement on financial statements of universities in Kenya. The simple linear regression was as indicated below:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon \dots\dots\dots 3.1$$

Where

- Y = Prevention of Material Misstatement
- β_0 = Constant
- β_1 = Variable Coefficient
- X_1 = Risk Assessment
- ϵ = Error term

The second objective was to determine the effect of internal control analysis in prevention of material misstatement on financial statements of universities in Kenya. The simple linear regression for the objective is as indicated below:

$$Y = \beta_0 + \beta_2 X_2 + \epsilon \dots\dots\dots 3.2$$

Where

- Y = Prevention of Material Misstatement
- β_0 = Constant
- β_1 = Variable Coefficient
- X_2 = Internal controls Analysis
- ϵ = Error term

The third objective was to establish the effect of periodic internal audit reviews in prevention of material misstatement on financial statement of universities in Kenya. Below is the simple linear regression:

$$Y = \beta_0 + \beta_3 X_3 + \epsilon \dots\dots\dots 3.3$$

Where

- Y = Prevention of Material Misstatement
- β_0 = Constant
- β_3 = Variable Coefficient
- X_3 = Periodic Internal Audit Reviews
- ϵ = Error term

The fourth objective was to determine the effect of internal audit monitoring and control in prevention of material misstatement on financial statements of universities in Kenya. The simple linear regression is as indicated below:

$$Y = \beta_0 + \beta_4 X_4 + \varepsilon \dots\dots\dots 3.4$$

Where

- Y = Prevention of Material Misstatement
- β_0 = Constant
- β_4 = Variable Coefficients
- X_4 = Internal audit monitoring and control
- ε = Error term

The fifth objective was to determine the combined effect of internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) in prevention of material misstatement on financial statements of universities in Kenya. The objective was represented by the multiple regression indicated below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots\dots\dots 3.5$$

Where Y = Prevention of Material Misstatement

- β_0 = Constant
- $\beta_1, \beta_2, \beta_3, \beta_4$ = Variable Coefficients
- X_1 = Risk Assessment
- X_2 = Internal Controls Analysis
- X_3 = Periodic Internal Audit Reviews
- X_4 = Internal Audit Monitoring and Controls
- ε = Error term

3.8 Diagnostic Tests

Diagnostics tests were conducted on the data collected in order to report results in terms of accuracy statistics in the regression (Korevarar, 2019). The diagnostic tests were carried out by use of multicollinearity, linearity and normality on the regression model.

3.8.1 Multicollinearity Test

The multicollinearity test was conducted to determine the association among the independent variables which were risk assessment, internal control analysis, periodic internal reviews and

internal audit monitoring and controls. The model tested for both the tolerance limits (TL) and the variance of inflation factor (VIF) among the independent variables under study by use of a correlation matrix. From the matrix if the value of tolerance is found to be less than 0.2 or 0.1 and simultaneously the value of VIF is 10 and above, then there is high association among the independent variables hence the presence of multicollinearity (Daoud, 2017).

3.8.2 Linearity Test

A linearity test was conducted on the variables to determine whether the independent variables in the study (risk assessment, internal control analysis, periodic internal audit reviews and the internal audit monitoring and control) in the regression have a straight-line relationship with the dependent variable (prevention of material misstatement). The study used the scatter plots to determine the linearity. The linearity test was used to measure the association between the internal audit practices and prevention of material misstatement hence predicting the dependent variable by the independent variables (Kumari, 2018).

3.8.3 Normality Tests

The study carried out normality tests to determine if the collected data was well modeled in order to make valid inferences from the regression. For inferences to be valid the residuals of the regression should follow a normal distribution. The study used the graphical method approach of comparing the histogram of a sample data with a normal probability curve.

3.9 Measurement/Indicators of Research Variables

Table 3.1: Measurement/Indicators of Research Variables

Variable	Operational definition	Measurement/Indicators
Material Misstatement	The difference between the amounts, classification, presentation of a reported financial statements items and the amount classification ,presentation that is required for the item to be in accordance with the applicable financial reporting framework.	<ul style="list-style-type: none"> • Employee training • Organizational culture • Organizational anti-material misstatement strategies
Risk Assessment	Identification and analysis of the relevant risks which can impair the achievement of the organizations objectives.	<ul style="list-style-type: none"> • Risk Identification • Risk Analysis • Risk Control reporting
Internal Control	Examination of the effectiveness of	<ul style="list-style-type: none"> • Management Policies

Analysis	organizations policies, systems of controls and ethical values	<ul style="list-style-type: none"> • Effectiveness of internal controls • Organizational Ethical Values
Periodic Internal Audit Reviews	A quality control mechanism that shows the capacity or effectiveness of the internal audit function	<ul style="list-style-type: none"> • Audit Planning • Accuracy of Accounting Records • Audit Evidence
Internal Audit Monitoring and control	Risk management appraisals, information sharing and risk management policies that are directed by management to ensure processes are working as intended.	<ul style="list-style-type: none"> • Risk Management Appraisal • Information processing and sharing • Risk management policies

Source: Author and Literature Review (2020)

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter shows the details of the method used in the analysis of the research data. It discusses the methods and procedures used by the researcher to address the research objectives. The main objective of the study was to determine the effect of internal audit practices in prevention of material misstatement on financial statements of Universities in Kenya. The specific objectives were to determine the effect of risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control in prevention of material misstatement on financial statements of universities in Kenya. The chapter therefore covers the following areas: Response rate, demographic information, diagnostic tests and the study variables.

4.2 Response Rate

The study targeted a population of all the 74 universities in Kenya with a sample of 36 universities. 36 questionnaires were administered. 31 questionnaires were dully filled and returned while 5 were not. This made a response rate of 86 %. According to Black (2010), this response rate was adequate for analysis since it stipulates that participation frequency rate of 30% and above is sufficient for examination and reporting. The response of 86% was therefore justifiable for reporting.

Table 4.1: Response Rate

Response	Frequency	Percentage (%)
Filled questionnaires	31	86
Non- Response	5	14
TOTAL	36	100

4.3 Demographic Information

This section included the background of the respondents who are the head of the internal audit function in the universities. This includes the gender, number of years they have worked in the university and their level of education. The information obtained was used in the study to determine the experience of the respondents and how familiar the respondents are to the information being sought in the study.

4.3.1 Gender

The study aimed to establish the gender disparity of the respondents. Figure 4.1 indicates the results of the analysis

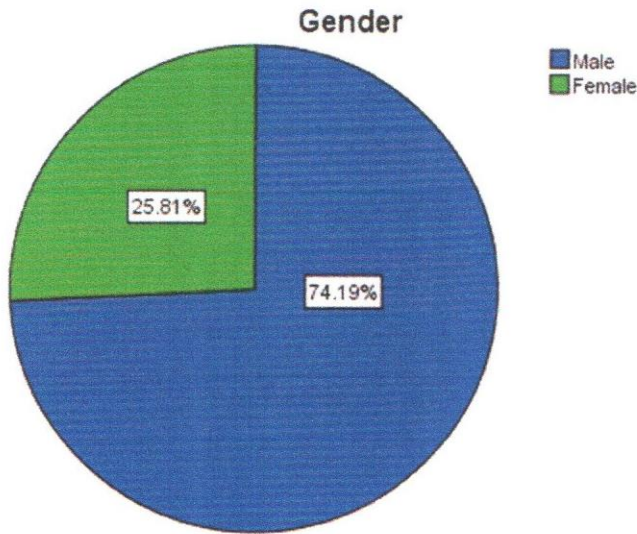


Figure 4.1: Gender of the Respondents

From the study findings in figure 4.1, 74.19 % were male while 25.81% were female. This indicates that the head of audit function in the universities is dominated by the male gender. There is a fair gender representation in the universities but still falls below the 30% threshold requirement by the Kenya Constitution 2010 which considers the distribution of gender in various positions in public entities and other institutions.

4.3.2 Years of Service

The study sought to determine the number of years the internal auditors had served the organization.

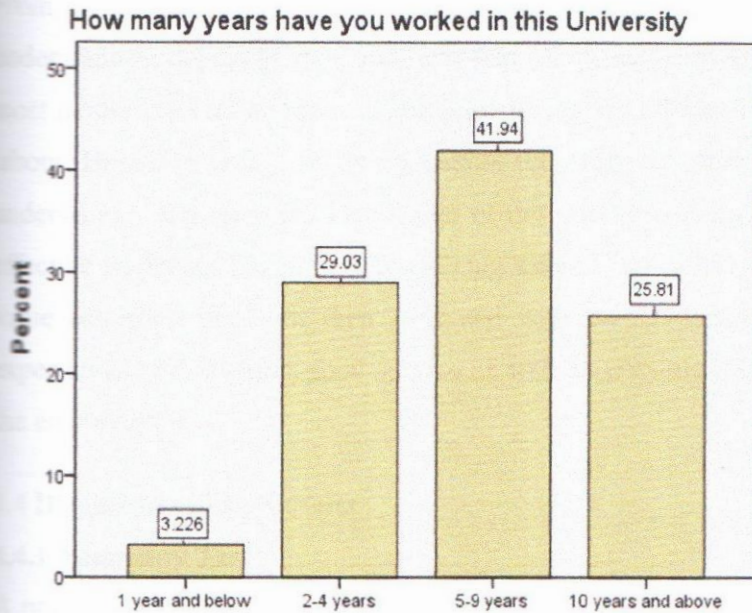


Figure 4.2: Number of years of service

From the analysis in figure 4.2, 3.2% has served the organization for a period of 1 year and below, 29.03% for a period between 2-4 years, 41.94% for a period between 5- 9 years and 25.81% for 10 years and above. This was an indication that majority of the respondents had worked in their organizations for a considerable period of time and were therefore experienced and familiar with the kind of data being sought for by the study in relation to the university. This also indicates that there is low employee turnover in the universities and could be a good indicator of desirable retention levels in universities. Desirable retention levels enable the universities to implement both the long-term and short term plan so as to achieve the missions and objectives of the university.

