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The Effect of Audit Committees on the Performance of County Governments in Kenya

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Abstract

Purpose - The chief objective of this management research study was to determine the effect of county audit committees on the performance of county governments in Kenya.
Methodology - This management research paper was based on a conceptual framework that elaborates this relationship theoretically based on the exploratory empirical studies. This management research paper uses three theories as the anchoring theories based on the research variables of county audit committees and performance. Thus, this research paper built an all-inclusive structure that answers the research question of whether county audit committees had an effect on the county government performance in Kenya. The study uses a purposive judgement sampling model. The target population was all 47 county governments in Kenya and the county audit committees was the preferred unit of analysis. Hypotheses were tested using regression analysis and Pearson's Product Moment Correlation analysis. Descriptive statistics were computed for the study objectives on the main characteristics of the study variables.
Findings - The findings revealed that there was a strong relationship between county audit committees and county government performance.
Implications - The findings of this study give managers and policy makers in the county government an in-depth understanding of the best practices in the management of public sector establishments by the use of county audit committees to promote their performance.
Value - This study significantly contributes to the understanding and use of theories and practice of the correlation between county audit committees and performance of organizations. **The key terms are; audit committees, county and performance.**

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Introduction

Performance is one great concern in all organizations whether public or private, profit or not for profit (Mkalama, 2014). It has been a recurrent theme and still it is of great concern to practitioners likewise to researchers (Edwards, 2005). Practitioners and researchers alike have attempted to learn why some organizations achieve higher levels of performance than others (Kibet, 2008). Differences in the performance of organizations within the same industry may be attributed to various factors among them the audit committees they possess (Tokuda, 2005). However, this debate is inconclusive. So far it is generally agreed that no single factor can fully explain variability in organizational performance (Boven, 2006).

The effect of audit committees on organizational performance has empirically received different answers from researchers. For example, Agoraki and Panagiotis (2009) hypothesized that audit committees may either enhance or hinder organizational performance. Kenyan county governments as a public sector organization; were established to achieve particular goals and objectives (CoK, 2010). Article 174 to 200 gives the Kenyan devolved government the governance mechanisms which include county audit committees oversight, control, create value and evaluate county performance. Since county governments were established in Kenya in 2013 there have been concerns over audit committees' effects on performance particularly on their efficiency and effectiveness on service delivery and budget allocation in the county governments.

This study was anchored on various theories to aid in expounding further on the effect of audit committees vis-à-vis performance. Among these theories they attributed the audit committees to oversight, evaluation, value creation and control of organizational performance. These theories were the agency theory (Jensen & Meckling, 1976); the stakeholder's theory (Freeman, 2004) and the resource dependence theory (Pfeffer & Salancik, 1978). Agency theory's key paradigm was on organizational performance (Roberts et al., 2007). The elementary evidence of the agency theory was the executive's impulse to act out of self-centered and self-interest standpoint and in so doing according shareholder interests less consideration. Stakeholders theory (Freeman, 2004), provided insights on how organizations understood and evaluated the audit committees and how they developed accountability practices to cope with the organizational performance. The resource dependence theory (Pfeffer & Salancik, 1978), posited that organizations endeavor to exercise environmental control by bringing on board the required resources necessary for its survival. Resource dependence theory has been widely employed by researchers to justify the audit committee's composition, specifically in relation to representation by outsiders.

Various studies have been done on the audit committees and organizational performance, both in the public and private sectors with hitherto inconclusive results. (Käyhkö 2011) asserted that audit committees had a relationship to public sector organizational performance in China. Roberts (2007) also averred that audit committees had a great effect on public sector performance in Australia. In India, Kumar and Singh (2010) consented that audit committees had a significant effect on the organizational performance. Bovens (2013) concurred that organizational performance was determined by various variables among them audit committees' functions. The populace is progressively compelling their servants to be responsible and to demonstrate the effective application of county resources and finances in pursuit of service delivery and the objectives of the government (OCOB, 2015). Voters have an undeniable right over their elected public officers' undertakings, to insist and endeavor to comprehend those actions and the public servants so elected are duty-bound to furnish proper and accurate explanations, in a voluntarily manner, of their stewardship to the civic society. This study therefore endeavors to catechize the impact of audit committees on the performance of county governments in Kenya.

Audit committees

Audit committees are a composition of non-executive, independent directors who are in consequence inconvenienced with the functions of oversight so as to preserve a corporate governance that is ever responsible, a financial reporting practice that is reliable, an internal control configuration that is persistently effective, an audit function that is credible, a whistleblower complaint process that is knowledgeable and a fitting business ethics code purposefully capable of creating enduring value for the shareholders while watching over the other stakeholders interests in keeping with the agency theory (Musundi, 2016).

Audit committee is said to be a mechanism and controlling instrument of corporate governance that endeavors to congregate the interest of management and shareholders (Elsayed, 2011). Audit committees are considered a major decision-making group since they act as the shareholders representatives (Kumar & Singh, 2013). It is anticipated that audit committees are to accomplish diverse functions, for instance oversight, control, evaluation, value creation, and assurance services of management to mitigate agency costs (Gabrielsson, 2007). Further, the audit committee works at safeguarding the interest of shareholders in a progressively more competitive environment while upholding managerial accountability and professionalism in the pursuit of superior organizational performance (Donker & Zahir, 2008).

Audit committees are made up of members from diverse backgrounds in terms of age, gender and education. Organization's in the upper quartile for racial or gender and ethnic multiplicity are further prone to have financial earnings greater than their nationwide medians within their industry. Over time, diversity will shift the market share towards the more diverse organizations since diversity is a competitive differentiator. This sequentially advocates for some other varieties of heterogeneity - let's say, in experience (for instance cultural fluency and a global mind-set), sexual orientation and age – that are anticipated to also bring an approximate degree of competitive leverage for organization's that can not only attract but also retain such a diverse array of talent (Vivian, Dennis & Sara, 2015).

