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RESEARCH ARTICLE

PROFESSIONAL PROCESS APPLIED IN FINANCIAL AUDITING MANAGEMENT IN COUNTY GOVERNMENTS, KENYA

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Abstract

The purpose of the study was to investigate the professional process that is applied in financial auditing in 47 County governments in Kenya. The researcher exploited the following research objectives: establish the standard measure of financial auditing in various county governments departments, establish the qualifications possessed by county government auditors, determine the quality of work done on financial auditing by internal County auditors in county governments and establish the overall audit strategy and development plan. The researcher employed three theories: Scientific theory (Mautz and Sharaf, 1961), that defines the purpose for serious and substantial investigation into the possibility and nature of auditing being the hope that will provide the solution of problems found with some difficulty, Policeman theory (Hayes et al., 1999) that states that the auditor's job is to focus on arithmetical accuracy, Theory of Inspired confidence which states that the demand for audit services is the direct consequence of the participation of the outside stakeholders in the company. The target population was 10,000 people whose sample size was 284 gotten from use of Krejcie and Morgan (1979). The research design descriptive survey and descriptive research methodology. The sampling techniques included purposive sampling techniques and judgment sampling techniques that required meeting respondents with the knowledge of the study and meeting respondents accidentally respectively. Research instruments included questionnaire, interview schedule and documents analysis. Pilot study was conducted to pre-test and post-test research instruments for their validity and reliability.

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Introduction:-

Background of the Study

Professional Standards in Auditing is the measure of quality of audit work performed. The Generally Accepted Auditing Standards are standards published by American Institute of Certified Public Accounts (AICPA). Congress has allowed financial accounting and auditing practitioners to remain largely self-regulated while retaining oversight responsibility. At times, congress has sought to achieve specific accounting and auditing –based on policy objectives by enacting legislation such as the Sarbanes-Oxley Act of 2002 (SOX: P.L. 107-201) and the Federal Credit Reform Act of 1990 (FCRA: P.L. 107-508), Raj Gnanarajah, (2017). Auditing is an examination of the books of accounts and

vouchers of business as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, and according to the best of the information and explanation given to him and as success by books, and if not, in what respect he is not satisfied (Spicer and Pegler, 1951). The concept of accountability for use of public resources and government authority is key to our Nation's governing process (Gene, L. Dodaro, 2018), controller general of the united State of America. . In Japan, the institute of certified public accounts (JICPA) has executed various measures as self-regulatory body in response to an upheaval in the audit environment (Japan Institute of certified Public Accounts, 2013). The measures include strengthening the quality control review by JICPA introducing the registration system of listed company of audit firms, and revisiting JICPA code of ethics ("JICPA code") Financial Instruments and Exchange Act, 2006). In Kenya, Trans-Nzoia County, such like mechanisms are yet to be instituted.

The Certified Public Accounts Act ("CPA") in Japan provides the legal framework for an audit profession that includes the scope of the service to be provided by Certified Public Accountants ("CPA"), establishment of the national CPA examination, requirements for CPA qualification, establishment of audit corporations, duties, and responsibilities of CPA, roles and organizations of Japanese Institute of Certified Public Accountants ("JICPA"), roles of the regulatory authority and the disciplinary and criminal sanctions applicable to CPAs.

The origin of modern audit can be traced back several corporate failures in the nineteenth century, such as the collapse of the city of Glasgow Bank in 1878, which identified the need for independent auditors (Derek Mathews, 2006). Annual audit is now a statutory requirement for all listed and large companies (Companies Act 2006, part 16). The purpose of the audit is to provide assurance to shareholders that financial statements produced by the company's management give a true and fair view of the company, including its assets, liability, financial position and profit or loss (ICAEW Audit, 2019). Some concerns arose also about the collapse of Carillion of the joint work and pensions committee and BHS. The secretary of the state told that public had the right to be concerned with the collapse of patisserie valarie, which went into administration in January 2019 after an accounting "black hole" was discovered in the company's books estimated at £94 million (Financial Times, 2019). In the case of BHS, 11,000 workers lost their jobs and 19, 00 current and future pensioners initially faced seeing their pension cut. By May 2018, the collapse of Carillion had led to the loss of over 2,000 jobs, with 27,000 pensioners facing reduced pensions, £2 billion owed to 30,000 suppliers, unfinished projects and cost to the tax of £148 million. The collapse of patisserie valarie into administration led to the closure of 71 stores and the loss of over 900 jobs (Finance Times, 2019). This was as a result of unprofessionalism in auditing books of accounts in Britain.