4.3.3 Level of Education

The respondents were asked to indicate their highest level of education. Table 4.2 indicates the results.

Table 4.2: Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Post Graduate	26	83.9	83.9	83.9
	Undergraduate	5	16.1	16.1	100.0
	Total	31	100.0	100.0	

From table 4.2, 83.9% of the respondents were postgraduate holders, 16.1% were undergraduate degree holders and none had certificate or diplomas. This is an indication that most of the internal auditors in the universities are educated and therefore provide skilled labour. Based on their level of education, the study outcome indicates that the respondents understand and have the knowledge of the questions being asked and therefore gave the effective responses to the questions being asked. This could also mean that the universities value education needs of their staff and with proper education among the staff there is expectation of delivering good service as well as possible increase in accountability among the employees.

4.4 Diagnostics Tests Results

4.4.1 Normality Test

A normality test was conducted to determine the distribution of the variables. The graphical approach was used by comparing the histogram to the normal distribution curve.

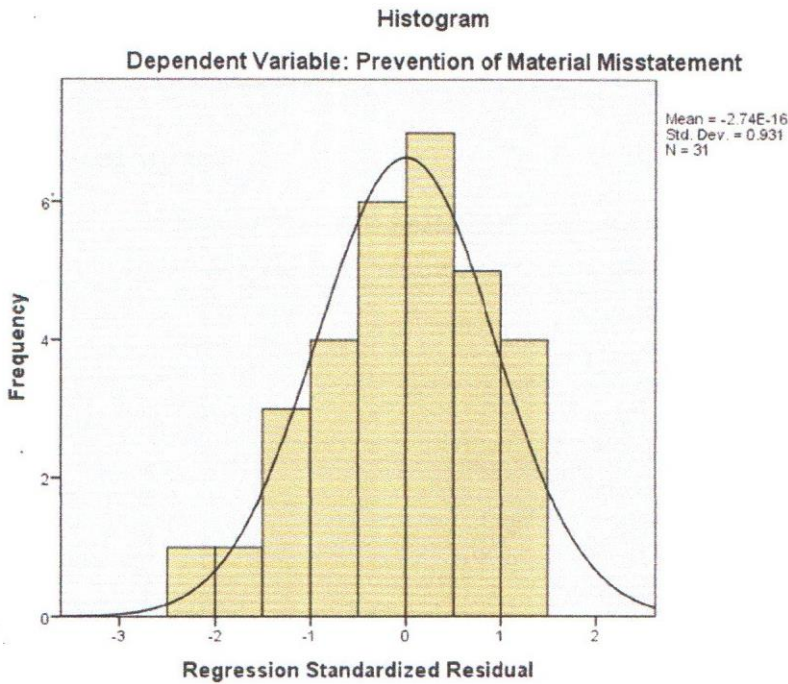


Figure 4.3: Normality Test Results

Figure 4.2 indicates that internal audit practices and prevention of material misstatement was normally distributed. This is from the mean indicated which is at 0 and the standard deviation at 1.

4.4.2 Multicollinearity

Table 4.3: Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	Risk Assessment	.729	1.371
	Internal Controls Analysis	.396	2.525
	Periodic Internal Audit Reviews	.405	2.470
	Internal Audit Monitoring and Control	.442	2.264

a. Dependent Variable: Prevention of Material Misstatement

Table 4.3 represents the findings of the study on multicollinearity. In the study the tolerance limit was found to be 1.972 and the VIF to be 8.63. If the value of tolerance is less than 0.2 or 0.1 and simultaneously the value of VIF is 10 and above, then multicollinearity has high association hence the presence of multicollinearity (Daoud, 2017). The result from the table is acceptable and the variables had no related impact on the prevention of material misstatement on financial statement.

4.4.3 Linearity test

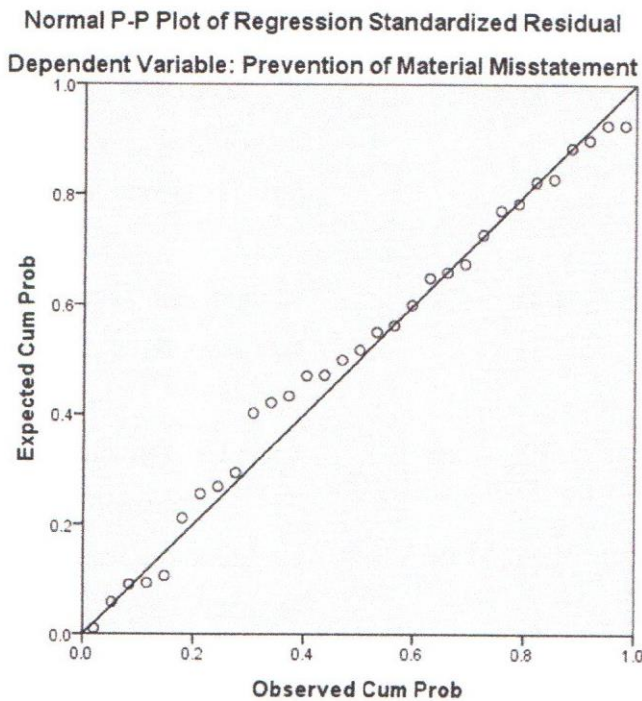


Figure 4.4: Linearity Test Results.

From figure 4.3, the result of the test indicates a linear relationship between the variables since it is aligned along the line of best fit.

4.5 Descriptive Statistics

The variables under study included risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control. The use of internal audit practices components was undertaken to determine the extent to which it affects the prevention of material misstatement on financial statements of universities in Kenya. This was done on a five-point Likert scale whose range was from ‘strongly disagree’ (1) to ‘strongly agree’ (5).

4.5.1 Risk Assessment

The specific aspects used in the study for risk assessment were; Risk identification, Risk analysis and Risk control reporting. Figure 4.4 shows the overall descriptive statistics for all the aspects of risk assessment used in the study.

Table 4.4: Descriptive Statistics for Risk Assessment

Statement on Risk Assessment	Percentage (%)						
	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
The university undertakes a comprehensive risk identification in all its departments and documented	6.5	12.9	54.8	25.8	4.00	.817	
There exists a fraud risk register identifying all risks in all areas that is updated regularly	9.7	16.1	67.7	6.5	3.71	.739	
The likelihood of the risk occurring is identified and documented.	6.5	6.5	54.8	32.3	4.13	.806	
The risks are ranked according to their impact on the financial activities	19.4	16.1	45.2	19.4	3.65	1.018	
The employees are aware of the fraudulent risk reporting channels in	9.7	25.8	48.4	16.1	3.71	.863	

the organization

The internal audit department shares the risk assessment with the university management for continuous improvement	6.5	22.6	25.8	45.2	4.10	.978
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Table 4.4 indicates, 54.8% of the respondents agreed, 25.8% strongly agreed, 12.90% were neutral while 6.5% disagreed that the university undertakes comprehensive risk identification in all its departments and documented. This implies that the universities are able to keep themselves updated on the continuous changes in the economy, industry, regulatory and operating conditions and documents the risks associated with this changes.

When asked if there exists a fraud risk register identifying all risks in all areas that is updated regularly, 67.7% of the respondents agreed, 6.5% strongly agreed, 16.1 % were neutral as they neither agreed nor disagreed and 9.7% disagreed that there exists a fraud risk register identifying all risks in all areas that are updated regularly in the universities in Kenya. From the study majority of the universities have a risk register which is able to show the risks the universities are exposed to but some did not have exposing the universities to some risk that are not documented. This also implies that the university is able to prepare for any occurrence of the risks.

Asked concerning the likelihood of the risk occurring is identified and documented; the study noted that 54.8% agreed, 32.3% strongly agreed, 6.5% were neutral while 6.5% disagreed. This implies that most universities are proactive in analyzing the risks and placing mitigation measures in place. When asked that the risks are ranked according to their impact on the financial activities, the study findings were that 45.2% agreed, 19.4% strongly agreed, 19.4% disagreed while 16.1% neither agreed nor disagreed hence remained neutral. The study sought to find out whether the employees are aware of the fraudulent risk reporting channels in the organization. Majority of the respondents agreed as indicated from the study findings which noted that 48.4% agreed, 25.8% were neutral, 16.1% strongly agreed while 9.7% disagreed. When asked if the internal audit department shares the risk assessment with the university management for continuous improvement, 6.5% of the respondents disagreed, 22.6% were neutral, 25.8% agreed while 45.2% strongly agreed. This implies that there is open communication between the internal audit department and the management. This provides the management with updates on the risks that have been identified and analyzed.

Also the management is able to put up measures to mitigate the risks and set new controls on those that are outdated.

From the table 4.4, the respondents agreed that the university undertakes comprehensive risk identification in all its departments and documented as shown by the mean of 4.00 and stand deviation of .0817. The respondents also agreed that there exists a fraud risk register identifying all risks in all areas that is updated regularly with a mean score of 3.71 and a standard deviation of .739. Moreover, the respondents agreed that the likelihood of risk occurring is identified and documented as shown by the mean score of 4.13 and a standard deviation of .806. The respondents also agreed that the risks are ranked according to the impact on the financial activities by the mean score of 3.65 and a standard deviation of 1.018. Also the employees of the universities are aware of the fraudulent risk reporting channels in the organization as shown by the mean score of 3.71 and standard deviation of .863. The respondents strongly agreed that the internal audit department shares the risk assessment with the university management for continuous improvement as shown by the mean score of 4.10 and standard deviation of .978.