Musundi (2016) asserted that the reasons for the existence of the audit committees in the public sector are to act like an opportunity for the exchange of ideas; between both the external and internal auditors and the executive management, governing body or the accounting officer, encouraging the integrity and quality of internal and external reports by providing a high level of assurance and checks, encouraging and nurturing a more efficient and effective auditing methodology which provides an independent internal audit annual work plan review and reports, arrange for an entity's environment that has no surprises, especially vis-à-vis the speedy detection of threats and risks to the organisation, provide a profundity of knowledge capable of assisting the management in the utmost efficient and effective way in discharging their responsibilities and duties. Though the constitution does not specifically mention arrangements for internal audit, its spirit however espouses the same through Article 10 on the national values and principles of good governance which include accountability, integrity, transparency and good governance among others. The spirit of the constitution in support of the internal audit is also manifested through article 232 by providing the public service principles and values that ensure public resources utilization is effective, efficient and economic. Article 73 (Chapter 6) provides the integrity and leadership guiding principles which include accountability to the populace for actions and decisions made. The proviso of Article 225(2) is that parliament ought to enact legislation that will safeguard both the transparency and control of expenditures in ultimately all state entities and institute procedures to guarantee their realization. The proviso of Article 226 requires a legislative statute to provide that financial records must be kept and all state and other government entities must have their accounts audited and recommend other approaches for fortifying transparent and efficient fiscal management (CoK, 2010).

Musundi (2016) continued to posit that the PFMA (2012) was enacted to infuse the constitutional spirit on good governance, accountability, and transparency in government. Section 73(1) (a) and 155(1) (a) of the PFMA (2012) provides for arrangements for conducting an internal audit. Section 73(5) and 155(5) establishes the audit committees for national government entities and county government entities whose composition and functions are prescribed by the regulations. Section 43(e) requires accounting officers of government entities to put in place audit committees. Section 174(1) states that each national government entity shall establish an audit committee. Section 174(2) states that the national treasury may approve the sharing of one audit committee by two or more entities. Section 174(4) sets a minimum of three members, excluding a person who shall be appointed by the national treasury in each audit committee and a maximum of five. The Kenya Gazette notice Volume CXVII No. 40 of 15th April 2016 issued detailed guidelines for the formation of an audit committee in each and every public entity. A public notice issued by the cabinet secretary on the 29th of June 2016, national treasury emphasizes operationalization of the guidelines. All members of the audit committees shall have a good understanding of (a) government operation, financial reporting or auditing; and (b) the objects, principles and functions of the entity to which they are appointed. The chairperson shall be independent of the entity, be knowledgeable of the organization, must have requisite business and leadership skills and not a political office holder. The county executive audit committees shall comprise of 4 members to be sourced competitively, the chairperson shall be one of them and one senior officer who shall be the nominee of the Governor. The audit committee reports to the Governor.

According to section 174 (PFMA) each county shall have its own county audit committee of three but not more than five members. These audit committees' functions are stated to include oversight, control systems, evaluation, and consultancy that add value to county management and eventual best governance and performance. This study therefore, was an attempt to ascertain how audit committees can independently effect performance of county governments in Kenya.

Organizational Performance

Performance was generally defined as the achievement of programs in organizations in terms of the outputs and outcomes that they produce (Käyhkö, 2011). According to Hubbard (2009) performance was whether resources had been used in the intended way in order to attain efficiency, effectiveness, and fairness. It also included economy in the acquisition of resources at minimal cost and in suitable quantities, whereas efficiency was the input minimization for a desired output or output maximization for a certain set of inputs (Mulgan, 2003).

County government performance was linked to financial viability, effectiveness, efficiency and county government's significance. Financial viability was the ability of the entity to continue to exist. This in essence implied that the county government's financial resources influx has got to be in excess of the outflow. According to the IDRC, (1999) the circumstances necessary for an organization to be financially feasible included financial surplus, optimistic cash flow position and several sources of financing. Effectiveness was preoccupied with the exceptional competences developed by the county government to guarantee themselves of the success of their missions, whereas efficiency was the unit cost of the output that was significantly not more than the input, devoid of any other input technique that could be lesser for an equivalent output or yield (Machuki and Aosa, 2011). Contrariwise, relevance was the ability of the county government to grow in ways that consolidated their strengths. County governments faced a myriad of internal and external crises. This meant that no county government was immune from turning out to be irrelevant, obsolete or subject to winding up procedures (IDRC, 1999). To persist, the county government had to adapt to the shifting contexts, resources and capabilities. It should also have kept its activities, programs, goals, mission and vision congenial to its strategic stakeholders. According to Awino (2011) no single variable can effectively influence an organization's performance. This is why financial accounting research continues to seek the best combination of variables that can influence county government performance.

According to Hubbard (2009) measurement of performance has evolved over time from traditional financial measures (March & Sutton, 1997) which focused only on the shareholder, to stakeholder-based approaches, to the BSC (Kaplan and Norton, 1992; 2008) and TBL (Elkington, 1997). The perception then was that the shareholders owned the entity, therefore, the shareholders-based theory that used the shareholders ROI measure dominated organizational performance measurements systems (Maher, 1999; Hubbard, 2009). These were mainly financial measures of performance. Subsequently, the stakeholders view had manipulated the innumerable performance measurement tools contingent upon the metamorphosing stakeholders influence. This methodology assessed performance contrary to the anticipations of a diversity of stakeholder sets who had a specific attraction in the consequences of the entity's pursuits (Hubbard, 2009). The BSC by Kaplan and Norton (1992) as a systems of performance measurement were grounded on this theory. The BSC incorporated a firm's customer or market potential, learning and growth prospects, financial state and its internal processes. Hitherto, county governments have been unable to develop a formulation that is capable of generating a performance index that brings aboard all performance indicators. Consequently, performance has and will continue to be convoluted in practice, operationalization and definition. Be that as it may, uncertain concerns gyrate around the manner in which performance had better be examined alongside what and exactly how to quantify it. Performance of organizations was nonetheless acceptable, in general terms, as incapable of being explained or elucidated by a single component. The board and the audit committee an organization possesses inter alia effect performance. It's on this basis then that this management research paper sought out to determine the influences of audit committees on Kenya's county government's performance.

Kenyan County Governments

The county government as a public sector, consists of government ministries, departments and agencies, that carry out deeds on behalf of the Kenyan government, for the benefit of the public. The county government as a public sector organization was established to correct central government failures (CoK, 2010). This was where the services they gave could not be profitably provided by private investors. In some other instances county governments met explicit social, political and regulatory objectives. This included education, health or even income redistribution and develop marginalized areas (Obong'o, 2009). There have been concerns of inefficiencies, poor allocation and utilization of resources, as well as poor accountability practices in the county government sector, leading to falling public service delivery. This has necessitated, from time to time, devolution reforms such as in the devolved government.

The promulgation of the CoK on August 27th of 2010 created room for a devolved unit of government, it specifically provided for the creation of the 47 devolved governments.