In 2006, the Chinese Ministry of Finance announced the introduction of an entirely new regime of Chinese Accounting Standards based explicitly on International Financing Report Standards as a wholly principles-based accounting regime, IFRS is used as a proxy for a principle-based system. The experience of implementation of IFRS in China is particularly interesting as China was moving from a "rules-based" to a more "principle-based" regime. The introduction of the new Chinese Accounting Standards marked a watershed moment not only for China but also in development of Accounting Standards more widely. The new Chinese Accounting Standards were adopted by all listed companies from January 2007 and one being phased in over time for other companies and enterprises. Chinese Accounting Standards will continue to be updated in line with IFRS development (Hugh Shields et. al., 2010).

The key features of India Accounting Standards which are principle-based IFRS converged standards include fair value measurement, use of time, value of money and reliance on robust disclosures. These standards are applicable for separate as well as consolidated financial statements. The implementation of India Accounting Standards has led to enhanced qualitative reporting due to additional information requirements and more transparency. This will help investors to better understand risks and rewards associated with investment in an entity and, therefore it would make investments decision easier. India Accounting requires greater use of judgments and estimates presented under these standards. For judgments, explain how the judgment as made and conclusion reached. There is emphasis on substance over form under these standards as they require us to look into the economic reality of transaction. Therefore, the substance of financial instruments needs to be looked into, rather that its legal form to determine its classification in the balance sheet (Himanshu Kinshadwala, 2018).

"The auditing field in South Africa is at a critical juncture (Lombard, Bloc and Varsheyi, 2014). The global financial crises and corporate failures raise questions about value added by audits; the trust can be placed in auditors, the relevance of audits in the current business environment and the quality of audits (Holm and Zaman, 2012:51).

Advances in information technology have led to automation of business process (Omoteso, 2013) and have enabled business to operate without having to acknowledge geographical boundaries. In addition, IT has increased the availability and accuracy of financial and non-financial information benefiting investors with timely and reliable information for business decisions (Kuenkaikaew and Vasarhelyi, 2013). The aforementioned developments pose a threat to the availability of the traditional audit function that only provides assurance on financial statements, as investors now have access to real time information, which has led to a decline in the importance of financial statements to investors (Lombardi et al., 2014). If the auditing function is to remain relevant, audit methodologies need to change so that the auditors can obtain deeper and more pertinent insights into the client's financial position and operations (Lindy, 2014). The analytical procedures is one method available to auditors that can afford them deeper insights into the client's organization (Bell, and Solomon, 2005), thus enabling them to add value to client's business (Khalifa, Sharman, Humphrey and Robson, 2007), and to improve audit quality (Houck, 2003). The competitive nature of the audit market is placing auditors under pressure to perform audits more effectively and efficiently in order to reduce audit fees (Curtis and Turey, 2007 and considered application of analytical procedures could assist auditors to achieve this goal (Trompeter and Wright, 2010). However, in South Africa, little is known about why or how auditors apply analytical process as part of their audit process.

Statement of the problem

The 47 counties in the Kenya government seem to have common challenges that make them complain over the disbursement of funds into the counties and yet many county governors are usually threatened over impeachment due to mismanagement of public resources. Many projects are stalled and yet they were well budgeted for. Some county government governors have various cases in court over misuse of financial resources. This has prompted the research to find out the professional process that is applied in financial auditing in county governments.

The purpose of the study

The purpose of the study was to find out the professional process applied in financial auditing in county governments.

Objectives:-

1. To establish the standard measure of financial auditing in various county governments departments
2. To establish the qualifications possessed by county government auditors
3. To determine the quality of work done on financial auditing in county governments
4. To establish the overall audit strategy and development plan

Research Questions

1. What is the standard measure of auditing in various county governments departments?
2. What qualifications are possessed by county government auditors?
3. What is the quality of work done on financial auditing in county governments?
4. What is the overall strategy and development plan in county governments?