4.5.2 Internal Control Analysis

The specific aspects used in the study internal controls analysis were; Management policies, Effectiveness of internal controls and Organizational ethical values. The results are shown in figure 4.5.

Table 4.5: Descriptive Statistics for Internal Control Analysis

Statement On Internal Control Analysis	Percentage (%)							Standard Deviation
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean		
The university has approved management policies that are shared to all employees to ensure compliance		9.7	6.5	54.8	29.03	4.032	.875	
The management policies are documented and updated on regular basis.		12.9	12.9	48.39	25.81	3.871	.957	
There is an organizational		12.9	6.5	51.61	29.03	3.968	.948	

structure that defines the roles and responsibilities of all employees

The university policies provide for adequate segregation of duties for approval and recording of transactions 9.7 9.7 58.06 19.35 3.807 .980

The university has a code of ethics that is signed by all employees in regard to fraud and corruption 3.2 16.1 19.4 29.0 32.3 3.810 1.188

Top management enforces values and ethics among employees in regard to fraud and misconduct 3.23 3.23 9.68 54.84 29.03 4.032 .9122

The results from table 4.5 indicated that 54.8% agreed to the fact that the university management policies are shared to all employees to ensure compliance, 29.0% strongly agree, 9.7% disagree and 6.5% remained neutral. This implies that the employees were aware of the management policies which provides for guidance on how the universities are management. Also when the employees are aware of the policies, they are in a position to be accountable for the actions when carrying out their duties. Asked if the management policies are documented and updated on regular basis, the study noted that 48.39% agree, 25.81% strongly agree, 12.90% disagree tying with those who remained neutral at 12.90%. This implies that the universities have permanent records which serve as point of reference of the management policies and are therefore can be made available for inducting new staff. Also with changes in the operating environment of the universities, the policies are updated for adapting to the environment. The respondents were asked if there is an organizational structure that defines the roles and responsibilities of all employees. The study noted that, 51.61% agreed that there exists an organizational structure that defines the roles and responsibilities of all employees, 29.03% strongly agreed, and 12.90% disagreed while a small proportion of 6.5% remained neutral. This indicates that there exist positions of responsibility and accountability by the staff based on position and roles of each staff.

In addition when asked whether the university policies provide for adequate segregation of duties for approval and recording of transactions from the analysis, 58.06% agreed, 19.35% strongly agreed, 9.7% of the respondents disagreed making a tie with those that were neutral on whether the university policies provided for adequate segregation of duties for approval and recording of transactions while 3.2% disagreed. This implies that transactions in the universities are not being handled by one person leading to accountability and easy checking of staff on each other. This reduces the committing of errors and frauds. The study sought to find out whether the university has a code of ethics that is signed by all employees in regard to fraud and corruption. The analysis from the study was, 29.0% agreed, 32.3% strongly agreed, 19.4% were neutral, 16.1% disagreed while 3.2% strongly disagreed. This indicates the employees from the universities were bound by the code of ethics they signed and are able to distinguish the right and wrong of their actions. This makes them to be accountable for their actions. Asked whether the top management enforces values and ethics among employees in regard to fraud and misconduct the response was indicates that 54.84% agreed, 29.03% strongly agreed, 9.68% were neutral, 3.23% disagreed while 3.23 % strongly disagreed. This indicates that the management is in control and ensures that the organizational values and ethics are adhered to in regard to fraud and misconduct.

From table 4.5 the respondents agreed that the university has approved management policies that are shared to all employees to ensure compliance as shown by the mean score of 4.032 and standard deviation of .0875. The respondents also agreed that the management policies are documented and updated on regular basis (mean 3.871 and standard deviation .957). In addition there is an organizational structure that defines the roles and responsibilities of all employees as indicated by the mean score of 3.968 and standard deviation of .948. The respondents also agreed that the university policies provide for adequate segregation of duties for approval and recording of transactions (Mean 3.807 and standard deviation of .980). The respondents strongly agreed that universities have a code of ethics that is signed by all employees in regard to fraud and corruption as shown by mean of 3.810 and standard deviation of 1.188. Lastly the respondents agreed that top management enforces values and ethics among employees in regard to fraud and misconduct as indicated by the mean of 4.032 and standard deviation of .9122.

4.5.3 Periodic Internal Audit Reviews

The aspects under study for periodic internal audit reviews in the study were; Audit planning, Accuracy of accounting records and Audit evidence. The overall descriptive statistics for these aspects are as represented in table 4.6.

Table 4.6: Descriptive Statistics for Periodic Internal Audit Reviews

Statement On Periodic Internal Audit Reviews	Percentage (%)							Mean	Std. Dev.
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree				
The internal audit has an audit plan that provides guidelines for conducting the audit	3.23	9.67	12.9	29.03	45.18	4.032	1.139	7	
The internal audit team understands the audit strategy and their responsibilities during the audit		16.13	19.35	22.58	41.94	3.903	1.135		
The university has a chart of accounts in place for aligning the financial transactions			6.45	51.61	41.94	4.354	.6019		
Recording of financial transactions by employees are checked by the supervisors		12.90	6.52	29.03	51.61	4.194	1.046		
The internal audit conducts the appropriate procedures to obtain the appropriate audit evidence required		9.68	12.90	38.71	38.71	4.064	.9638	6	
The internal audit team maintains audit working papers as evidence of the audit conducted		19.35	9.68	35.48	35.48	3.871	1.117	0	

From table 4.6 above, 45.16% strongly agreed, 29.03% agreed, 12.90% were neutral, 9.677% disagreed while 3.226% strongly disagreed that the internal audit has an audit plan that provides guidelines for conducting the audit. This indicates s that the audit is carried out in a systematic manner with timelines and areas that need special attention being attended to. It

also implies that the staff in the internal audit department is allocated duties according to their capability, experience and professionalism. The study also noted that internal audit team strongly understands the audit strategy and their responsibilities during the audit. This is evidenced by analysis whereby 41.94% strongly agreed that the internal audit team understands the audit strategy and their responsibility during the audit. 22.58% agree, 19.35% neither agreed nor disagreed while 16.13% disagreed. The respondents when asked if the university has a chart of accounts in place for aligning the financial transactions responded by the analysis of 51.61% agreed, 41.94% strongly agreed while 6.45% neither disagreed nor agreed that the university has a chart of accounts in lace for aligning transactions. This implies that recording of transactions in the books of accounts are recorded according to the accounts that are already in the systems. Asked if recording of financial transactions by employees are checked by the supervisors the study findings were that 51.61% strongly agreed, 29.03% agreed, 12.90% disagreed while 6.45 were neutral on whether there was recording of transactions are checked by supervisors. Asked if the internal audit conducts the appropriate procedures to obtain the appropriate audit evidence required the study findings 38.71% strongly agreed, 38.71% agreed, 12.90% were neutral while 9.68% disagreed that the internal audit conducts the appropriate procedures to obtain the appropriate audit evidence required. This indicates that the internal audit is able provide attention to all areas and more attention given to the high risk areas thus minimizing the risks. Asked if the internal audit team maintains audit working papers as evidence of the audit conducted, the study noted that that 35.48% strongly agreed, 35.48% agreed, 19.35% disagreed while 9.677% were neutral as to internal audit team maintains audit working papers as evidence of the audit conducted. This implies that there is assurance that the audit conducted is properly completed in an effective e and efficient manner and there is evidence to the work carried out.

From table 4.6 the respondents strongly agreed that the internal audit has an audit plan that provides guidelines for conducting an audit as shown by the mean of 4.032 and standard deviation of 1.1397. That the internal audit team understands the audit strategy and their responsibilities during the audit (Mean=3.903, standard deviation=1.135). That the university has a chart of accounts in place for aligning the financial transactions as shown by the mean of 4.354 and standard deviation of .6019. The respondents also agreed that the recording of financial transactions by employees are checked by the supervisors (Mean=4.194, standard deviation=1.046). The respondents also agreed that the internal audit conducts the appropriate procedures to obtain the appropriate audit evidence required as shown by the mean of 4.064

the standard deviation of .9638. The respondents also agreed that the internal Audi team maintains audit working papers as evidence of the audit conducted as shown by the mean of 3.871 and standard deviation of 1.117.

4.5.4 Internal Audit Monitoring and Control

The specific aspects used in the study under internal audit monitoring and control were; Risk Management Appraisal, Information processing and sharing and Risk Management policies. The overall descriptive statics of these specific aspects is as shown in table 4.7.

