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The effect of risk based audit approach on the implementation of internal control systems: a case of Uasin Gishu County

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ABSTRACT: *This study focused on the effect of Risk Based Audit Approach on internal control systems in government departments in Uasin Gishu County. In spite of the gains realized by RBAA, external auditors have continually issued qualified reports with regards to unsupported expenditure, non-updated bank reconciliation, pending bills, poor expenditure control and un surrendered imprests warrants as summarized in their various audit reports. The objectives of this study were to establish the Risk Based Audit Approach strategies used in implementing internal control activities in government departments in Uasin Gishu County, to examine the extent to which RBAA has influenced the implementation of internal control activities in government departments in Uasin Gishu County and finally to establish the challenges encountered by RBAA in implementing internal control activities in government departments in Uasin Gishu County. The research design used was a case study on the effect of RBAA on internal control systems in government departments in Uasin Gishu County. Therefore the researcher found it necessary to use descriptive and analytical design for the study. From a Target population of 136 Authority to Incur Expenditure (A.I.E) Holders, the entire population was used using census study. The results from the questionnaires and interview schedules were analyzed using descriptive statistics; measures of central tendencies such as mean, median and Standard deviation were used.Pie- charts and bar graphs were used to present the data analyzed. Statistics package of social science (SPSS) and MS excel 2010 was used to analyzed the data. The research findings indicated that Risk based Audit Approach are used in Uasin Gishu County Government departments, the strategies adopted are; use of risk register, definition of RBAA in the Audit Charter, formulation of annual audit plan, reporting to the committees on department risk exposures, and allocation of resources to internal audit activities. The results indicated that RBAA influence internal control systems in the government departments, it was found that; bank reconciliation statements are up to date, Statement of assets and liabilities are reflective of the true position, Imprests are surrendered promptly, departmental assets properly safeguarded, greater adherence to the laid down government financial regulations, Internal auditors can help to identify and evaluate risks and internal auditors use methods of identifying risks in the department which are easy to understand challenges encountered in implementation of Risk based Audit approach in implementation of internal control systems are; Lack of relevant knowledge, lack of experience, Lack of proper tools to identify risks and lack of relevant principle or guidelines as the main challenges encountered in implementing RBAA. Based on the conclusions above, this research recommends; Establishment of Audit committees at government departments with the mandate of monitoring and evaluating RBAA use and organization of workshops/seminars on RBAA activities in public departments to enhance awareness. To enhance the use of RBAA, the internal auditors should also be given more funding to enable them be more robust and active in their duties, or else they should revert to the Pre-Audit system. Interviewing senior managers, stakeholders and appointing authorities to learn what they expect from an internal audit function. Remaining flexible and ready to continuously adapt change. Preparing frequent, regular written reports for the executive managers and a summary for the audit committee. Soliciting input and obtaining feedback from citizens and employees at all levels of organization, ensuring that internal audit function reports within the organization are made to a sufficiently high level official or audit committee or another governing body and educating service managers and appointing authorities on the role of internal audit. Further areas for research was proposed on the following areas; A comparative study of RBAA in the private sector to establish the level of use, if any.*

KEY WORDS: *Risk based Audit, Internal control systems*

I. BACKGROUND INFORMATION

Internal control is a process that guides an organization towards achieving its objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations (COSO, 1992). Increased concerns regarding corporate accountability in various developed nations have been associated with the need for appropriate Risk Based Audit which involves risk management and internal control systems (Beekes and Brown, 2006). This has been reflected through recent voluntary corporate governance guidelines. The subjectivity of this area has given rise to different levels of emphasis on risk management and internal control and is, correspondingly, reflected in the governance guidelines of developing countries (Basel Committee on Banking Supervision, 2006). While these voluntary guidelines that have originated in each organization may provide different levels of focus on Risk based Audit and governance, it is uncertain as to what extent these different levels of focus exert an influence, either direct or indirect, on an organization's risk management and internal control practices (Sarens and De Beelde, 2006).Risk based audit (RBA) is a term derived from the Institute of International Audit (IIA) research foundation based in the United States of America (USA). In 1999, the board of directors of IIA voted to approve a new definition of internal auditing and a new professional practice framework (PPF). The board through deliberation came to a conclusion that a significant gap existed between available guidance and current practice of internal auditing, and that a new framework was needed to carry the profession into the 21st century. Ideally, RBA is a paradigm shift from traditional approach of pre-auditing or transactional audit to systems audit and finally to RBA. In pre-audit, management abdicated their responsibilities to internal auditors; there were no audit reports and no review of systems by management. On the other hand, systems audit was passive and reactive control based audit with no involvement of management in audit planning. Therefore, for internal audit to be effective and efficient, RBA was introduced**.** The Risk Based Audit is superior to traditional audit approaches for two reasons. First, it focuses on risks, the underlying causes of financial surprises, not just the accounting records. Second, the Risk Based Audit shifts the focus from inspecting the quality of the financial information that is recorded in the financial statements to building quality into the financial reporting process and adding value to the Bank's operations (Gibson, 2003).