Significance of the study:-

1. The study will enable the government come with policies that control the auditing process in county governments.
2. The study will unearth new knowledge that will provide strategies that could be followed when conducting financial expenditures in government organizations
3. The study will assist the future scholars to come up with new technological methodologies on effective and efficient auditing

Scope of the study

The study will be conducted in Trans-Nzoia county in response to the following objectives of the study: establish the standard measure of financial auditing in various county governments departments, establish the qualifications possessed by county government auditors, determine the quality of work done on financial auditing in county governments, establish the overall audit strategy and development plan. Trans-Nzoia is bordered by Mt. Elgon to the North, Uasin Gishu to the South, Marakwet to the East and Bungoma to the West.

Justification of the study

Many firms are losing a lot of financial resources through corrupt auditors and unprofessionally trained auditors who try to hide the stolen money by being bribed for covering the wrongs. Some organizations hire auditors who are unskilled and do not poses professional ethics that relate to their profession.

Literature Review:-

Introduction

The chapter covered the following sub topics: Conceptual Framework, Theoretical Framework, objectives of the study. Research gaps, summary of the literature and conclusion.

Conceptual Framework

The model of conceptual framework consisted of independent variables (Professional process applied in Auditing) and dependent Variables (Financial Auditing management that contained the end products of the manipulation of Independent variables that included standard measures, professional qualification exploitation, quality of work done by proper follow-up of the required policies and integrity, overall audit strategy that could provide proper audit reports