Table 4.7: Descriptive Statistics for Internal Audit Monitoring and Control

Statement On Internal Audit Monitoring and Control	Percentage (%)						Mean	Std. Dev.
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree			
The internal audit conducts a continuous monitoring of possible fraudulent activities	3.2	12.9	6.5	45.2	32.2	3.903	1.106	
The internal auditor periodically inspects financial statements to confirm the accuracy of the financial transactions	-	6.5	9.7	58.1	25.8	4.032	.7955	
Serious matters in relation to the financial statements are communicated to the management and the board by the internal auditor	-	9.7	6.5	32.3	51.6	4.258	.9643	
Management responds timely to comments identified in the internal audit reports.	-	12.9	16.1	54.8	16.1	3.741	.8932	
Risk management policies are continually updated with new risks identified	3.2	-	22.6	35.5	38.7	4.064	.9638	
The management periodically visits satellite campuses to determine whether the laid down policies and procedures are being followed, and functioning as intended	3.2	16.1	16.1	48.4	16.1	3.581	1.057	

Table 4.7 shows that the respondents were asked whether the internal audit conducts a continuous monitoring of possible fraudulent activities. From the results, 45.16% agree,

32.26% strongly agree, 12.9% disagree, 6.45% neutral while 3.23% strongly disagree that the internal audit conducts a continuous monitoring of possible fraudulent activities. This is an indication that the university is able to identify trends or new schemes that are not based on known cases of fraud. Asked if the internal auditor periodically inspects financial statements to confirm the accuracy of the financial transactions the study noted that 58.1% agree, 25.8% strongly agree, 9.7% were neutral while 6.5% disagreed. Asked if serious matters in relation to the financial statements are communicated to the management and the board by the internal auditor 51.6% strongly agreed, 32.3% agreed, 9.7% disagreed while 6.5% were neutral that serious matters in relation to financial statements are communicated to the management and the board by the internal auditor. This indicates that there is open communication between the internal auditor and those charged with governance. Asked if the management responds timely to comments identified in the internal audit reports, the study noted that 54.84% agreed, 16.13 % strongly agreed, 16.13% were neutral and 12.90% disagreed that the management responds timely to comments identified in the internal audit reports. This implies that there is quick response to concerns by the internal audit function. Further when asked if risk management policies are continually updated with new risks identified the study noted that, 38.7% strongly agreed, 35.5% agreed, 22.6% were neutral and 3.2% strongly disagreed that risk management policies are continually updated with new risks identified. Lastly the respondents were asked if the management periodically visits satellite campuses to determine whether the laid down policies and procedures are being followed, and functioning as intended. The response from the respondents indicated that 48.4% agree, 16.1% strongly agree, are neutral and disagree respectively while 3.2% strongly disagree that the management periodically visits satellite campus to determine whether the laid down policies are being followed and are functioning as intended. This implies that there are periodic checks by the management on the satellite campus to ensure compliance.

From table 4.7 the respondents agree that the internal audit conducts a continuous monitoring of possible fraudulent activities (Mean=3.903, standard deviation =1.106). The respondents also agree that the internal auditor periodically inspects financial statements to confirm the accuracy of the financial transactions as shown by the mean of 4.032 and standard deviation of .7955. The respondents strongly agree that serious matters in relation to the financial statements are communicated to the management and the board by the internal auditor (Mean=4.258, standard deviation=.9643). The respondents agreed that the management responds timely to comments identified in the internal audit reports as indicated by the mean

of 3.741 and standard deviation of .8932. That risk management policies are continually updated with new risk identified (Mena=4.064, standard deviation=.9638). Lastly the respondents agreed that the management periodically visits the satellite campuses to determine whether the laid down policies and procedures are being followed and functioning as intended as shown by the mean of 3.581 and standard deviation of 1.051

4.5.5 Prevention of Material Misstatement

The following specify aspects were used in the study to measure the level of prevention of material misstatement; Employee training, Organizational culture and Organizational anti-material misstatement strategy.

Table 4.8: Descriptive statistics on Prevention of Material Misstatement

Statement On Prevention of Material Misstatement	Percentage %						Mean	Std.Dev.
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree			
The management takes disciplinary action against offenders so as to prevent material misstatement and misconduct		3.23	3.23	12.9	22.58	3.936	.892	
Internal audit function continuously tests the effectiveness of regulatory compliance strategies.	3.23	6.45	12.9	61.29	16.13	3.806	.909	
There are automated strategies that capture any material misstatement related activities	-	19.35	29.03	41.94	6.5	3.452	.995	
The management has set the example of openness and honesty in regard to material misstatement prevention	3.23	16.13	32.26	29.03	19.35	3.452	1.091	
The management provides a positive working environment and assistance to employees.	-	16.13	16.13	51.61	16.35	3.678	.945	
The internal audit function carries out ad-hoc testing for indicators of material misstatement from time to time	-	9.68	12.9	48.9	29.03	3.968	.912	
A material misstatement prevention strategy has been put in place by the university.	6.45	12.9	16.13	54.84	9.68	3.484	1.061	
Employees have been trained on most common fraud within the university functions and how to avoid them.	6.45	9.68	29.03	32.26	22.58	3.548	1.150	

According to table 4.8 above 58.06% agree, 22.58% strongly agree, 12.90% are neutral while 3.23% strongly disagree and disagree that the management takes disciplinary action against offenders so as to prevent material misstatement and misconduct. Asked if the internal audit function continuously tests the effectiveness of regulatory compliance strategies 61.29% agree, 12.9% are neutral, 16.13% strongly agree, 6.45% disagree while 3.23% strongly disagreed. When asked if there are automated strategies that capture any material misstatement related activities the response was 41.94% agree, 29.03% are neutral, 19.35% disagree while 6.5% strongly agree that there are automated strategies that capture any material misstatement related activities. This implies that strong strategies are used to minimize the opportunities for committing fraud. The study sought to find out if the management has set the example of openness and honesty in regard to material misstatement prevention. The results were that 32.26% of the respondents were neutral, 29.03% agreed, 19.35% strongly agreed, 16.13% disagreed while 3.23% strongly disagreed. The researcher sought to find out whether the university management provides a positive working environment and assistance to employees. From the analysis 51.61% agree, 16.13% strongly agree, 16.13% neutral and 16.13% disagree. Asked if the university internal audit function carries out ad-hoc testing for indicators of material misstatement from time to time the study noted that, 48.9% agreed, 29.03% strongly agreed, 12.90% are neutral while 9.68% disagreed that the university internal audit function carries out ad-hoc testing for indicators of material misstatement from time to time.

In addition the respondents were asked if a material misstatement prevention strategy has been put in place by the university. The study noted that that 54.84% of the respondents agreed, 9.68% strongly agreed, 16.13% were neutral, 12.90% disagreed while 6.45% strongly disagree that a fraud prevention strategy has been put in place by the university. Asked whether employees are on most common fraud within the university functions and how to avoid them, 32.26% of the respondents agree, 22.58% strongly agree, 29.03% were neutral, 9.68% disagree and 6.45% strongly disagree that the university has trained its employees on most common fraud within the university functions and how to avoid them.

From table 4.8 the respondents strongly agree that the management takes disciplinary action against offenders in order to help in preventing material misstatement and misconduct (Mean=3.936, standard deviation=.892). The respondents also agreed that the internal audit function continuously tests the effectiveness of regulatory compliance strategies by the mean

of 3.806 and standard deviation of .909. The respondents agreed that there is automated strategies that capture any material misstatement related activities as shown by the Mean=3.452; standard deviation=.995. The respondents were neutral to the fact that the management has set the example of openness and honesty in regard to material misstatement prevention (Mean=3.452, standard deviation=1.091). In addition, the respondents agreed that the management provides a positive working environment and assistance to employees by a mean of 3.678 and standard deviation of .945. The respondent agreed that the internal audit function carries out ad-hoc testing for indicators of material misstatement from time to time as shown by the Mean=3.968 and standard deviation of .912. That a material misstatement prevention strategy has been put in place by the university (Mean=3.484, standard deviation=1.061). The respondents also agreed that the employees are trained on most common fraud within the university functions and how to avoid them as shown by the mean of 3.548 and standard deviation of 1.150.

4.6 Inferential Statistics

The study carried out the inferential statistics by conducting a correlation analysis and regression analysis on the study variables. Pearson correlation analysis was conducted to determine the strength of the independent variable (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) and the dependent variable (prevention of material misstatement). The results are as indicated below:

4.6.1 Correlation Analysis

Correlation is a statistical method that evaluates the strength of the relationship between two quantitative variables. It refers to the extent which the variables relate. In this study a correlation analysis was conducted to establish the strength of the relationship between prevention of material misstatement as the dependent variable and the internal audit practices as the independent variables. In this study, the Pearson correlation was conducted which varies between -1.00 to +1. The negative values indicate negative relations while the positive values indicate positive relations among the variables under study. The results are as indicated in table 4.9.

Table 4.9: Correlations

		Risk Assessment	Internal Controls Analysis	Periodic Internal Audit Reviews	Internal Audit Monitoring and Control	Prevention of Material Misstatement
Risk Assessment	Pearson Correlation	1	.401*	.517**	.371*	.598**
	Sig. (1-tailed)		.013	.001	.020	.000
	N	31	31	31	31	31
Internal Controls Analysis	Pearson Correlation	.401*	1	.701**	.713**	.398*
	Sig. (1-tailed)	.013		.000	.000	.013
	N	31	31	31	31	31
Periodic Internal Audit Reviews	Pearson Correlation	.517**	.701**	1	.658**	.527**
	Sig. (1-tailed)	.001	.000		.000	.001
	N	31	31	31	31	31
Internal Audit Monitoring and Control	Pearson Correlation	.371*	.713**	.658**	1	.461**
	Sig. (1-tailed)	.020	.000	.000		.005
	N	31	31	31	31	31
Prevention of Material Misstatement	Pearson Correlation	.598**	.398*	.527**	.461**	1
	Sig. (1-tailed)	.000	.013	.001	.005	
	N	31	31	31	31	31

*. Correlation is significant at the 0.05 level (1-tailed).

**. Correlation is significant at the 0.01 level (1-tailed).

Table 4.15 indicates a strong positive correlation ($r=.598$) that is statistically significant ($p=0.000<.05$) between the risk assessment and prevention of material misstatement. This implies

that prevention of material misstatement is associated with an increase in risk assessment. The study further reveals a weak but positive correlation between the internal controls analyses ($r=.398$) that is significant ($p=.013 < .05$). The study findings also reveals a strong positive correlation between the periodic internal audit reviews that is statistically significant with $r= .527$ and $p=.001 < .05$. The study further reveals a positive correlation between internal audit monitoring and control which is also statistically significant ($r=.461$; $p=.005 < .05$).

4.6.2 Testing of Hypotheses

To establish the relationship between the dependent variable and the independent variable a regression analysis was conducted. Simple regression was conducted on objective one to four while multiple regression was conducted on objective five which has the combined effect. The regression analysis was used to test the hypothesis. The F-statistic and the associated P-values was used in the study to test the fitness of the study model. The decision on whether to reject or accept the null hypothesis was based on P-values at 0.05 significance level.