Devolution therefore gave rise to the relinquishing of power from the central to the local authority, for instance, powers to incur expenditure and collection of revenue and so on. Articles 174 to 200 in Chapter (11) CoK, 2010 deals with the devolved governments. Article 183 deals with the county audit committees. The Article gives county audit committees the roles of ensuring the county abides by its contractual and legal commitments to groups of stakeholders. It is also fully within its mandate to oversee governors and to cogitate on the county's supreme intent as the stakeholder welfare and shareholder value maximization (CoK, 2010). Accountability issues, county audit committees, county accountability practices and their performance had constantly been and still are pertinent issues that needed to be addressed by both shareholders and stakeholders alike. Therefore, this research paper searched to interrogate for the influence of audit committees on the performance of the Kenyan county governments.

Research Problem

Public sector governance in developing countries had often neither been efficient nor effective in the provision of services to the general public. They lacked accountability practices, some were embroiled in financial scandals, and still others used poor accounting reporting standards, ineffective regulation and poor governance (Baraza, 2006). For instance, in Kenya, devolved county governments had been embroiled in financial scandals, lack of efficiency, poor control, ineffective practices and a lack of accountability in the utilization of public funds.

Audit committees' effect on organizational performance is at the heart of both conceptual and empirical research in corporate governance (Jacobs, 2002). Performance differences in organizations is often the subject of academia research and government analysis and is as a result of wide ranging factors (Käyhkö, 2011). Therefore, there exists a strong positive association between audit committees and performance (Adjaoud & Andaleeb, 2007). County governments in Kenya were created in 2010 by the new constitution to devolve services to lower levels for better performance of the government (CoK, 2010). These counties have audit committees to influence accountability mechanisms and county governance that are aimed at creating good performance.

Several studies were carried out both internationally and locally that provided empirical evidence on the factors that determined organizational performance. However, there were conceptual, contextual and methodological gaps. In the international front conceptual gaps were evident in Hubbard (2009) who averred that institutions needed to respond to changes for better accountability and performance. Balogun (2003) established that mismanagement, poor financial reporting are major causes of corporate collapse in Africa. Boven (2006) found out that there was a link between governments, civil society, service delivery and performance in Bangalore. According to Käyhkö (2011) in China, there exists a positive correlation between audit committees and the entities performance. These studies on the other hand were inconclusive as they did not provide links of accountability and governance impact on the relationship of audit committees and performance. Further, these studies were carried out in contexts outside Kenya, in different sectors and environmental settings and the results could not be generalized with the effect of audit committees on the county governments in Kenya.

In Kenya Kipng'eno (2011) evidenced methodological gaps in his research on audit committees in the public sector establishing that their functions had a weighty impact on the Kenyan public sector performance. The study focused on audit committee's functions on Sacco's in Kenya. Okiro (2014) study on East African Community Exchange concluded that different stakeholders are a major factor in compliance and performance by stock exchange firms in East Africa. Ragama (2013) considered audit committees effectiveness and efficiency in deposit taking Sacco's in Kenya. Githinji and Muage (2013) investigated the place of audit committees in the organizational chart to promote corporate governance.

Researchers are still seeking to establish the combination of variables that are of the highest impact on organizations performance. This management research paper has therefore sought to attend to the drawback, by laying to rest the uncertainty of what is the effect of audit committees on the performance of the Kenyan county governments as the new area of public sector governance?

Research Objective

It is noted that the specific objective of this management research paper is to determine the effect of audit committees on the county government's performance in Kenya.

Value of the Study

Theoretically, this management research paper is expected to contribute to the body of knowledge that is in existence, to managerial practices on audit committees and aligning organizations performance to managerial practices. To policy makers, this management research paper will likely add to the existing policy tools that may guide the governance of Kenyan county governments and shade empirical light on the existing relationship. To scholars and researchers, this management research paper will act as a springboard to identify research gaps that need to be addressed in management science, finance and accounting as the basis for other relevant researches. The findings of this management research paper will add to the existing policy tools that will guide the stellar performance of Kenyan county governments. Managerial practices of Kenyan county governments will benefit also from the verdicts of this management research paper. Managers will also benefit from the findings of this research paper on how audit committees effect the performance of county governments thus establishing a proper fit.

Research Methodology

Research Design

We have borrowed a descriptive cross-sectional survey design. Cross sectional studies are conducted just once and give a snap shot of a one spot in time. Cross-sectional survey was chosen to collect data over a sizeable number of units at some point in time. They will help to ascertain whether significant relationships among variables exist at some point in the course of time (Cooper& Schindler, 2006).

Research design therefore is a plan for electing the origins and type of information to be used to answer a research query. It helps develop a structure for exacting specific relationships among variables. Bryk and Raudenbus (1992) argue that in cross sectional surveys either the population in its entirety or its subset is elected. This study has sought to establish interrelationships between audit committees and performance of the Kenyan county governments. Other researchers (Ongore, 2011; Letting et al., 2012; Machuki, 2011; Gachunga, 2010; Awino, 2011) successfully used the same design for similar studies.

Population of the Study

The study targeted 5 counties out of the 47 counties of Kenya (purposefully selected one from the north, south, east, west and central of Kenya). The county audit committees were the unit of analysis. Four respondents (two male and two female) from the 5 selected counties were targeted to respond to the questionnaire (5 x 4 =20 respondents). One questionnaire was used to gather the primary data administered to the four audit committee members so as to collect internal views on county audit committees' influence on county performance.

County audit committees was preferred for the study because they provided a reliable, valid and unique area of study in terms of county stakeholders and audit committee's services and unpredictability which effect performance in the county.

Sampling Criteria

Uma Sekaran and Roger Bougie (2015) define purposive sampling as a nonprobability sampling method that gathers the required information from a specific or special target group of persons on some rational basis. They assert that purposive sampling is to be restricted to certain cadre of persons who are able to provide the desired information from a specific target group either because they are the only ones with it or they are in conformity to some criteria set by the researchers. Purposive sampling is of two types, judgment and quota sampling. In this study we have adopted judgment sampling. Judgment sampling is a purposive, non-probability sampling technique where the sampling subjects are selected on the basis of the individual's capability to provide the specialized type of information sought by the researchers. Judgment sampling entails the choice of subjects who are highly advantageously positioned to provide the required information. The subjects are expected to be custodians of reasonable expert knowledge by virtue of having gone through the processes or experience themselves and perhaps might be able to provide meaningful data or information for the study. It is most desired when a small number of people or class of people are in custody of the information that is being sought.