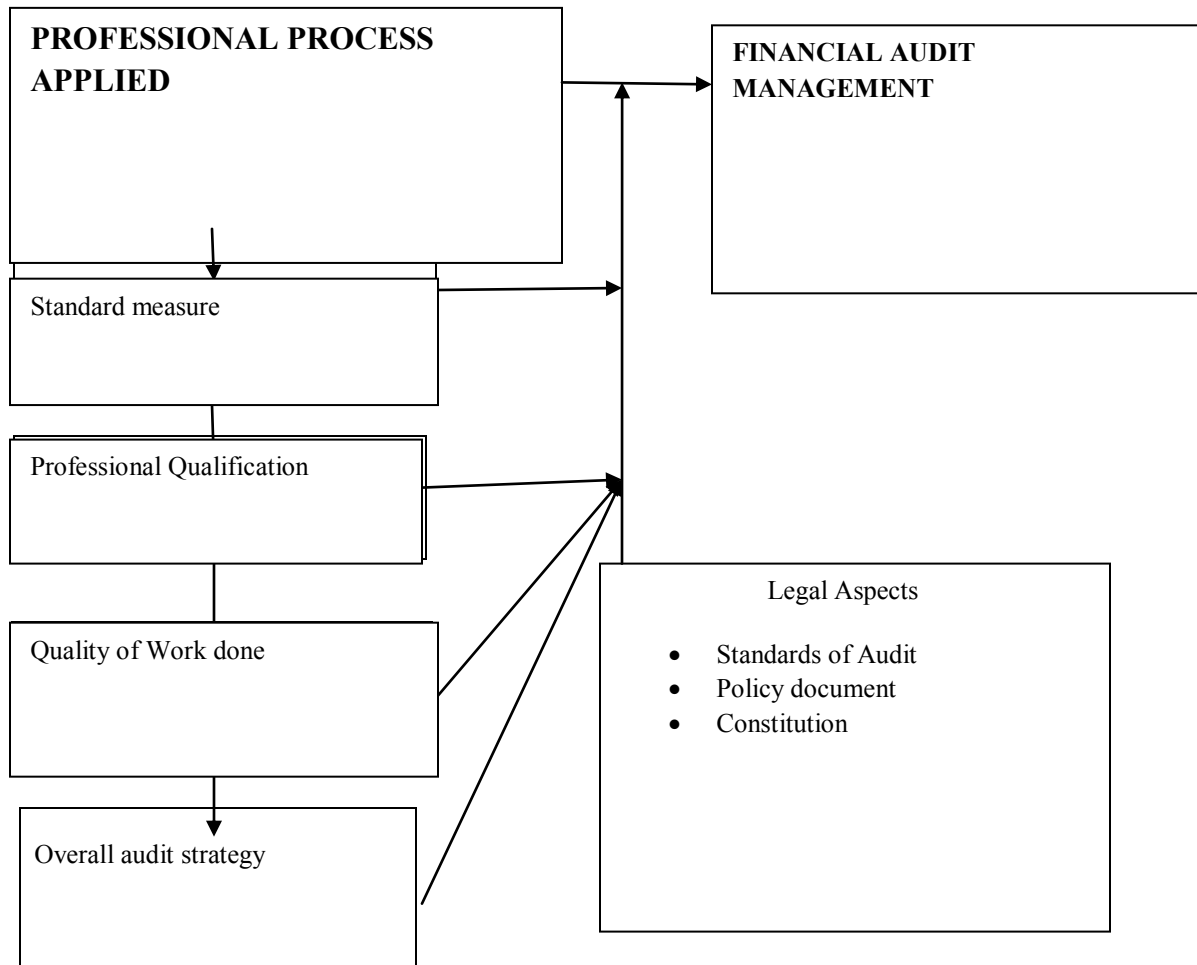


Fig 1:- Conceptual Framework.

The Standard measure of financial auditing in various county governments departments

The standards measures of financial audit is summarized by De Fond and Zhang (2014), by relying on cross-sectional or time series variation of the following three types of proxies that can be applied in measuring audit quality: output-based audit quality measures a, input-based audit quality measures. These measures are relatively

easy to compute from machine readable data bases. However, there is little evidence on the descriptive accuracy of these measures or on the construct validity of these proxies. The detailed descriptive analysis on how poor audit are perceived in both public and private litigation settings and how the evaluation of the existing audit quality proxies predict well detailed allegations related to how auditors actually perform in specific engagements. There are two most cited definitions of audit quality that have been provided by De Angelo (1981), who defines audit quality as the joint probability that auditors both “discover a breach in the client’s accounting system and report the breach and De Fond and Zhang (2014) define higher audit quality as “greater assurance of high financial reporting quality. Survey evidence by Christensen et al. (2016) suggests that individual investors value auditor competence as indicative of high quality whereas audit professionals view compliance with audit standards as a sign of high audit quality. De Angelo (1981), seems to focus on the auditor’s input into detection of errors whereas practitioners are concerned about compliance (Christensen et al., 2016). De Fond and Zhang, 2014’s definition arguably incorporates both the auditor’s detection of errors and compliance with auditing standards.

The audit defects in specific engagements seem to be consistent with all the three definitions in that lawyers allege that auditors do not discover and /or report breaches in client’s accounting system (De Angelo, 1981). Such alleged defects are bound to affect high financial reporting quality (De Fond and Zhang, 2014) and as a practical matter, allegations against auditors are framed by both SEC and the class action lawyers in terms of violation of Generally Accepted Auditing Standards (GAAS), consistent with practitioners’ definition of audit quality (Christensen et al. 2016). Based on the GAAS Standards on framework for general feedback and reporting standards, the three specific violation of GAAS standards on fieldwork include: deficiency in audit, planning, insufficient competence, evidence and understanding of external internal control (Alexander J. C., 1991)

The qualifications possessed by county government auditors

The professional qualifications required of the independent auditor are those of a person with education and experience to practice as such. They do not include those of a person trained for or qualified to engage in another profession or occupation. The independent auditor, in observing the taking of a physical inventory, does not purport to act as a appraiser, a valuer, or an expert in materials. Similarly although independent auditor is informed about matters of commercial law, he does not purport to act in the capacity of a lawyer and may appropriately rely upon the advice of attorneys in all matters of law (Public Company Accounting Board, 2011).