4.6.2.1 Effect of Risk Assessment in Prevention of Material Misstatement

The first objective was to establish the effect of risk assessment in prevention of material misstatement on financial statements of universities in Kenya. The hypothesis stated that risk assessment has no significant effect in prevention of material misstatement on financial statements of universities in Kenya. A simple regression was used to test the hypothesis. The results are as indicated in the tables 4.10, 4.11 and 4.12:

Table 4.10: Model Summary for Risk Assessment

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.598 ^a	.357	.335	.45458

a. Predictors: (Constant), Risk Assessment

Table 4.11: ANOVAa for Risk Assessment

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.332	1	3.332	16.124	.000 ^b
	Residual	5.993	29	.207		
	Total	9.325	30			

a. Dependent Variable: Prevention of Material Misstatement

b. Predictors: (Constant), Risk Assessment

Table 4.12: Coefficients^a for Risk Assessment

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.260	.605		2.084	.046
Risk Assessment	.620	.154	.598	4.015	.000

a. Dependent Variable: Prevention of Material Misstatement

The analysis in table 4.10 for the model summary indicates the coefficient of correlation (R) was 0.598 ($r > 0.05$) which means there is a strong positive relationship between risk assessment and prevention of material misstatement on financial statement of universities in Kenya. The coefficient of determination (R^2) explains the extent to which the changes in the prevention of material misstatement can be explained by risk assessment or the percentage of variation in the dependent variable. From the table, R^2 was .357. This means that 35.7% of the variations in prevention of material misstatement can be explained by risk assessment. Other factors not studied in this study explain the balance of the prevention of material misstatement on financial statements.

The ANOVA table 4.11 explains the correlation to prove that risk assessment does not have a significant effect in prevention of material misstatement on financial statements. The results indicate the F-statistic for the model is $16.124 > 4.18$ F-critical and $p\text{-value} = .000 < .05$. The results indicate that the model was statistically significant and a good predictor in prevention of material misstatement on financial statements in universities in Kenya.

The coefficients results in table 4.12 indicate unstandardized coefficients of: $\beta = 1.260$, $P\text{-value} = 0.046 < 0.05$ constant and $\beta = 0.620$; $P\text{-value} = 0.000 < 0.05$ for risk assessment. The simple regression model for this objective is therefore as indicated below:

$$Y = 1.260 + .620X_1$$

The model implies that if risk assessment is held at a constant zero, prevention of material misstatement will be equal to 1.260. Risk assessment coefficient is .620. This indicates that holding other factors constant a unit increase in risk assessment will lead to .620 increase in prevention of material misstatement.

The regression coefficients indicate a statistically significant effect in prevention of material misstatement on financial statements of universities in Kenya with a $P = .000 < .05$). Given that

the p-value is less than .05 significant value, the null hypothesis (HO₁) was rejected. This implies that risk assessment has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. The study result is in agreement with the study by Olatunji and Adekola (2017) that confirmed that risk assessment, systems audit and financial report writing verification are carried out to determine the effectiveness of auditors on fraud control and recommended that auditors need to increase their scope on risk assessment as this will enhance the detection of fraudulent activities. Petrascu and Ticianu (2014) also confirm that an entity's capability to prevent and detect fraud depends on a correct and complete assessment of the fraud risks.

4.6.2.2 Effect of Internal Control Analysis in Prevention of Material Misstatement

The second objective was to determine the effect of internal control analysis in prevention of material misstatement on financial statements of universities in Kenya. The hypothesis for the objective was that internal control analysis has no significant effect in prevention of material misstatement on financial statements of universities in Kenya. A simple linear regression was used to test the hypothesis and the results are as indicated in the tables 4.13, 4.14, and 4.15:

Table 4.13: Model Summary for Internal Control Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.398 ^a	.159	.130	.52011

a. Predictors: (Constant), Internal Controls Analysis

Table 4.14: ANOVA^a for Internal Control Analysis

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.480	1	1.480	5.470	.026 ^b
	Residual	7.845	29	.271		
	Total	9.325	30			

a. Dependent Variable: Prevention of Material Misstatement
b. Predictors: (Constant), Internal Controls Analysis

Table 4.15: Coefficients^a for Internal Control Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.398	.550		4.363	.000
	Internal Controls Analysis	.325	.139	.398	2.339	.026

a. Dependent Variable: Prevention of Material Misstatement

The results from Table 4.13 indicate the coefficient of correlation (R) of .398 ($r > 0.05$). R^2 for the model was .159. This indicates that internal control analysis has a positive relationship and predicted 15.9% of all variation in prevention of material misstatement on financial statement of universities in Kenya while the balance was accounted for by other factors not studied in this study.

The ANOVA table 4.14 indicates that the F- Statistics for the regression model was $5.470 > 4.18$ (F-Critical) while the P-value = $.026 < .05$. The results indicate that the model was statistically significant and a good predictor in prevention of material misstatement on financial statements in universities in Kenya.

The coefficients results in table 4.15 indicate unstandardized coefficients of: $\beta = 2.398$, P-value = $0.000 < 0.05$ constant and $\beta = -0.325$; P-value = $0.026 < 0.05$ for internal control analysis. The simple regression model for this objective is therefore as indicated below:

$$Y = 2.398 + .325X_2$$

From the results it is observed that if the internal control analysis is held at a constant zero, prevention of material misstatement on financial statement will be equal to 2.398. This indicates that holding all factors constant, a unit increase in internal control analysis will lead to .325 increase in prevention of material misstatement.

The regression coefficients indicate that internal control analysis has a statistically significant effect in prevention of material misstatement on financial statements of universities in Kenya ($p = .026 < .05$). Given that the p-value is less than .05, the null hypothesis (H_{O2}) is rejected. This implies that internal control analysis has a significant effect in prevention of material misstatement on financial statements of universities in Kenya.

This is in agreement with the study by Ogunda et al. (2015) that established a statistically significant and positive relationship between the adequacy of internal controls mechanisms and fraud prevention and detection in district treasuries in Kakamega County. The results also conforms to the study by Abiola and Oyewele (2013) that the concept of internal control analysis is an important component of management of an organizations risk.

4.6.2.3 Effect of Periodic Internal Audit Reviews in Prevention of Material Misstatement

The third objective was to establish the effect of periodic internal audit reviews in prevention of material misstatement on financial statements of universities in Kenya. The null hypothesis stated that periodic internal audit reviews have no significant effect in prevention of material misstatement on financial statements of universities in Kenya. A simple regression was used to test the hypothesis and the results are as indicated in table 4.16, 4.17 and 4.18:

Table 4.16: Model Summary for Periodic Internal Audi Reviews

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.527 ^a	.278	.253		.48198

a. Predictors: (Constant), Periodic Internal Audit Reviews

Table 4.17: ANOVAa for Periodic Internal Audit Reviews

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.588	1	2.588	11.139	.002 ^b
	Residual	6.737	29	.232		
	Total	9.325	30			

a. Dependent Variable: Prevention of Material Misstatement
b. Predictors: (Constant), Periodic Internal Audit Reviews

Table 4.18: Coefficients^a for Periodic Internal Audit Reviews

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.085	.481		4.330	.000
	Periodic Internal Audit Reviews	.388	.116	.527	3.338	.002

a. Dependent Variable: Prevention of Material Misstatement

From the Model Summary in table 4.16, the coefficient of correlation (R) is .527 ($R > .05$) indicating a strong positive relationship between the periodic internal audit reviews and prevention of material misstatement on financial statements. The coefficient of determination (R^2) is .278. This indicates that 27.8% of periodic internal audit reviews predicts all variations in prevention of material misstatement while the balance is accounted by other factors not in the current study.

The results in the ANOVA table 4.17 indicates that the F-statistics is 11.139 > 4.18 (F-Critical) and the P-Value = .002 < .05. Since the p-value of .002 is less than the significant value which is set at .05 with an F-Statistics value of 11.139 > 4.18 F-critical, the result indicates that the model was statistically significant and a good predictor in prevention of material misstatement on financial statements of universities in Kenya.

The coefficients results in table 4.18 indicate unstandardized coefficients of: $\beta = 2.085$, P-value = 0.000 < 0.05 constant and $\beta = -0.388$; P-value = 0.002 < 0.05 for periodic internal audit reviews. The simple regression model for this objective is as indicated below:

$$Y = 2.085 + .388X_3$$

The results from the table 4.18 indicate that if periodic internal audit reviews is held at a constant zero, prevention of material misstatement on financial statement will be equal to 2.085. The study therefore indicates that holding all factors constant, a unit increase in periodic internal audit reviews leads to .388 increase in prevention of material misstatement.

The regression coefficients indicate a positive and statistically significant effect prevention of material misstatement on financial statements of universities in Kenya ($p = .002 < .05$). Given that the p-value .002 < .05, the null hypothesis (H_0) which states that periodic internal audit

reviews have no significant effect in prevention of materials misstatement on financial statements of universities in Kenya was rejected. The study therefore concludes that periodic internal audit reviews has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. The findings conform to the study by Kasiva (2012) who established that internal auditors are more privy to the operations of the firm and are therefore able to carry out proper planning of an audit which improves the efficiency, accuracy, completeness, timeliness, convenience and clarity.

4.6.2.4 The Effect of Internal Audit Monitoring and Control in Prevention of Material Misstatement

The fourth objective was to determine the effect of internal audit monitoring and control in prevention of material misstatement on financial statements of universities in Kenya. The hypothesis stated that internal audit monitoring and controls has no significant effect in prevention of material misstatement on financial statements of universities in Kenya. The results from the linear regression conducted on the objective are as indicated in table 4.19, 4.20 and 4.21.