The Risk Based Audit, which focuses on both recorded and unrecorded risk, improves financial statement assurance and the financial statement reporting process. The Risk Based Audit focuses on business risk and the processes for controlling these risks. The higher the risk area, the more audit time and client controls are required. Besides focusing on the level of risk, the risk-based method helps to evaluate and build value into the financial reporting process and the clients company. In order to do this, the auditor must have an up to date insight of the clients business and activities. This knowledge is gained through the way the client operates their business, management, internal and external environments. The knowledge gathered can help to design the audit program that includes the most effective and efficient combination of tests responsive to each client's unique circumstances. For this reason, the risk-based approach is then superior to traditional auditing methods (Gibson, 2003).

Risk-based auditing derives largely from models that assume that inherent risk (IR) and control risk (CR) are distinct concepts and that IR arises from attributes of the audit environment that are completely independent of attributes that determine the level of control risk. Operationalizing the distinction between IR and CR has however, proved troublesome. There appears to be little consensus regarding attributes that may identify IR and there is little published evidence regarding how IR is considered by practitioners. Also, it is not yet clear neither does it make good logical sense to try to separate IR and CR in the manner demanded by standard setters (DeFond, Francis and Wong, 2000). In developing the risk-based audit approach there are certain complexities surrounding an audit that should be considered. The major complexities in performing the audit are: firstly, the expectation gap; secondly, the uncertainties surrounding the responsibilities of the auditor; thirdly, the provision of reasonable assurance; and fourthly, the practical implementation of the standards (Gibson, 2003). The risk-based audit approach is an essential component in the performance of an audit and part of the audit professions' defence against legal liability. This improved the standing of the audit profession, as the audit was legalized (Rapa and Kauffman, 2005).The Kenya Government launched its Public Financial Management Reform Programme (PFMR) in 2006. Since then, the Country has seen a number of systems reforms in Budget Formulation, Public Procurement, External Audit, Revenue Collection, Budget Execution, Internal Audit, Parliamentary Oversight, Payroll and Pensions, Debt and Guarantee, External Resources, Accounting and Reporting and the macro-fiscal framework. The last decade has seen the Kenya Government initiate a number of Public Financial Management Reforms (PFMR) in order to enhance accountability and transparency in its public finance systems, (PFMR,2006). Development Partners, including the World Bank, European Commission, JICA, DFID, DANIDA, SIDA, CIDA, GTZ, USAID and Norway have been working closely with the Kenya Government in implementing the reforms. The broad objective of the PFMR is to strengthen PFM systems by enhancing transparency, accountability and responsiveness to public expenditure policy priorities, (MOF, 2011).

Recent corporate collapses and financial scandals have provoked worldwide concern with corporate governance highlighted apparent failures of accountability (Spira and Page 2003), and subsequent new laws, regulations in response to them (the Sarbanes–Oxley Act, 2002) provide compelling evidence that risk based audit, serves as part of sound corporate governance framework (Spira and Page 2003), matters and is important.

Risk Based Audit Approach (RBAA) an aspect of the PFMR within the Internal Audit Department (IAD) of The National Treasury can be defined as a methodology that links internal auditing to an organization’s overall risk management framework. It allows internal audit to provide assurance to the board (top management) that risk management processes are managing risks effectively, in relation to the risk appetite. RBAA aligns scarce internal audit resources to areas of most concern in order to add value, improve the organization’s operations, and enable it achieve its objectives (Mwencha, 2006). Although the risk based audit approach has been extensively used as a tool of internal control systems in the public sector many scandals keep on reappearing every physical year, what remains unclear is whether the risk based approach is ineffective or the method of implementation is inappropriate. Alternatively it may be the personnel involved in the implementation of risk based audit approach, its therefore disturbing as much as risk based approach has consumed a lot of funds a lot remains to be done to justify the costs of implementing the risk based audit approach. The study therefore sought to establish effects of risk based audit approach on implementation of internal control systems in government departments in Uasin Gishu County.