The auditor should be aware of and consider auditing interpretations applicable to his or her audit. If the auditor does not apply the auditing guidelines included in an applicable auditing interpretation, the auditor should be prepared to explain how he or she complied with the provisions of the auditing Standards addressed by such auditing guidance. Material in the context of auditing provides interpretation of the federal securities laws where supreme court of United States have viewed it as the reasonable investor as having significantly altered the total mix of information made available..As the Supreme Court has noted, determination of materiality require delicate assessment of the inferences a reasonable shareholder who would draw from a given set of fact and the significance of those inferences to him and others. To obtain reasonable assurance about whether the financial statements are free of material misstatements that individually or in combination with other misstatements would result in material misstatement of financial statements. This includes being alert while planning and performing audit procedures for misstatement that could be material due to quantitative and qualitative factors. The International Standards on Auditing (ISA) deals with the auditors’ responsibility to apply the concept of materiality in planning and performing an audit of financial statements. ISA 450 explains how materiality is applied in evaluating the effects of independent misstatement on the audit and of uncorrected misstatement, if any on the financial statement (International Accounting Standards Board, 2001).

The auditing practices require committees to be set up and be converted into auditing and Assurance Standards Board by the council of institutions to be in line with the international trend. Significant step is to be taken in aiming to bring in the desired transparency in the making of audient and Assurance Standard Board, through involvement of the representatives of various segments of the society and interested groups such as regulated industry and academics. The independence of SAAs has been changed to Auditing and Assurance Standards (AASs). As per the preface, to the Standards on quality Control Auditing review, other Assurance and related services. The nomenclature of AASs under the Authority of the council are collected known as engagement Standards and Quality Control Standards include: the following: Standards on Auditing (AS) that are to be applied in the audit of applied in the audit of historical financial information, review of engagements to the applied financial information, Assurance Standards engagements and quality control in the audit firms as well as even for sole

practitioners. Professional integrity and independence is an essential characteristic of any member of the accounting profession. The increasing involvement of members in giving audit reports or certificates on special purpose statements or other information prepared by enterprise necessitates the need for guidance to auditors regarding various facets of such assignments including the form and contents of audit reports and certificates for special purposes.

It is proposed that before an individual can assume the role of an audit professional, they should first qualify as professional accountant, by meeting the requirements prescribed by the International Education Standards 1 to 6, hold and undergraduate and have additional knowledge, skills, practical experiences, professional values, ethics and attitudes prescribed in those standards contrary to Trans-Nzoia County Government audit departmental employees. The auditors are to have specific knowledge audit professionals required in addition to what IFS prescribed for all professional accountants. This additional knowledge is in three key areas: Financial statement audit, financial accounting and reporting and information technology. The knowledge is to be an advanced level which is deeper than that expected of professional accountants. The proposed Standards outline the application and development of professional skills specific to financial audits. While IFS 3 prescribes some of these skills for all professional accountants, it is expected that audit professionals should develop and apply them in an audit environment. The proposed standard prescribes that individuals must gain a period of relevant practical experience before having substantial involvement in a financial statement audit assignment. They can acquire this experience before, during and after qualification as a professional accountant. The practical experience should be gained under the guidance of an auditor in a suitable organization. The experience needs to be of sufficient depth and duration to enable individuals to demonstrate that they have necessary capabilities and competence prescribed in proposed standard. It is expected that, before they assume the role of an audit professional, individual's capabilities and competence will be assessed. The assessment can be carried out by an IFAC member body, a third party such as government or regulatory authority through the member body's peer review process a audit firm's quality control systems or combination of these, some member bodies are likely to include the requirements of this standard within their qualification process. In this case, individuals would qualify as professional accountants and the assessment could take place immediately prior to qualification. In other environment, the capabilities prescribed in the proposed standards will required after qualification as a professional accountant but before an audit license is issued to issued, in which case the member body might rely on an audit firm or its own peer review process to carry out assessment.

The quality of work done on financial auditing in county governments

Internal audit functions have adopted practices that are in accordance with the IPPF in audit planning risk assessments, audit strategies and charters, Scope of audit work, quality of audit reports and effectiveness in follow-up of issues. However many challenges remain in the area of quality assurance programs, which are still weak. Similar to the public sector, the resources indicator is still at the emerging level due to a shortage of skilled qualified internal auditors and limited use of computerized automated auditing tools and technologies. Key factors that promote, the growth of the internal audit profession in East and African countries such as Kenya, Tanzania and Uganda are numerous.