Table 4.19: Model Summary for Internal Audit Monitoring and Control

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.461 ^a	.212	.185	.50330

a. Predictors: (Constant), Internal Audit Monitoring and Control

Table 4.20: ANOVAa for Internal Audit Monitoring and Control

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.979	1	1.979	7.812	.009 ^b
	Residual	7.346	29	.253		
	Total	9.325	30			

a. Dependent Variable: Prevention of Material Misstatement

b. Predictors: (Constant), Internal Audit Monitoring and Control

Table 4.21: Coefficients^a for Internal Audit Monitoring and Control

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.906	.636		2.998	.006
	Internal Audit Monitoring and Control	.448	.160	.461	2.795	.009

a. Dependent Variable: Prevention of Material Misstatement

The results from table 4.19 indicates the coefficient of correlation $R = .461$. The coefficient of determination $R^2 = .212$. This indicates that 21.2% of internal audit monitoring and controls can explain the variation in prevention of material misstatement in financial statements of universities in Kenya. The balance is explained by other factors not indicated in the study.

The ANOVA table 4.20 indicates, F -Statistic $7.812 > 4.18$ F -critical while the P -Value = $.009 < .05$. Since the level of significance value of $.009$ is less than the probability value (p) which is set at $.05$ with an F -Statistics value of 7.812 which is greater than the F -Critical of 4.18 , the result indicates that the model was statistically significant and a good predictor in prevention of material misstatement on financial statements in universities in Kenya.

The coefficients results in table 4.21 indicate unstandardized coefficients of: $\beta = 1.906$, P -value = $0.006 < 0.05$ constant and $\beta = -0.448$; P -value = $0.009 < 0.05$ for internal audit monitoring and control. The simple linear regression model for this objective is therefore as indicated below:

$$Y = 1.906 + .448X_4$$

The results from the model indicate that if internal audit monitoring and control is held at a constant zero, prevention of material misstatement on financial statement will be equal to 1.906 . The study indicates that holding all factors constant, a unit increase in internal audit monitoring and control will lead to $.448$ increase in prevention of material misstatement.

The regression coefficients indicate a statistically significant effect prevention of material misstatement on financial statements of universities in Kenya ($p = .009 < .05$). Given that the p -value is less than $.05$, the null hypothesis (H_{04}) which states that internal audit monitoring and control has no significant effect in prevention of material misstatement on financial statements of universities in Kenya was rejected. The study therefore concluded that internal

audit monitoring and controls have a significant effect in prevention of material misstatement on financial statements of universities in Kenya. This is in agreement with the study by Puttikunsankon (2015) that confirms that better audit programmes and reporting leads to installation of procedures and application of policies in assessing the risk of the organization which improves the organization. The reports provided by internal auditors to the management on how to improve the operations of the organization based on the thorough understanding of the operations (Obonyo, 2017).

4.6.2.5 Effect of Combined Internal Audit Practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) in Prevention of Material Misstatement

The fifth objective was to determine the effect of combined internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) in prevention of material misstatement of universities in Kenya. The hypothesis stated that internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) jointly do not have a significant effect in prevention of material misstatement on financial statements in universities in Kenya. A multiple regression analysis was conducted to establish the overall relationship between internal audit practices and prevention of material misstatement. The results are as shown below.

Table 4.22: Model Summary for Combined Internal Audit Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.665 ^a	.442	.357	.44722

a. Predictors: (Constant), Risk Assessment, Periodic Internal Audit Reviews, Internal Control Analysis and Internal Audit Monitoring and Control

Table 4.23: ANOVAa for Combined Internal Audit Practices

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.124	4	1.031	5.155	.003 ^b
	Residual	5.200	26	.200		
	Total	9.325	30			

a. Dependent Variable: Prevention of Material Misstatement

b. Predictors: (Constant), Internal Audit Monitoring and Control, Risk Assessment, Periodic Internal Audit Reviews, Internal Controls Analysis

Table 4.24 : Coefficients for Combined Internal Audit Practices

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.693	.704		.985	.334
Risk Assessment	.455	.178	.439	2.562	.017
Internal Controls Analysis	-.066	.190	-.081	-.349	.730
Periodic Internal Audit Reviews	.159	.170	.216	.939	.356
Internal Audit Monitoring and Control	.207	.214	.213	.967	.342

a. Dependent Variable: Prevention of Material misstatement

Table 4.22 indicates that the coefficient of correlation (R) was 0.665 ($r > 0.05$) indicating a strong positive relationship between internal audit practices and prevention of material misstatement on financial statement of universities in Kenya. The coefficient of determination (R^2) was .442. This means that 44.2% of the variations in prevention of material misstatement on financial statements of universities in Kenya can be explained by internal audit practices (Risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and Control). Other factors that have not been studied in this study explain the balance of the prevention of material misstatement on financial statements.

The ANOVA table 4.23 shows the test for the significance of the multiple correlation to prove that the independent variables which are risk assessment, internal control analysis,

periodic internal audit reviews and internal monitoring and control do not significantly contribute to the prevention of material misstatement on financial statements. The results from the table indicate $P=.003<.05$ and $F\text{- Statistics} = 5.155>2.74$ $F\text{-Critical}$. The result therefore indicates that the overall model was statistically significant and the independent variables good predictors in prevention of material misstatement on financial statements of universities in Kenya.

Based on the ANOVA results in table 4.23, the $F\text{- Statistics}= 5.155>2.74$, $F\text{-critical}$ is 2.74, the $P\text{-value} =0.003<.05$. This indicates a statistical significant relationship between internal audit practices and prevention of material misstatement on financial statements of universities in Kenya. Given that the $p\text{-value}$ is less than .05 significant values, the null hypothesis (H_0) which states that combined internal audit practices do not have significant effect in prevention of material statement on financial statements of universities in Kenya was rejected. The study therefore concluded that the combined effect of internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) have a positive and significant effect on prevention of material misstatement on financial statements of universities in Kenya.

From table 4.24 the regression coefficients indicated that the constant, $\beta=0.693$ with a $P=0.334>0.05$, coefficient for risk assessment, $\beta=-0.455$; $P=0.017<0.05$, coefficient for internal control analysis, $\beta=-0.066$; $P=0.730>0.05$, coefficient for periodic internal audit reviews $\beta=0.159$; $P=0.356>0.05$, coefficient for internal audit monitoring and control $\beta=0.207$; $P=0.342>0.05$. The multiple regression is summarized as indicated below;

$$\gamma = .693+.455x_1-.066x_2+.159x_3+.207x_4$$

The results imply that when all variables are held at a constant zero, prevention of material misstatement on financial statements of universities in Kenya will be at .693. Taking all other independent variables at zero, a unit increase in the level of risk assessment leads to .445 increase in prevention of material misstatement, a unit increase in internal control analysis will lead to .066 decrease in prevention of material misstatement, while a unit increase in periodic internal audit reviews will lead to .159 increase in prevention of material misstatement. Lastly a unit increase in internal audit monitoring and control will lead to .207 increase in prevention of material misstatement on financial statements of universities in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The main objective of the study was to determine the effect of internal audit practices in prevention of material statement on financial statements of universities in Kenya. Below is the summary of the research findings from the data collected. The findings of the study are summarized as per the research objectives.

5.1.1 To Establish the Effect Risk Assessment in Prevention of Material Misstatement on Financial Statements of Universities in Kenya

The first specific objective of the study was to establish the effect of risk assessment in prevention of material misstatement on financial statements of universities in Kenya. The null hypothesis was tested to prove that risk assessment has no significant effect in prevention of material misstatement on financial statements of universities in Kenya. The study used various techniques to study the risk assessment. These included: whether the university undertakes a comprehensive risk identification in all its departments and documented, whether there exists a fraud risk register identifying all risks in all areas that is updated regularly, the likelihood of the risk occurring is identified and documented, whether employees were aware of the fraudulent risk reporting channels in the organization and whether the internal audit department shares the risk assessment with the university management for continuous improvement.

The correlation analysis indicated a strong positive relationship between the risk assessment and the prevention of material misstatement on financial statements. The regression analysis conducted revealed that risk assessment has a significant effect in prevention of material misstatement on financial statements of universities in Kenya.

5.1.2 To Determine the Effect of Internal Control Analysis in Prevention of Material Misstatement on Financial Statements of Universities in Kenya.

The second objective of the study was to determine the effect of internal control analysis in prevention of material misstatement on financial statements of universities in Kenya. The study tested the null hypothesis that internal control analysis has no significant effect in prevention of material misstatement on financial statements of universities in Kenya. The techniques used to determine this objective were: whether the university has approved management policies that are shared to all employees to ensure compliance, that the

management policies are documented and updated on regular basis, whether there is an organizational structure that defines the roles and responsibilities of all employees, whether the university policies provide for adequate segregation of duties for approval and recording of transactions, that the university has a code of ethics that is signed by all employees in regard to fraud and corruption, and whether the top management enforces values and ethics among employees in regard to fraud and misconduct.

The result from the Pearson correlations revealed a positive relationship between the internal control analysis and the prevention of material misstatement. The regression analysis results revealed a significant effect between the internal control analysis and prevention of material misstatement on financial statements in universities in Kenya. The null hypothesis tested resulted in a p-value less than .05. The study rejected the null hypothesis. This implies that the internal control analysis has a significant effect in prevention of material misstatement.

5.1.3 Establish the Effect of Periodic Internal Audit Reviews in Prevention of Material Misstatement on Financial Statements of Universities in Kenya

The third objective of the study was to establish the effect periodic internal audit reviews in prevention of material misstatement on financial statements of universities in Kenya. The study tested the null hypothesis that periodic internal audit reviews has no significant effect in prevention of material misstatement on financial statements of universities in Kenya. The techniques used by the researcher included: whether the internal audit has an audit plan that provides guidelines for conducting the audit, the internal audit team understands the audit strategy and their responsibilities during the audit, the university has a chart of accounts in place for aligning the financial transactions, recording of financial transactions by employees are checked by the supervisors, the internal audit conducts the appropriate procedures to obtain the appropriate audit evidence required and whether the internal audit team maintains audit working papers as evidence of the audit conducted.