II. STATEMENT OF THE PROBLEM

In the context of the current development planning and visioning strategy (Vision 2030), Kenya's development goal is to create and sustain a high level of economic growth whose benefits are invested to ensure a just and cohesive society enjoying equitable social development in a clean and secure environment. This development is to be driven by an issue-based, people centred, results oriented and accountable, and democratic political system. The Public Financial Management Reforms (PFMR) in Kenya forms a critical pillar to Kenya's development goal. The PFMR's strategic objective is to strengthen the Public Financial Management (PFM) systems in order to enhance transparency, accountability and responsiveness of public expenditure to policy priorities. Risk- based audit approach is one of the PFMR’s in Kenya aimed at ensuring transparency, accountability and good governance within the Central Government operations. In spite of the above achievements as a result of implementing the risk based audit, the Kenya National Audit Office (KNAO, 2013) has continually raised significant issues over the same period with regards to the following matters as pertaining to the laid down financial regulations - unsupported expenditure, non-updated bank reconciliation statements, Statement of assets and liabilities, pending bills, un-surrendered imprests warrants, collections of Appropriation in aid and expenditure control as outlined in their summarised Audit reports for the financial years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, 2010/11, 2011/12, and 2012/13. Globally internal audit is not yet as firmly established in the public sector as external audit due to various reasons such as Structure of the Public Administration, non-adherence with International Standards and a Global Forum, Lack of qualified Professionals, and evolution of Internal Audit. The need for an effective public sector audit approach becomes more acute today as government operations get more dispersed and decentralized, citizens’ demand for accountability grows ever stronger, and with the increasingly tighter budgets faced by internal audit departments, constraining their ability to expand the depth and breadth of their audits(Vani, et al., 2008).It is with this in mind, that the study aimed at examining not only the challenges but the gains of implementing risk based audit in light of the laid down internal control systems in Uasin Gishu County and further proposed probable strategies that should be put in place by the IAD to improve public confidence in the Government, enhance adherence to the laid down financial regulations and hence improved service delivery. In Uasin Gishu county audit reports indicate that a number of projects are incomplete and the amounts of money spent is far much higher than what was budgeted and yet the input prices remain fair and the same over the period. This therefore raises eyebrows on the effectiveness of the risk based approach on the implementation of internal control systems which are meant to deter while deviation of public expenditures so as to attain the objectives of the government. Its on the basis of this that the current study is carried out.

Objectives of the Study

The objectives of this study were;

- To establish the Risk Based Audit Approach strategies used in implementing internal control activities in Uasin Gishu County

- To examine the extent to which Risk based Audit Approach has influenced implementation of internal control activities in Uasin Gishu County

- To establish challenges encountered by Risk Based Audit Approach in implementing internal control activities in Uasin Gishu County

III. LITERATURE REVIEW

REVIEW OF THEORY

The Theory of Auditing : Risk based audit approach can be guided by the approach or audit methodology followed by an auditor is a component of the theory of auditing or the axiomatic method of auditing. This is explained by Mautz and Sharaf (1961) as follows: This scheme of auditing knowledge might be pictured in the form of pie-shaped chart. The entire chart represents knowledge, all knowledge. At the center is a hard core of the most fundamental types of knowledge, metaphysics, logic, and mathematics. Touching this core and drawing strength from it is the groundwork level of auditing knowledge, its philosophical foundation. Included in this level of knowledge is the definition or purpose of the field and the fundamental nature of its knowledge and methodology. Its postulates, the basics for inferring concepts, must relate to and be harmonious with this purpose and recognize the possibilities and limitations of its development and evaluation of risk-based audit approaches methodology. Every field must have just such a foundation and it must never permit itself to become separated from the elemental disciplines from which it draws strength. The field of auditing grows outwards from its philosophical foundations; it enters the area of conceptual structure. Then come the precepts (concepts) and the area of practice and practical applications and then showing the adjacent fields of knowledge. This theory indicates the changing role of audit and anticipates more changes in future.