Using judgment sampling, the study therefore focused on five counties in Kenya, purposefully based on the north, south, east, west and central of Kenya. The five counties were chosen because of the increasing interest in the performance and the role of audit committees concerns.

Data Collection

Secondary data gathered was from published sources. Primary data was on the other hand collected using structured questionnaire. They included close-ended questionnaires as well as a few open-ended ones instructed by the concepts of this study and research objectives herein. A five-point Likert scale with a range of (1) to (5) to a very large extent will be used to construct some of the items. Likert scale questions are the most regularly used variations of the summated rating scale. It was used to test a respondent's perception or attitude. The questionnaire had six sections. Section one collected data on the specific demographics of the five county governments while the rest of the sections were dedicated to the four roles (oversight, controls, evaluation and value creation) of the audit committees' and service delivery performance towards the county understudy. Newbert (2008) argued that one senior manager per organization is sufficient because they are deemed to be in a better position to understand an organization's internal operations.

This management research paper's key target respondents were the county audit committees chair persons and their 3 members. In their absence, any audit committee's official who act on their behalf was requested to respond. County audit committees chair persons are the custodians of county audit committees and governance; they are well-grounded on all county audit committees' information in the county. They are deemed to be equipped with information on all county audit committees' functions. In Kenya county audit committees are responsible for oversight; controls, evaluation and value creation towards performance measurement related tasks in the county.

Newbert (2007) postulates that key informants should be well knowledgeable about issues being studied. They should also be having the will to communicate the information. The questionnaire, as the instrument to collect primary data was self-administered through drop and picks method by the researcher and aided by three research assistants. Some respondents were to be emailed the questionnaires if the need arose.

ReliabilityTest

According to Sorooshian (2010) reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. In this study the test-retest method was used in order to assess the dependability of data that was collected using the same instrument. Cronbach's Alpha coefficient was used to compute the tests of reliability. Alpha coefficient of 0.7 and above was interpreted to mean satisfactory internal consistent reliability (Bovens, 2005). Pearson's product moment correlation, F and T-tests were used in this study to test for the intervening and significance. Neuman (2006) identifies some three types of reliability: stability, representative and equivalent. Stability reliability takes into consideration the question of whether or not a measure holds the same answer across different time periods. This was evaluated by test-retest method that this study used.

Validity Test

Validity is defined as the truthfulness, accuracy and meaningfulness of influences based on the data that is obtained from the use of a tool or a scale for each variable of the study (Hyndman & McMahon, 2011). It is the extent that results obtained from the analysis of the data actually represent the phenomenon under the study. It hence has to do with how correctly the data in the study represents the variables of the study. If such data reflects truth about variables, then inferences based on such data will be accurate and meaningful (Hardy & Ballis, 2013). Both construct validity and content validity were used in adapting the measures for the variables in this study. The questionnaires were pre-tested to ascertain their relevance to the study in producing accurate results. Content validity was done by testing and retesting the questionnaire; which covered all the four main areas of the study. Construct validity on the other hand was attained through the operationalization of the study variables which reflected the theoretical assumptions that underpinned the conceptual framework of this study.

Data Analysis

For this study, both descriptive (mean scores, standard deviations, coefficient of variations, skewness and kurtosis percentages) and inferential statistics were used. These helped to explain the characteristics of the variables of this study and to find out the underlying features of the relationships between audit committees and performance of county governments in Kenya.

Ntim and Soobaroyen (2013) contend that descriptive statistics provides the basic features of the data collected. Inferential statistical technique that was used included Pearson's product moment correlation coefficient (r), simple and multiple linear regression analysis. Simple linear regression analysis was used to establish the independent effect of the dependent variable, audit committees and performance of county governments in Kenya. All the statistical tests were conducted at 95 percent confidence level. Hypothesis 1, the researcher used multiple linear regression to ascertain the nature of the relationship between audit committees and performance of county governments and also to test the hypothesized relationships. The correlation matrix was constructed to investigate the relationship between the study variables. The following regression equation was used to analyze data using SPSS Version 25.

The model was presented algebraically as follows:

County government performance = $\beta0$ +$\beta1$ (audit committees' function) + ε

$Y = \beta0 + \beta1 X + \varepsilon$

Where:

Y = performance of county governments of Kenya (dependent variable)

$\beta0$ = constant and

$\beta1$ = coefficient of X

X = roles of the audit committees (independent variable)

ε=error term

The model $Y = \beta0 + \beta1X + \varepsilon$ was subjected to testing using linear regression to establish whether the audit committees' function is a predictor of county government performance.

Results and Discussions

Response Rate

This study adopted a cross sectional design in which five county governments were censured based on the forty-seven county governments in Kenya. Three counties were used for piloting out of the forty-seven targeted counties. All the remaining thirty-nine Kenyan county governments were stratified into five regions that is north, south, east, west and central each one constituency for validity and reliability of data, they were approached and served with the questionnaire, for each county a response of four audit committee members were targeted to respond to the questionnaire (5*4=20) making a total of twenty respondents. Out of the twenty questionnaires administered only sixteen were reverted; hence only eighty percent responded. This was a moderately high rate of response, which was considered excellent given the recommendations by Saunders, Lewis and Thornhill (2007) who suggest that a 30-40% response is a moderately high response rate. Sekaran (2003) proposes 30% to be sufficient. Mugenda and Mugenda (2003) also advise that a response rate exceeding 50% is satisfactory for research. Hager, Wilson, Pollack and Rooney (2003) also recommended 50%. Based on these assertions therefore, this infers that the response rate for this study eighty percent was adequate.

Reliability Analysis

Researchers found out that twenty-eight county audit committees' variables were insignificant. This followed a second analysis which led to the finding of the other twenty-four audit committees (Cac) coefficient alpha = .735, range of items-total correlations =

0.569 to 0.686). The researchers therefore were convinced to remove these insignificant items to boast Cronbach's alpha coefficients. Cronbach's alpha measures consistency and comprehension of the questions in the questionnaire and whether the data have the minimal acceptable reliability. Findings revealed moderately increased rates of respondents hence affirmed validity on responses rated. Likewise, Cronbach's alpha was at 0.60 (at a range of 0.70 to 0.81) which goes along with Nachmias (2004) as the least benchmark for internal consistency that is set at 0.6 Table 1 below shows the reliability analysis.