The correlation analysis revealed a positive relationship between periodic internal audit reviews and prevention of material misstatement. The hypothesis test revealed that the effect of periodic internal audit reviews in prevention on material misstatement was significant. The study rejected the null hypothesis and concluded that periodic internal audit reviews has significant effect in prevention of material misstatement on financial statements of Universities in Kenya.

5.1.4 To Determine the Effect of Internal Audit Monitoring and Control in Prevention of Material Misstatement on Financial Statements of Universities in Kenya

The fourth objective was to determine the effect of the internal audit monitoring in prevention of material misstatement on financial statements of universities in Kenya. . The null hypothesis was tested to prove that internal audit monitoring and control has no significant effect in prevention of material misstatement on financial statements of universities in Kenya .The study assessed the information from the questions asked which included: whether the internal audit conducts a continuous monitoring of possible fraudulent activities , the internal auditor periodically inspects financial statements to confirm the accuracy of the financial transactions, serious matters in relation to the financial statements are communicated to the management and the board by the internal auditor, whether the management responds timely to comments identified in the internal audit reports. Risk management policies are continually updated with new risks identified and lastly whether the management periodically visits satellite campuses to determine whether the laid down policies and procedures are being followed, and functioning as intended.

The results from the correlation analysis indicated a positive relationship between the internal audit monitoring and control. The hypotheses tested using the regression analysis revealed a significant effect between internal audit monitoring and prevention of material misstatement. From the study findings the null hypothesis was rejected. The study concludes that internal audit monitoring and control has a significant effect in prevention of material misstatement statement on financial statements of universities in Kenya.

5.1.5 To Determine the Combined Effect of Internal Audit Practices (Risk Assessment, Internal Control Analysis, Periodic Internal Audit Reviews and Internal Audit Monitoring and Control) in Prevention of Material Misstatement on Financial Statements of Universities in Kenya

The final objective was to determine the combined effect of internal audit practices in prevention of material misstatements in prevention of material misstatement on financial statements of Universities in Kenya. The study tested the null hypothesis that combined internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) have no significant effect in the prevention of material misstatement on financial statements of universities in Kenya. The study found that when combined the four practices have a significant effect in the prevention of material

misstatement on financial statements of universities in Kenya. The study therefore rejected the null hypothesis.

5.2 Conclusions

From the results, the study concluded that risk assessment has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. This conclusion is in line with the literature reviewed by the study that shows risk assessment is directly linked to the degree of prevention of material misstatement and is a significant tool. That proper identification of risks, documenting of the risks and providing channels for employees to report the risk provides information that can be shared by the management for action. Coddere (2005) affirms that organizations are exposed to significant errors, frauds or inefficiencies that can lead to financial loss and increased risks. This is also in agreement that Ojha (2012) that there should be regular communication with those charged with risk assessment in an organization as well as those well as those charged with governance to ensure that risks are management on a timely manner. This is therefore in line with the findings of other scholars and can therefore be generalized in other studies.

The study also concluded that internal control analysis has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. The conclusion is in line with the existing literature that was reviewed by the study on studies carried out by other scholars. Ewa and Uduoyang (2012) concluded that there exists a linkage between the internal control analysis and the prevention of material misstatement where strong internal controls design deters staff from committing fraud while a weak one exposes them to fraud and creates opportunities. Abiola and Oyewele (2013) concluded that poorly constituted controls may lead to scandals, losses, failures and damage to an organizations reputation. This conclusion can therefore be generalized to other institutions and studies.

In addition, the study concluded that periodic internal audit reviews has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. From the empirical review Puttikunsakon (2015) indicates that periodic internal audit reviews leads to risk reduction, operational excellence and fraud detection. The study findings also agree with Kasiva (2012) that proper planning of an audit improves efficiency, accuracy, completeness, timeliness, convenience and clarity of an audit. In these light internal auditors are more privy to the operations of an organization and more suited to carry out fraud risk assessment. Agolia et al. (2010) agree that periodic audit reviews is carried to ensure that

each member is prepared to follow the guidance and provide the adequate and complete evidence. The conclusion can therefore be generalized in other studies and other institutions other than universities.

The study also concluded that internal audit monitoring and control has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. This is in line with the existing literature by other scholars. Fadzil (2015) agrees that in performing the internal audit, the internal auditors need to identify better risk management frameworks and risk management policies and procedures which should be installed in monitoring policies and procedures of the organization. Obonyo (2017) agrees that internal auditors should provide reports to the management on how to improve operations of the organization. Mathenge (2011) agrees that organizations are likely to get competitive edge if they developed proactive audit systems, compliance systems, risk management systems and internal reporting system. The conclusion can therefore be generalized to other studies and other institutions other than universities.

Finally the study concluded that combined internal audit practices (risk assessment, internal control analysis, periodic internal audit reviews and internal audit monitoring and control) have a significant effect in prevention of material misstatement on financial statements in universities in Kenya. This conclusion is in agreement with the findings of other scholars carried out in different institutions. The results can therefore be generalized to other institutions.

5.3 Recommendation for Policy and Practice

The study concluded that risk assessment has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. It is therefore identified as a significant tool in prevention of material misstatement. The study recommends that the management in the universities adopts the various aspects of risk identification, analysis and reporting to prevent any misstatement on financial statement.

In addition, the study concluded that internal control analysis has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. The study recommends that universities ensure that there are adequate management policies that are shared to all employees. The university policies should be updated on regular basis. Secondly, those charged with governance to ensure that the universities have functional

organization structures that ensure adequate segregation of duties hence reducing the opportunity to commit fraud significantly.

Thirdly the study concluded that periodic internal audit reviews has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. The study recommends that those charged with governance to ensure that they put in place charts of accounts for aligning of financial transactions. The internal auditors to ensure that that maintain audit working papers as evidence of the work carried as appoint of reference. The internal auditors to ensure that an audit plan is in place to provide guidance to the audit staff on the strategy and their responsibilities.

Fourthly, the study concluded that internal audit monitoring and control has a significant effect in prevention of material misstatement on financial statements of universities in Kenya. The study recommends that the internal auditor should periodically inspect the financial transactions to confirm their accuracy. The study also recommends that the management to visit branches to ensure that the laid down policies are functioning and are being followed.

Lastly the study concluded that the combined internal audit practices have a significant effect in the prevention of material misstatement on financial statements of universities in Kenya. The study recommends that organizations follow various practices to prevent the material misstatements as opposed to a single practice.

5.4 Contribution of the Study to the Body of Knowledge

The study contributes to the body of knowledge by filling the gap in the previous studies. The study was conducted to determine the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya. The empirical literature reviewed indicated studies were carried out on to determine how individual practices affect fraud detection and prevention in organizations. This study focused on a combination of several practices on prevention of material misstatement on financial statements of universities. The study will be used to fill this gap.

The study provides a model that will be used in universities in Kenya in prevention of material misstatement on financial statements in Kenya. The reviewed literature indicated though studies had been conducted in other sectors, none had been conducted in universities in Kenya. The model is guided by the conceptual framework that indicates that when combined, risk assessment, internal control analysis, periodic internal audit reviews and

internal audit monitoring and control have a significant effect in prevention of material misstatement on financial statement in in universities in Kenya.

5.5 Suggestions for Further Research

The main aim of the study was to determine the effect of internal audit practices in prevention of material misstatement on financial statements of universities in Kenya. The study concentrated on universities in Kenya as per the CUE 2018 list of universities. The study recommends that further research be extended to Technical Industrial Vocational Entrepreneurship Training Colleges (TIVET) and other institutions of higher learning.

From the study 44.2% of the prevention of material misstatement on financial statements can be explained by the combined internal audit practices. 55.8% of the variations are explained by other factors not considered in the study. The study recommends further research on other factors that may contribute to the prevention of material misstatement on financial statement. These factors can be incorporated in the variables under study and assist in the prevention of material misstatement on financial statements.

Lastly the researcher recommends the replication of the results to other sectors such as tourism, energy, manufacturing and agriculture to establish the relationship between the internal audit practices and prevention of material misstatement of the financial statements.

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APPENDICES

Appendix 1: Introduction Letter To Nacosti

EGERTON

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UNIVERSITY

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OFFICE OF THE DIRECTOR GRADUATE SCHOOL

Ref:..... CM11/12018/17

Date:..... 25th February, 2020

The Director General
National Commission for Science Technology and Innovation,
P. O. Box 30623-00100
NAIROBI.

Dear Sir,

RE: REQUEST FOR RESEARCH PERMIT – MS. ANNE LODENYI
BULIMU REG. NO. CM11/12018/17

This is to introduce and confirm to you that the above named student is in the Department of Accounting, Finance & Management Science, Faculty of Commerce, Egerton University.

She is a bona-fide registered MBA student in this University. Her research topic is "Effect of Internal Audit Practices in Prevention of Material Misstatement on Financial Statements in Universities in Kenya."

She is at the stage of collecting field data. Please issue her with a research permit to enable her undertake the studies.

Your kind assistance to her will be highly appreciated.