Risk-Based Internal Audit Theory : Risk-based audit theory argues that clients' specific experience increases an auditors' ability to assess future client risks accurately. However, prior research in psychology suggests that individuals tend to overweigh experience when faced with current risk cues that conflict with experience. This design examines the consequences of prior, positive client-specific experience and efficiency pressure, represented by costly risk cues, on the ability to generate an effective risk assessment. The results indicate that individual's bias toward prior experience. Efficiency results suggest that higher cue costs result in suboptimal risk cue selection, but do not negatively influence risk assessment effectiveness. Risk audit theory argues auditor evaluations during the audit become more effective with client-specific experience (Bell et al. 1997; Bell et al. 2005; Bell and Solomon 2002). Rather, there is a risk that auditors will rely on historical client-specific experience, which is backward-looking in nature, in addition to gaining this increased client-specific knowledge. The risk-based internal audit of the theory is applied to the internal control system and risk management, requiring all departments should establish risk management awareness, identify the risk control points, risk take appropriate measures to control, and recorded a variety of risk control, creating risk-based internal audit of the important sources of data (Doolin and Lawrence, 1997). According to this theory, responsibility of identifying and managing risks belongs to management, while one of the key roles of internal audit is to provide assurance that those risks have been properly managed (Alexander, 1991). Professional internal audit activity can best achieve its mission as a cornerstone of governance by positioning its work in the context of the organization's own risk management framework. This involves looking at the way managers identify, assess, respond to and report risks, as well as how well managers monitor how responses to risks are working.

Empirical Review : Shiu (2008) aimed at investigating the current use of RBAA by Taiwanese banks and to explore factors associated with the adoption of RBAA by Taiwanese banking industry. To understand banks' demand of RBAA, the study examined whether the use of RBAA varied with factors reflecting banks' risk management, internal control, corporate governance and internal auditors' technical competence. The models tested in the study found empirical support that banks that use a relatively high level of RBAA will disclose more information about financial risk management, compliance risk management, technology risk management and have a higher ratio of Non-Performing Loan. The results supported the null hypothesis that the level of RBAA employed is positively associated with the bank's risk management.

However, the results presented that the use of RBAA is negatively correlated with information disclosure about environmental and safety risk management, internal process risk management, and change management. A paradigm shift in the internal audit of the commercial banks was deemed obvious as the traditional system of internal audit had been concentrating on the testing transaction, testing of accuracy and reliability of accounting records and regulatory compliance. Reserve Bank of India in one of its guidance note issued in 2002 on the subject stated that historically the audit system in banks had been concentrating on transaction testing, testing of accuracy and reliability of accounting records and financial reports, integrity, reliability and timeliness of control reports and adherence to legal and regulatory requirements. But risk inherent in the process of business and controls are mostly overlooked. Such risk identification and management issues have also been identified repeatedly in the Basel principles.

Basel principles highlighted the importance of risk based capital assessment, risk based bank supervision and risk based internal audit in banks. Banks operating in Bangladesh have already started adoption of Basel II, a risk based capital adequacy standard, (The Bangladesh Accountant/October - December 2009)

Amudo and Inanga, (2010) in their study Evaluation of Internal Control Systems concluded that an internal control system is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries. A proactive preventive approach to the problem requires a critical evaluation of existing internal control structures in organizations to determine their capacity to ensure that the organization's activities are carried out in accordance with established goals, policies and procedures. The study was on the Regional Member Countries (RMCs) of the African Development Bank Group (AfDB) focusing on Uganda in East Africa. The paper developed a conceptual model used in evaluating the internal control systems in Public Sector Projects in Uganda financed by the African Development Bank. The outcome of the evaluation process was that some control components of effective internal control systems was lacking in these projects and this rendered the current control structures ineffective. The study ended with recommendations to improve the existing internal control systems in the projects and suggested areas for further research.Baffour (2010) observed in the study four major issues: on the following issues discussed as follows: to identify the functions and role of the Internal Audit Department, to identify the ethical guidelines of the internal audit department to satisfy the ethical guidelines of organizational status, objectivity and independence. In addition, Baffour identified that the company had a control environment that was adequate for the operations of the company, in spite of the major challenge of the internal audit department being the small number of staff.

Risk based Audit approaches/strategies used in internal control Activities in Public sector

Risk Management : The separation of ownership and management functions and the presence of information asymmetry introduce the possibility of principal-agent conflicts (Haniffa and Hudaib 2006), it also incurs risks to stakeholders in the organization management, shareholders and creditors (Spira and Page 2003). Those agency conflicts, agency costs and risks are now managed within the corporate governance framework through accountability mechanisms, such as internal control and audit (Haniffa and Hudaib 2006). Stakeholders now compete to participate in corporate governance to seek power in organizations by asserting their own conceptions of risk and how it should be managed, and a focus on risk management has become central to this competition since it defines the accountability of the management of the organization (Spira and Page 2003). This is consistent with Hay and Knechels' (2004) argument that the demand for auditing is a function of the set of risks faced by individual stakeholders in an organization and the set of control mechanisms available for mitigating those risks. Therefore, internal auditing risk management orientation has given the audit function increased credibility across the enterprise and greater acceptance by management (Beumer 2006).