Table 1: Reliability Analysis

Variable dimension/Items	Item Means	Std. Dev.	Coefficient Alpha Reliability Estimates of Scales (Standardized)	Item – Total Correlations
Audit committees:				
Cac.1	4.57	0.87		0.651
Cac.2	4.03	1.34		0.617
Cac.4	4.41	8.49		0.713
Cac.6	3.65	1.44		0.723
Cac.8	3.83	1.36		0.662
Cac.9	4.57	0.87	0.712	0.541

Source: Authors (2018)

Validity Test

Validity is the research instruments aptitude to measure that which it is designed to measure (Cooper & Schindler, 2006). If the instrument has an illustrative sample of the universe subject matter, then it is a good validity. Different types of validity exist including construct, content, face and criterion validity. In this research paper construct and content validity were measured. Construct validity is also commonly known as logical validity, indicates the degree to which a measure represents all aspects of a given social construct. Content validity is the degree to which the instrument affords sufficient coverage of the investigative questions guiding the research paper. Researchers utilized experiences and conclusions of judgments made by supervisors and the researchers' cohort in the School of Business at the University of Nairobi. The questionnaire was pilot-tested, by administering to three of the counties audit committees secretariat among those not under this study, to establish if the respondents could answer the responses with ease. Ambiguous, double edged and sensitive questions were cleaned, sorted or dropped. This was successfully done by Machuki (2011) and Munyoki (2007).

Profile of Respondents

Gender Distribution

There was an unfair balance of gender participation in the study. This also demonstrates the true picture on gender inequality in the county governments audit committees. The lack of balance in gender in public service is evidence of unsuccessful efforts of various gender main streaming campaigns as enshrined in the Constitution of Kenya (2010).

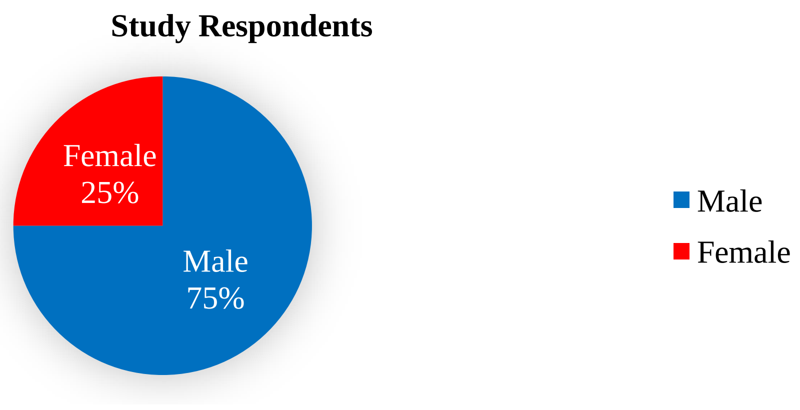
Table 2: Gender Distribution of the Respondents

Gender	No. of Response	Ratio
Male	12	0.75
Female	04	0.25
Total	16	1.00

Source: Authors (2018)

Eagly and Karau (2002), posit that leadership responsibilities, for instance positions of management, are customarily reserved for the masculine gender and women occupying those positions are viewed as defying the gender stereotyping. Other elucidations forwarded to expound the attendance of comparatively scarcer women in positions of management in the county governments in Kenya include domestic duties (Greenhaus & Parasuraman, 1999) and women's personalities' deficiency that is an impediment for the attainment of success at county audit committees.

Figure 1: Gender Distribution of the Respondents



Source: Authors (2018)

Age Distribution

Table 3 indicates that most of the county audit committees' members are over 40 years, presumed experienced and exposed in the county governance structures in line with the audit committees' functions.

Table 3: Age Distribution of Respondents

Age	No. of Responses	Ratio
31 – 39 years	02	0.125
40 – 49 years	08	0.500
50 years & above	06	0.375
Total	16	1.000

Source: Authors (2018)

Education Level of the Respondents

The education levels of respondents affirmed their knowledgeability in the area of study. This concurs with Thamrin (2012) that during a research process, respondents with practical knowledge on the study problem help in giving responses which could equally help in solving the problem under study.

Table 4: Education Level of the Respondents

Education Level	No. of Responses	Ratio
Post graduate degree	07	0.4375
Bachelor’s degree	09	0.5625
Total	16	1.0000

Source: Authors (2018)

Descriptive Analysis of the Audit committees Oversight Function

Respondents’ opinion was sought on whether the audit committee’s oversight function is capable of driving the performance assessment of the county government. Most respondents (60.5%) affirmed that the audit committee’s oversight functions provided a means for performance assessment of the county governments. (31.6%) agreed and (21.1%) of the respondents agreed strongly that the audit committee’s oversight functions examine the audit reports which also influence their actions thereabout. (39.5%) respondents agreed and (28.9%) strongly agreed that county audit committees oversight function has had adequate oversight role on the financial reporting and disclosure process. Most respondents (44.7%) agreed while (23.7%) agreed strongly on the view that audit committee’s oversight function ensures regulatory compliance, ethics and whistleblower hotlines.

Descriptive Analysis of the Audit Committees Control Systems

The questionnaire sought to investigate the control systems of the Kenyan county governments audit committees that they are adequate so as to influence performance. Most respondents (76.9%) agreed strongly that the county audit committees ensure a functional risk management policy document is in place. (86.8%) agreed that audit committees evaluate the existence of processes that address rules and responsibilities with regards to risk management. (60.5%) thought county audit committees examine internal control systems for functional adequacy. (70.2%) agreed strongly that audit committees examine the quality of internal audit functions in reference to monitoring, planning and evaluation. (89.8%) agreed that audit committees reviewed compliance with the relevant legislature, regulatory requirement and ethical behavior. (92.1%) thought that the county audit committees ensure a comprehensive internal control framework is in place compared to (7.9%) who did not believe so. (89.5%) agreed as compared to (7.9%) who did not agree and (2.6%) gave no answer on if there is a continuous review to identify new areas of learning and growth with regards to the control system.

Descriptive Analysis for the Audit Committees Evaluation

This question sought to investigate the audit committee's roles in evaluating county governments' performance. Most respondents (76.9%) agreed strongly, (17.8%) did not agree while (5.3%) did not offer an answer on whether the audit committees actually contemplate, comprehends and approves the procedure implemented by the county government to effectively recognize, evaluate and react to the county's risks. (86.8%) agreed that audit committees were able to assess their performance achievements against their mandate. (60.5%) thought audit committees were able to identify areas of growth and learning. (70.2%) believed that the results of the external facilitator on evaluations are presented to the governing body. (89.8%) agreed as compared to (5.3%) who did not agree on improvement of the county government's internal business processes. (92.1%) believed that financial management and reporting had improved the decision-making process of the county government compared to (7.9%) who did not think the same way.