Yours faithfully,



Prof. Nzula Kitaka
DIRECTOR, BOARD OF POSTGRADUATE STUDIES

NK/en

Appendix II: Research Questionnaire

The questionnaire is prepared and designed to collect data to establish **EFFECT OF INTERNAL AUDIT PRACTICES IN PREVENTION OF MATERIAL MISSTATEMENT ON FINANCIAL STATEMENTS OF UNIVERSITIES IN KENYA.**

Answer all questions as indicated by either filling in the blank or by ticking the option that applies

SECTION A: DEMOGRAPHIC INFORMATION

- 1 Gender of respondent Male [] Female []
- 2 How many years have you worked in this University?
 1year and below [] 2-4 years []
 5-9 years [] 10 years and above []
- 3. Please indicate your highest level of education
 Post Graduate [] Undergraduate []
 Diploma [] Certificate []

SECTION B: RISK ASSESSMENT

Please tick where appropriate the extent which you agree to the statements in respect to Risk Assessment in your organization.

Where 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4=Agree 5=strongly agree

	STATEMENT	1	2	3	4	5
1	The university undertakes a comprehensive risk identification in all its departments and documented					
2	There exists a fraud risk register identifying all risks in all areas that is updated regularly					
3	The likelihood of the risk occurring is identified and documented.					
4	The risks are ranked according to their impact on the financial activities					
5	The employees are aware of the fraudulent risk reporting channels in the organization					
6	The internal audit department shares the risk assessment with the university management for continuous improvement					

SECTION C: INTERNAL CONTROL ANALYSIS

Please tick where appropriate the extent which you agree to the statements in respect to Internal Control Analysis

Where 1= Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree 5=strongly agree

	STATEMENT	1	2	3	4	5
1	The university has approved management policies that are shared to all employees to ensure compliance					
2	The management policies are documented and updated on regular basis.					
3	There is an organizational structure that defines the roles and responsibilities of all employees					
4	The university policies provide for adequate segregation of duties for approval and recording of transactions					
5	The university has a code of ethics that is signed by all employees in regard to fraud and corruption					
6	Top management enforces values and ethics among employees in regard to fraud and misconduct					

SECTION D: PERIODIC INTERNAL AUDIT REVIEWS

Please tick where appropriate the extent which you agree to the statements in respect to Internal Audit Reviews

Where 1= Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree 5=strongly agree

	STATEMENT	1	2	3	4	5
1	The internal audit has an audit plan that provides guidelines for conducting the audit					
2	The internal audit team understands the audit strategy and their responsibilities during the audit					
3	The university has a chart of accounts in place for aligning the financial transactions					
4	Recording of financial transactions by employees are checked by the supervisors					
5	The internal audit conducts the appropriate procedures to obtain the appropriate audit evidence required					
6	The internal audit team maintains audit working papers as evidence of the audit conducted					

SECTION E: INTERNAL AUDIT MONITORING AND CONTROL

Please tick where appropriate the extent which you agree to the statements in respect to Audit Monitoring and Control

Where 1= Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree 5=strongly agree

	STATEMENT	1	2	3	4	5
1	The internal audit conducts a continuous monitoring of possible fraudulent activities					
2	The internal auditor periodically inspects financial statements to confirm the accuracy of the financial transactions					
3	Serious matters in relation to the financial statements are communicated to the management and the board by the internal auditor					
4	Management responds timely to comments identified in the internal audit reports.					
5	Risk management policies are continually updated with new risks identified					
6	The management periodically visits satellite campuses to determine whether the laid down policies and procedures are being followed, and functioning as intended					

SECTION F: PREVENTION OF MATERIAL MISTATEMENT

Please tick where appropriate the extent which you agree to the statements in respect to Audit Monitoring and Control

Where 1= Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree 5=strongly agree

	STATEMENT	1	2	3	4	5
1	The management takes disciplinary action against offenders in order to help in prevention material misstatement and misconduct					
2	The internal audit function continuously tests the effectiveness of regulatory compliance strategies.					
3	There are automated strategies that capture material misstatement related activities					
4	The management has set the example of openness and honesty in regard to material misstatement prevention					
5	The management provides a positive working environment and					

	assistance to employees					
6	The internal audit function carries out ad-hoc testing for indicators of material misstatement from time to time					
7	A material misstatement prevention strategy has been put in place by the university					
8	Employees have been trained on most common fraud within the university functions and how to avoid them.					

Appendix III: List Of Universities In Kenya

	NAME OF UNIVERSITY	YEAR OF ESTABLISHMENT	YEAR OF AWARD OF CHARTER
PUBLIC UNIVERSITIES			
1	University of Nairobi	1970	2013
2	Moi University	1984	2013
3	Kenyatta University	1985	2013
4	Egerton University	1987	2013
5	Jomo Kenyatta University	1994	2013
6	Maseno University	2001	2013
7	Chuka University	2007	2013
8	Dedan Kimathi University	2007	2013
9	Kisii University	2007	2013
10	Masinde Muliro University	2007	2013
11	Pwani University	2007	2013
12.	Technical University of Kenya	2007	2013
13.	Technical University of Mombasa	2007	2013
14	Masai Mara University	2008	2013
15	Meru University of Science and Technology	2008	2013
16	Multimedia University of Kenya	2008	2013
17	South Eastern Kenya University	2008	2013
18	Jaramogi Oginga Odinga University	2009	2013
19	Laikipia University	2009	2013
20	University Of Kabianga	2009	2013
21	Karatina University	2010	2013
22	University of Eldoret	2011	2013
23	Kibabii University	2011	2015
24	Kirinyaga University	2011	2016
25	Muranga University of Technology	2011	2016
26	Rongo University	2011	2016

27	Taita Taveta University	2011	2016
28	Garissa University	2011	2017
29	Machakos University	2011	2016
30	University of Embu	2011	2016
31	Co-operative University of Kenya	2011	2016
TOTAL 31			
PUBLIC CONSTITUENT COLLEGES			
32	Alupe University College	2015	
33	Kaimosi Friends University College	2015	
34	Tom Mboya University College	2016	
35	Turakana University College	2017	
36	Bomet University College	2017	
37	Tharaka Nithi University College	2017	
TOTAL 6			
PRIVATE CHARTERED UNIVERSITIES			
38	University of Eastern Africa, Baraton	1989	1991
39	Catholic University of Eastern Africa	1989	1992
40	Dayster University	1989	1994
41	Scott Christian University	1989	1997
42	United States International University	1989	1999
43	Africa Nazarene University	1993	2002
44	Kenya Methodist University	1997	2006
45	St. Pauls University	1989	2007
46	Pan African Christian University	1989	2007
47	Kabarak University	2002	2008
48	Strathmore University	2002	2008
49	African International University	1989	2011
50	Kenya Highlands Evangelical	1989	2011
51	Mount Kenya University	2008	2011

52	Great Lakes University of Kisumu	2005	2012
53	Adventist University	2005	2013
54	KCA University	2007	2013
55	KAG –East University	1989	2016
TOTAL 18			
PRIVATE CONSTITUENT COLLEGES			
56	Tangaza University College	1997	
57	Marist International University College	2002	
58	Regina Pacis University College	2010	
59	Uzima University College	2012	
60	Hekima University College	1993	
TOTAL 5			
INSTITUTIONS WITH LETTERS OF INTERIM AUTHORITY			
61	Aga Khan University	2002	
62	Kiriri Womens University of Science and Technology	2002	
63	GRETSA University	2006	
64	Presbyterain University of East Africa	2007	
65	The East African University	2010	
66	Management University of Africa	2011	
67	Pioneer International University	2012	
68	Riara University	2012	
69	UMMA University	2013	
70	International Leadership University	2014	
71	Zetech University	2014	
72	Lukenya University	2015	
73	RAF International University	2016	
74	AMREF International University	2017	
TOTAL 14			

Source: Commission for University Education, 2018 (CUE, 2018)

Appendix IV: Published Abstract

International Journal of Business Management and Processes
<http://journals.essrak.org/index.php/Business>

International Journal of Business Management and Processes (IJBMP)
Vol 5. Issue No.4. January, 2021. PP 1-13. ISSN 2616-3209

EFFECT OF INTERNAL AUDIT PRACTICES IN PREVENTION OF MATERIAL MISSTATEMENT IN FINANCIAL REPORTS AMONG UNIVERSITIES IN KENYA

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Abstract

Organizations have experienced an increase in the level of operations due to constant changes in the economic conditions. This has necessitated the need for internal audit to monitor the changes, add value and improve the organizations' operations. Despite sustained resource allocations by the government and notable success factors, major challenges such as missing crucial transaction records and unexplained expenditures are still being experienced in universities with little knowledge on how internal audit practices can be used as a tool of ensuring proper management of the resources. The purpose of this study was to examine the effect of internal audit practices in prevention of material misstatement in financial reports among universities in Kenya. The study was guided by the Agency theory, the Fraud Triangle Theory, the Stewardship Theory and adopted a descriptive research design with a target population of the 74 chartered universities in Kenya. Simple random sampling technique was used to sample the 36 universities with the head of internal audit function as the respondents. Primary data was collected by use of closed questionnaires and analyzed with the aid of SPSS (Version 23) software. Data was analyzed by use of descriptive statistics, correlation analysis and regression analysis. The study concluded that internal audit practices had significant effect in prevention of material misstatement in financial reports among universities in Kenya. The study recommended that organizations to follow various internal audit practices in prevention of material misstatement and further research be conducted on practices not covered under study. The study is significant to those charged with governance who will find it useful in determining whether the existing audit practices conform to the relevant laws and regulation and are effective in operation.

Key words: *Financial reports, Internal audit practices, Material misstatement*



Appendix V: Research Permit



REPUBLIC OF KENYA



NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 361999

Date of Issue: 23/March/2020

RESEARCH LICENSE



This is to Certify that Ms. ANNE LODENYI BULIMU of Egerton University, has been licensed to conduct research in Nairobi, Nakuru on the topic: effect of internal audit practices in prevention of material misstatement on financial statements in Universities in Kenya for the period ending : 23/March/2021.

License No: NACOSTI/P/20/4325

361999

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