Through Risk based audit sound risk management strategies which are forward looking and helps to improve business decisions (Fatemi and Glaum, 2000). It is not just about avoiding or minimizing losses, but about dealing positively with opportunities. It is a powerful tool for public sector managers (Drzik, 2000). Good risk management is based on a well-planned, logical, comprehensive and documented strategy. This strategy provides general policy guidance, and plans and procedures that can be used as part of the organization's everyday work to manage risk (OECD, 2005). The Risk Based Internal Auditing (RBIA) approach involves management to a far greater extent. The risks to be covered in audits will exist in all parts of the organization and audits will therefore involve managers in departments never visited before (Millichamp, 2002). Many risks will be very significant to the organization and the discussion of their controls will involve more senior managers and directors than might be involved in traditional finance orientated audits (Al-Tamimi, 2002). RBIA emphasizes management's responsibility for managing risks. Audits will involve more discussion with managers about their risks and their responses to them. There will be an initial meeting with managers, possibly involving a risk workshop to examine risks in greater depth, and contact throughout the audit to discuss issues (Schnatterly, 2001) The following IA major roles are required in risk management: determining processes and their objectives identify risks that hinder the processes with management, test and controls mitigating the risks, reporting where risks are not sufficiently mitigated by controls and assure management that risks are mitigated to an acceptable level. This has been made easy with adoption of RBA in the public sector (Millichamp, 2002). Through enhanced capacity building for internal audit staff to update their knowledge and competency in dealing with modern trends in risk management and also establishment of audit committees are some of the measures that have been put in place to contain and manage risks (Schnatterly, 2001). Through RBA, the audit activity provides useful and relevant information to the organization for managing its risks.

The objective of RBIA is to provide independent assurance to the board that there is a sound of risk management framework within the organization, and risks that may affect the organizations' business objectives and strategies are being identified, managed and reduced to a level that is acceptable to the board (IIA 2003). One indication of risk management framework is the existence of a separate committee or group, comprised of directors and managers (Goodwin-Stewart and Kent 2006) to develop risk management development policy.

Annual Risk Based Planning : Planning is generally considered a vital internal audit activity and it includes preparing a strategic plan, annual plans and programs for individual risk based audit assignments. The operational standard of the Internal Audit, dealing with the planning aspects of the internal audit, requires the preparation of a strategic plan – usually a five-year plan, a periodic (annual) plan and plans for individual audit assignments (Karapetrovic, 1999). Most organizations' internal audit offices do not develop a strategic plan, the exercise of which would have enabled the audit staff to evaluate risk and identify high-risk areas that deserve audit attention. It could also have been an exercise by which the head of internal audit ensures the appropriateness of resources by projecting requirements in a timely fashion thus enhancing good governance.

The Internal Audit Office of many institutions prepares annual plans for their operations. Nonetheless, an annual plan prepared as a subset of a strategic plan is more useful (Sanda, Milkailu and Garba, 2005). An effective internal audit function requires the head of the internal audit office to periodically report to senior management on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. In some situations where there is poor governance, there is no such practice and the Internal Audit Office communicates with top management only via annual audit plans and the reports on individual audit assignments (Wade, 2002). Proper planning enables accomplishment of a large number of audits in a given period by improving efficiency. In some cases the numbers of the audit engagements are completed in the budgeted time and the number of actual audits performed in a period is usually less than the number of audits stated in the annual audit plan (Sanda, Milkailu and Garba, 2005). This is usually caused by adhoc audit assignments by the management and urgent requests by external parties. Adhoc audit assignments signify the relevance of internal audit to management (Van Gansberghe, 2005), and reflect positively on audit effectiveness and also in good governance. The supply side argument suggests that during the audit planning stage, auditors assess corporate governance risk and plan procedures or charge risk premiums based on their assessment (Karapetrovic, 1999).
In planning the engagement and determining its scope, the external auditor's main objective is to gather evidence to support giving an opinion on the financial statements. Secondarily, and as a product of the audit, the composition of the governance body and what matters are to be communicated to it are considered. When planning the engagement, the internal auditor is not required to design procedures specifically to gather information to report to the governance body (Karapetrovic, 1999). Rather, matters to be communicated are those which come to the auditor's attention in the course of the engagement and which the auditor deems to be significant and relevant to the governance body. To make clear the scope of the work and their responsibilities regarding communication, the internal auditors may elect to include this information in an engagement letter.