Descriptive Analysis for County Audit committees Value Creation

Respondents' opinion was sought on whether the audit committee's value creation function is capable of achieving the targeted county government performance. Most respondents, (52.7%) agreed that the internal audit is more active in assessing strategic risk. (68.4%) were in strong agreement that audit committees are able to identify appropriate risk management frameworks, practices and processes in the county. (21.1%) disagreed strongly and (10.5%) of the respondents were undecided in opinion on if internal audit needs more impact and influence in the area of value creation.

Descriptive Analysis on Service Delivery Performance

This question sought to investigate whether service delivery met the targeted performance level of the county government. Most respondents, (84.2%) agreed that users were satisfied with the speed of service delivery. (52.7%) agreed that non-satisfied users knew how to complain. (68.4%) agreed that the users are paying "extra" to staff for the service. (68.4%) also agreed, (21.1%) disagreed while (10.5%) remained neutral on the opinion that the quality of service was better.

Descriptive Analysis on County Government Performance

This descriptive analysis was constructed from the data collected by the controller of budget over the five financial years; 2012/13 to 2016/17 for the 47 county governments of Kenya. The analysis was based on the highest county in revenue allocation (surplus) and the lowest county in revenue allocation (deficit).

Revenue Distribution between National and County Governments

The study sought to establish the revenue allocation between the national and county government performance in Kenya by assessing Annual County Budget Implementation Review Report (CBIRR) of FY 2012/13 to 2016/17. CBIRR avails the level of county budget implementation by comparing budgets (that is broadly split up into development and recurrent budgets) with the actual operation in accordance with section 166 and 168 of the PFMA (2012). Counties utilization of revenues was grounded on the assessment of reports from county treasuries versus budgets which were already approved. Review of CBIRR report revealed gaps such as high wage bill and delay in transactions amongst other challenges.

County Government Expenditure as a Measure of Performance

Development Expenditure

Development expenditure is that which is utilized for the generation or regeneration of assets.

County Assembly Expenditure

With reference to the implementation of budgets, the county assemblies are expected to guarantee the prudent utilization of public resources. In this regard and guided by the public finance principles they are to approve county governments financial plans consistent with Article 207(2) (b) of the CoK (2010), and the law envisaged in Article 220(2).

CEC Expenditure

In keeping with Article 179 of the CoK (2010) that lays down the executive authority having been vested in the CEC that is composed of the Governor, the Deputy Governor and entire memberships of the CEC. The county governments Act 2012 under section 35 authorizes the Governor to appoint the CEC members that will head several divisions within the county but subject to the county assemblies' approval. The CEC's mandate is the supervision of counties service delivery and administration in all decentralized divisions of the county (sub counties, wards and villages). The CEC therefore should exercise their functions in adherence to Chapter 12 of the CoK (2010) that stipulates the public finance principles and in keeping with PFMA (2012) under section 107 to uphold and preserve the principles of fiscal responsibility. The CEC is charged with the observance of the collective responsibility principles and the promotion of national values. They therefore must as a priority, ensure the execution of the budget as approved since they are regarded as the county governments' executive arm.

Finance Management Services Expenditure for FY 2012/13

All the actions of the county treasury are acted upon by the financial management services department in compliance with the PFMA (2012) under section 104, this comprises of overseeing, monitoring and evaluating the economic affairs and public financial management of the county.

This management research paper has endeavored to give a synopsis of the 2012/13 to 2016/17 county governments' budget implementation. Absorption rate is a proportion of the real expenditure to the approved financial plans (budgets).

Total Expenditure for the FY 2012/13 to 2016/17

Table 5: Absorption Rate for the FY 2012/13

County Name	Revenue (Kshs. Millions)	Total Expenditure (Kshs. Millions)	Absorption Rates
Nandi	278.1	275.8	0.99
Laikipia	289.9	283.5	0.98
Wajir	417.2	406.1	0.97
Nakuru	1,004.20	298.8	0.30
Lamu	157.9	27.1	0.17
Total	22,976.30	16,225.60	0.71

Source: OCOB (2013)

Table 6: Absorption Rate Analysis in the FY 2013/14

Counties	Maximum	Counties	Minimum
Nyeri	0.939	Tana River	0.413
Bomet	0.935	Turkana	0.419
Nyandarua	0.853	Lamu	0.442

Source: Controller of Budget (2014

Table 7: Aggregate Absorption Rates for the FY 2014/15

Counties	Maximum	Counties	Minimum
Homa Bay	1.052	Lamu	0.684
Bomet	0.978	Tharaka Nithi	0.683
West Pokot	0.956	Makueni	0.629
		Tana River	0.517

Source: Controller of Budget (2015)

Table 8: Absorption Rate Analysis as a proportion of the funds released in 2015/16

Counties	Maximum	Counties	Minimum
Nairobi	1.543	Kisumu	0.858
Mombasa	1.016	Kakamega	0.853
Nakuru	1.010	Vihiga	0.782
Lamu	1.009	Tharaka Nithi	0.770

Source: Controller of Budget (2016)

In essence therefore, the highest counties used an amount over and above the aggregate amount that had been approved by the exchequer for releases by the OCOB hence this may as well be ascribed to use of revenue that is locally generated, in contravention of the CoK (2010) stipulations.

Table 9: Aggregate Expenditure Absorption Rate in 2015/16

Counties	Maximum	Counties	Minimum
Bomet	0.981	Embu	0.690
Wajir	0.939	Vihiga	0.689
Kiambu	0.908	Kisumu	0.668
West Pokot	0.901	Makueni	0.583

Source: Controller of Budget (2016)

Table 10: Global Absorption Rate for the FY 2016/17

Counties	Maximum	Counties	Minimum
Wajir	0.950	Nakuru	0.707
Garissa	0.941	Tharaka Nithi	0.700
Isiolo	0.925	Lamu	0.621

Source: Controller of Budget (2017)

Table 11: Absorption Rates as a proportion of funds released in the FY 2016/17

Counties	Maximum	Counties	Minimum

Nairobi	1.600	Tana River	0.788
Kilifi	1.103	Tharaka Nithi	0.779
Mombasa	1.041	Lamu	0.675
Wajir	1.018		
Nandi	1.012		

Source: Controller of Budget (2017)

Recurrent Expenditure for FY 2013/14 to 2016/17

Table 12: Absorption Rate Analysis for the FY 2013/14

Counties	Maximum	Counties	Minimum
Meru	1.159	Turkana	0.357
Nyeri	1.078	Garissa	0.514
Tharaka Nithi	1.048	Lamu	0.531
Muranga	1.019		

Source: Controller of Budget (2014)

The recurrent budget allocated to the four counties was surpassed, signaling that the designated development projects funding amount was instead utilized for recurrent transactions.