The World Bank has therefore been working for many years to build internal audit capacity in its client countries to enhance fiduciary capabilities to manage public funds other development agencies are also involved in internal audit capacity building in Africa. The internal audit professional is operating below capacity in many African countries identified in the study has limited awareness of internal audit as a profession and a lack of understanding about its contribution to good governance, reducing both the demand and the resources available for internal audit.

The SAIs should have ethical rules and codes, policies and practices that are aligned with SSAI 30 code of ethics. They should prevent internal conflicts of interest and corruption and ensure the transparency and legality of their operations, as well as actively promoting ethical behaviour throughout the organization. The ethical requirements and obligation of the auditors, magistrates in the court model, civil service or others should be made public. Such policies and procedures should enable the SAI to monitor its independence and make provision for persons responsible for audit to provide information on the independence of personnel and any threats identified against assignments, rotation of persons responsible for audit and the individuals responsible for external quality reviews after specified period in compliance with relevant ethical requirements. Any threats should be identified, communication to the person responsible for the audit and eliminated or appropriately reduced by applying safeguards. Central information on independence of personnel should be maintained, updated and monitored. This

will enable the SAI to readily determine whether personnel satisfy independence requirements and take appropriate action regarding indentified threats to independence that are not an acceptable level.

The overall audit strategy and development plan

The overall objective of the independent auditor and the conduct of an audit in accordance with Standards states that to achieve the overall objective of the auditor the auditor shall use the objectives stated in relevant SAs in planning and performing the audit without careful plan, the overall objective of an audit may not be achieved. The audit planning is necessary to conduct an effective audit in an efficient and timely manner. Planning an audit involves establishing the overall audit strategy for the Engagement and developing an audit plan. Adequate planning benefits the audit of the financial statement in several ways whereby attention is given to several areas, timely resolution of potential problems is found, proper organization and management of the audit engagement is adequately planned, proper selection of Engagement team is well done, direction and supervision of engagement team is well given and there is coordination of various audit activities. If the size and complexity of organization of which audit is to be conducted is large, then the much more planning activities would be required as compared to an entity whose size and complexity is small.

Planning is not a discrete phase of an audit but rather continual and alternative process. It often begins shortly after the completion of the previous audit and continues until the completion of the current audit engagement. Planning is to include consideration of timing certain activities and audit procedures. Planning include matters such as the analytical procedures to be applied as risks assessment procedures, obtaining general understanding the legal and regulatory framework applicable to the entity and how the entity is complying with the framework, the determination of the materiality, the involvement of the experts, and the performance of other risk assessment procedures. The auditor may decide to discuss elements of planning with entities management to facilitate the conduct and management. Discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness and efficiency of planning process. The auditor is to undertake the following activities. Performing procedures required by SA 220 “quality control for an audit of financial statement” regarding the continuance of the client relationships and the specific audit engagement.

For the auditor to work effectively, the auditor is to develop an audit plan that will contain the following description, the: the nature, timing and extent of the planned risk management procedures, as determined and SA 315 “Identifying and assessing the risk of material and mismanagement through understanding the entity and its environment, the nature, timing and extent of planned further audit procedures at the assertion level, as determined under SA 330 “ auditor’s response to assessed Risks” and other planned audit procedures that are so that the engagement complies with SAs.

The system Audit Standards (SAS 94) require that the audit team possess sufficient knowledge of Information System (IS) to determine the effect of IS on the audit, to understand the IS control, and to design and perform tests of IS controls and substantive tests. This is generally done by having IS auditors as part of the audit team. IS auditors should possess sufficient technical knowledge and experience to understand the relevant concepts discussed for application while the auditor is ultimately responsible for assessing inherent and control risk. Assessing the effectiveness of IS, controls require a person with audit and technical skills. Specialized technical skills generally are needed in situations where the entity’s systems, automated controls, or the manner in which they are used in conducting the entity’s business are computer, significant changes have been made to existing systems of new systems implemented, data are extensively shared among systems, the entity participate in electronic commerce, the entity uses emerging technologies and significant audit evidence is available only in electronic form.