Table 13: Absorption Rates for FY 2014/15

Counties	Maximum	Counties	Minimum
Homa bay	1.076	Samburu	0.804
Murang'a	1.072	Kakamega	0.803
Machakos	1.029	Siaya	0.788
Nyandarua	1.006	Tana River	0.720

Source: Controller of Budget (2015)

Table 14: Absorption Rate Analysis for the FY 2015/16

Counties	Maximum	Counties	Minimum
Trans Nzoia	1.091	Tharaka Nithi	0.837
Wajir	1.041	Siaya	0.832
Taita Taveta	1.014	Kisumu	0.823
Bomet	1.012	Vihiga	0.748

Source: Controller of Budget (2016)

Absorption rate is calculated as a proportion of full amount spent to the budgetary amount that was approved. In contrasting the recurrent expenditure as a proportion of the amount of funds that were legally certified for withdrawal by the OCOB pointed out that the counties Trans Nzoia, Wajir, Taita Taveta and Bomet far outdid the authorized expenditure amount, this was largely accredited to expensing the local revenue derived at source which is at odds with Section 109 of the PFMA, 2012.

Table 15: Absorption Rate for the FY 2016/17

Counties	Maximum	Counties	Minimum
Trans Nzoia	1.016	Kisumu	0.779
Wajir	0.994	Machakos	0.773
Garissa	0.983	Lamu	0.766

Source: Controller of Budget (2017)

Development Expenditure for FY 2013/14 to 2016/17

Table 16: Absorption Rate Analysis for the FY 2013/14

Counties	Maximum	Counties	Minimum
Bomet	0.924	Mombasa	0.024
Wajir	0.782	Tana River	0.027
Trans Nzoia	0.740	Kisumu	0.04

Source: Controller of Budget (2014)

Table 17: Absorption Rate Analysis for the FY 2014/15

Counties	Maximum	Counties	Minimum
Homa Bay	1.012	Nakuru	0.427
Bomet	0.996	Embu	0.395
Nandi	0.921	Tana River	0.384
West Pokot	0.918	Makueni	0.373
Wajir	0.893	Nairobi	0.335

Source: Controller of Budget (2015)

Table 18: Absorption Rate for the FY 2015/16

Counties	Maximum	Counties	Minimum
Bomet	0.946	Taita Taveta	0.411
Mombasa	0.879	Embu	0.401
Wajir	0.851	Makueni	0.317

Source: Controller of Budget (2016)

Table 19: Absorption Rate for the FY 2016/17

Counties	Maximum	Counties	Minimum
Machakos	0.991	Lamu	0.383
Wajir	0.901	Nakuru	0.351
Bomet	0.893	Nairobi	0.334
Isiolo	0.886	Taita Taveta	0.286

Source: Controller of Budget (2017)

Inference for the FY 2012/13 to 2016/17

Table 20: Recurrent Expenditure Analysis Summary for the FY 2012/13 to FY 2016/17

Recurrent Budget	Financial Years				
	2016/17	2015/16	2014/15	2013/14 Expenditure	2013/13

					ratio
Approved budget	240.89	208.82	181.38	160.6	
Ratio of Approved budget	0.60	0.57	0.56	0.62	
Actual expense	215.71	191.85	167.56	132.8	
Comprises of:					
Personnel remunerations				77.4	0.583
Operations & maintenance				51.7	0.389
Debt repayment & pending bills				3.7	0.028
Rate of cumulative expenses	0.676	0.650	0.649	0.784	
Absorption Rate	0.896	0.919	0.924	0.827	
Ratio of funds released	-	-	-	0.965	

Source: Authors (2018)

Table 21: Development Expenditure Analysis Summary for the FY 2012/13 to FY 2016/17

Development Budget	Financial Years				
	2016/17	2015/16	2014/15	2013/14	2012/13
Approved budget	158.36	158.62	144.91	100.4	-
Ratio of Approved budget	0.40	0.43	0.44	0.38	-
Actual expense	103.34	103.45	90.44	36.6	-
Comprises of:					
Pending Bills & Debt repayment due			1.06		
Established county funds			3.74		
Rate of cumulative expenses	0.324	0.350	0.351	0.216	-
Absorption Rate	0.653	0.652	0.624	0.364	-
Ratio of funds released	-	-	-	0.708	-

Source: Authors (2018)

Table 22: Summary of the Aggregate (Recurrent and Development) Expenditure Analysis for the FY 2012/13 to FY 2016/17

Aggregate Amount	Financial Years				
	2016/17	2015/16	2014/15	2013/14	2012/13
Approved budget	399.2400	367.440	326.290	261.100	23.2
Aggregate amount	319.0600	295.290	258.000	169.400	-
Absorption Rate	0.7990	0.804	0.791	0.649	-
Ratio of funds released	0.9254	-	0.984	0.895	-

Source: Authors (2018)

Note also that the budgets and amounts are in Kenya Shillings (Billions) but the ratios or rates are represented as a percentage. All through this report has endeavored to illustrate the implementation progress of the various twelve months financial plans of the county governments. All this has been to satisfy the provisions of Section 9 of the Controller of Budget Act, 2016 and also Article 228(6) of the CoK (2010). The counties in the FY 2016/17 received (92.54%) or Kshs.369.45 billion of their entire revenue objectives for that year of Kshs.399.24 billion.

Correlation Analysis for Audit committees

Pearson correlation coefficient was expended to gauge the link between audit committees and performance. The results indicated that audit committees had a significant positive correlation with county government performance. Table 23 vividly points out this fact by spelling out that the p-value was at $p = 0.000$ and this meets the threshold since $p<0.05$. According to Armitage and Berry (1994) correlation values of r is considered as 0-0.19 very weak, 0.2-0.39 weak, 0.40-0.59 moderate, 0.60-0.79 strong and 0.80-1.00 very strong correlation. The strong positive relationship was represented by correlation coefficient of 0.666 and the number of respondents considered was 16. The results validate with the deductions of Shuck et al, (2011) which indicated that audit committees influence organizational performance.

Table 23: Audit committees Correlation Result

		Audit committees	Performance
Audit committees	Pearson Correlation	1	.666
	Sig. (2-tailed)		.000
	N	16	16
Performance	Pearson Correlation	.666	1
	Sig. (2-tailed)	.000	
	N	16	16

** Significant Correlation is at the 0.01 level (2-tailed).

Source: Authors (2018)

Regression Analysis on Audit Committees Functions versus County Government Performance

H_1: There is no significant influence of Audit Committee's functions on County Government Performance

The model $Y = \beta0+ \beta1X + \mathcal{E}$ was subjected to testing using linear regression to establish whether the audit committees' function was a predictor of county government performance.

The model is exhibited algebraically in the following manner:

County government performance = $\beta0 +\beta1$ (audit committees' function) + $\mathcal{E}$

Where: - Y was the dependent variable (performance), $\beta0$ was the constant and $\beta1$ was the coefficient of the independent variable (audit committees' function) and $\mathcal{E}$ was the error term.

Table 24 presents the regression model on audit committee's functions versus county government performance results. As presented in Table 24, 0.2321 is the coefficient of determination, R square and 0.4818 is R giving a 0.05 significance level. The R square therefore indicates the audit committee's functions explains or influences 21.27% of county government performance variation. This implies that there is a positive significant correlation between audit committees' functions and county government performance (21.27) as indicated below.

Table 24: Model Summary (b)

R	R Square	Adjusted R Square	Std. Error of the Estimate
.4818a	0.2321	0.2127	0.17498

Source: Authors (2018)

Additionally, the (ANOVA) Analysis of Variance conclusions shown in Table 25 confirms that the model fit is appropriate for this statistics or data since p - value of 0.000 which is not more than 0.05. This implies that there exists a significant positive correlation between audit committees' functions and county government performance (63.1413).

Table 25: ANOVA (b)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	63.1413	1	63.1413	2062.21	.000b
	Residual	1.0104	31	0.03062		
	Total	64.1517	32			

a. Predictors: (Constant), audit committees Functions

b. Dependent Variable: Performance

Source: Authors (2018)

The results further indicate that audit committees' functions have a positive significant influence on county government performance (Table 26). The fitted model Y = 0.3745 + 0.9942*X. This implies that a unit change in audit committee's functions will increase county government performance by the rate of 0.9942. Even when audit committees' functions are non-existence, county government performance is still positive at 0.3745 indicating that there are other drivers (intervenors and moderators) of performance in the county government which may include accountability practices and governance structures.

Table 26: Coefficients, Optimal Regression Model

	Coefficients	Std. Error	t	Sig
Constant	0.3745	0.09879	3.7914	0.00061
Audit committees' functions	0.9942	0.02189	45.4115	2.5E-31

Source: Authors (2018)

The study concluded that: the hypothesis, H_1, "There is no significant influence of audit committees' functions on the county government performance" is rejected and the alternative hypothesis, (there is significant influence of audit committees' functions on county government performance) is accepted. This corroborates findings by Appelbaum et al., (1997) who found that audit committee's functions affected organizational performance in Nigeria.

Discussion of the Findings

This study had one objective and one hypothesis. The organization of the discussion is centred along the hypothesis.

Audit Committees Functions and County Governments Performance in Kenya

The results of the research paper showed that 0.2321 was the R square; coefficient of determination and 0.4818 was R at a significance level of 0.05. 21.27% of the county government performance variation is influenced by audit committee's functions as indicated by the coefficient of determination. Also, a positive significant relationship exists as shown by the results, between the audit committees' functions and county government performance in Kenya. This finding corroborates with Gabrielsson and Winlund (2000) findings that showed that audit committees functions provided governance mechanisms to county government performance, ensured that the county's accomplishments are communicated to county members and stakeholders and that the audit committees monitored county governance and performance. Notably, the results showed that audit committees functions explained 30 percent of organizational performance.

Summary of the Findings

In testing the hypothesis and analysis of the study findings, the findings indicate that audit committees' functions significantly influenced the performance of county government in Kenya. The Table 27 is the Summary of Research Objectives, Hypotheses and Test Results

Table 27: Summary of Research Objectives, Hypotheses and Test Results

Research Objectives	Hypotheses	Hypotheses Test Results
Objective 1 To examine the effect of audit committees' functions on the performance of county governments in Kenya.	**Hypothesis 1** There is no influence of audit committee's functions on the performance of county governments in Kenya.	Alternative hypothesis confirmed

Source: Authors (2018)

These findings have been discussed and compared with the theory as well as previous studies. The results were found to concur with several as well as differ with other studies as well as theoretical and conceptual propositions. The key beneficiary of the findings is the stakeholders' theory in relation to its perspectives to corporate governance.

Conclusion

The study concludes that audit committees significantly influenced the performance of county governments in Kenya. These study results confirm some and while refuting other conceptual as well as empirical studies. They have also supported several theoretical postulations and refuted some. The study concludes that performance of county government in Kenya can be greatly influenced by the role of county governments' audit committees' oversight, control systems, evaluation and value creation functions.

Recommendations of the study

There is need to fully implement the various audit committees' practices and especially those that have to do with improving service delivery since they have a strong drive to performance. This study should enable policymakers to learn more about audit committees in the Kenyan context so that they can make sound policies. The domino effects of this study have policy implications on devolution of county governments especially the several audit committees' functions, practices and structures in influencing performance. Fiscal responsibility should be increased in order to encourage strict adherence to the stipulations of the Constitution of Kenya 2010, Article 201 and the PFMA section 107. Fiscal responsibility contributes immensely towards boosting performance by ensuring timely implementation of necessary projects, legislations as well as proper and timely reporting. The Resource Dependence theory 's main postulation suggests that when organisations co-opt the resources needed to survive they do attempt to exert control over their environment and the network connections so created enhances firm performance. The Stakeholders Theory argues that society and companies were symbiotic and as a result the firm serves a far-reaching collective purpose than its concerns to shareholders (Kiel & Nicholson, 2003). Freeman et al., (2004) suggested that the idea of trade and value creation was through and through connected to the idea of value creation for shareholders. Further, Freeman et al., (2004) suggested that managers ought to try value creation as much as possible for the stakeholders by determining prevailing conflicts among them so that the stakeholders do not walk out of the deal.

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