Research Methodology and design:-

Research Methodology

The researcher applied descriptive research methods for fact finding approach that related largely to the present events and abstracting generalizations by the cross sectional study of the current situation in the county government. Descriptive research methods aimed to portray accurately the characteristics of particular individuals in county management of financial resources and to determine the frequency with which financial issues were being dealt with such as prevailing practices, current beliefs, attitudes, process that are going on and their effects and the developing trends. The researcher applied this method in analyzing the relationships between non manipulated variables. The researcher approached the respondents descriptively.

Research Design

The research employed descriptive research survey design. The design indicated the plan of action to be carried out by the researcher in conducting the study. The plan provided guidelines for the researcher to enable him to keep track of his actions and understand how he was to move in the right direction to achieve the anticipated goals. This gave the researcher proper arrangement of collecting and analyzing data in a manner that aims to combine relevance to the research purpose economy. The research design gave specification of methods and procedures for acquiring information needed. The design ensured that the information obtained was relevant to research questions and that it was collected by objective and economical procedures. The design provided the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variables.

Target Population

The researcher targeted a population of 5,000 county staff who comprised the executive officers, county security officers, auditors, sub-county administrators, public service board officers, and other stakeholders. The target population or audience is a group of people that possessed certain attributes that could be classified to separate them from the entire population. The purpose of the technique was to understand and evaluate their preferences and behaviours in order to provide the given product of service or to study a given element that appeared like behaviour pattern. The target population set clear direction on the scope and objective of the study and defined the characteristics of individuals who qualified for the study and provided the scope of the total population for determining the sample size

Location of the study

The study was conducted in Trans-Nzoia County on the county Government resource management especially on the process of professional auditing. Trans-Nzoia County Boarders West Pokot from the North, Bungoma from the South, Uganda from the west and Uasingishu from the East.

Sampling techniques and procedure

The researcher employed purposive sampling techniques by conducting the respondents who had knowledge of the audit profession. The researcher visited several county offices concerned with financing services. The researcher also applied judgment sampling techniques by meeting and interrogating individuals with the information on the process of professional auditing in different firms

Research instruments

The researcher employed questionnaires and interview schedules to respondents from the field of the study. The questionnaires were filled within three weeks and then retrieved from the respondents for analysis. The interview Schedules were also applied to executive officers in the county government offices and observation of the audited accounts.

Validity and reliability of research instruments

The researcher conducted the pilot study in the field of the study through pretest and post test five respondents. The research instruments proved valid and reliable. When they gave constant and consistent results on testing

Data collection

The researcher observed the ethical considerations in the process of conducting the research permit from National commission Science Technology and Innovation researcher observed research integrity, confidentiality with the data provided by the respondents

Data Analysis

The researcher collected all the questionnaires and interview schedules, did editing, coding, classification, content analysis and tabulated the material in order to determine the inherent facts or meanings. It involved breaking down the existing complex factors into simpler parts and putting parts together in new arrangements for purpose of interpretation. The researcher was able to analyze and tabulate the findings.

Discussion and Findings:-

The county government of Trans-Nzoia does not apply the requirements of the employment policy as per the constitution. Most employees are holders of diploma certificate contrary to the other counties that employ workers with higher qualifications in many sensitive areas such as in finance handling. The quality of work done on financial

auditing is wanting because many of the auditors are not well qualified to handle auditing process. Most of them do not apply the international auditing styles due to lack of knowledge in accounting procedures. The auditors do not possess the strategic plan for overall auditing to conduct substantive auditing process. They require training procedures for them to hold such offices. Much of the government resources in Trans-Nzoia County is lost through auditing process that is unprofessionally compromised

Conclusion and Recommendations:-

For efficiency to be realized in the County Governments if financial management, the counties are to employ the auditors who have acquired international knowledge in auditing process. The issue of employing the staff on the nepotism line in financial management areas is to stop if Trans-Nzoia County is to realize development.

1. The county government should train its auditors on international auditing standards
2. The county Government must employ workers in finance with higher qualifications
3. There should be a clear strategy in financial planning in all governments

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