According to Davidson et al. (2005), an auditor's duty is to give a fair and truthful view of a client's set of company accounts, but auditors cannot guarantee that the company accounts are entirely free of errors and irregularities. Therefore, in their audit planning, auditors must identify and assess the risk that they need to discover. If an item is discovered, auditors must consider the context and presentation of the item and then decide whether it affects the true and fair view of the company accounts. The Statements of Auditing Standards, SAS 220, states that 'Auditors should consider materiality and its relationship with audit risk when conducting an audit' (O'Regan, 2002). However, in pre-audit, management abdicated their responsibilities to internal audits; there were no audit reports and no review of the system by management. On the other hand, systems audit was passive and reactive control based audit with no involvement of management in audit planning (Seddon, 2000). Therefore, for internal audit to be effective and efficient, Risk Based Audit (RBA) was introduced.Internal Auditing Standards *:* The principles of good governance transparency and accountability, fairness and equity, efficiency and effectiveness, respect for the rule of law and high standards of ethical behavior represent the basis upon which to build open (OECD, 2005). For Risk Based Audit (RBA) to provide good governance in public sector they must embrace the International Auditing standards that guide the internal audits ethics of work and maintain professional auditing standards. As organizations grow in size and complexity, effective risk management becomes increasingly problematic (Fraser and Henry 2007). Previous study for demand of internal auditing linked to the cost vs. benefit from undertaking monitoring (Goodwin-Stewart and Kent 2006). Carcello, *et al.* (2005) asserts that increased organizational complexity would result in greater risk and companies facing higher risk will increase their organizational monitoring. In addition, from transaction cost perspective, larger firms have opportunities to gain economies of scale from investment in the fixed costs of internal auditing (Carey *et al.* 2006).

IV. INTERNAL AUDITING CAPACITY

Events since mid 1970s have contributed to the growth of internal auditing. The Foreign Corrupt Practices Act of 1977 mandated public companies to establish and maintain effective internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded. To accomplish this, many companies established internal audit functions, increased internal audit staffing, and strengthened internal audit independence. Beasley et al. (2000) show that these investments in internal auditing have been effective, as companies with internal audit staffs are less prone to financial fraud than companies without internal auditing. Also, Coram et al. (2008) find that organizations with internal audit staffs are more likely than those without internal auditing to detect and self-report occurrences of fraud. The number and magnitude of errors requiring adjustment by the external auditors have been found to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department, (Wallace and Kreutzfeldt, 1991). The internal audit function is important because it adds value and therefore reduces detected errors (Goodwin and Kent, 2004).

In 1987, a report by the Treadway Commission recommended that public companies establish an internal audit function to be fully supported by top management and have effective reporting relationships. This means that the internal auditors' qualifications, staff, status within the company, reporting lines, and relationship with the audit committee of the board of directors must be adequate to ensure the internal audit function's effectiveness and objectivity (Treadway Commission, 1987). The report urged that the internal audit function be "staffed with an adequate number of qualified personnel appropriate to the size and the nature of the company (Treadway Commission, 1987,).The New York Stock Exchange enacted a requirement in 2003 that all listed companies must have an internal audit function, either in-house or outsourced. This requirement was on internal auditing can avoid unnecessarily duplicating audit procedures. It also can benefit external auditors because internal auditors have certain advantages. The internal auditors generally have more knowledge about the company's procedures, policies, and business environment than do the external auditors. However, external auditors must reconcile the advantages of relying on internal auditing with the need to maintain both the appearance and reality of independence as defined for external auditors,(Gramling, Maletta, Schneider and Church, 2004).According to Norman Marks (2007), emerging request from boards is that internal auditors review and comment on the organization's governance policies, processes, and practices. The IIA recognizes this in its International Standards for the Professional Practice of Internal Auditing (Standards). Standard 2100 states (emphasis added).The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach."

Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a reputation in the organization. Internal audit has to evaluate its performance and continually improve its service. According to Ziegenfus, (2000), audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated. The IIA's standard, 1210 on proficiency of the auditor require that the internal auditors possess the knowledge, skills and other competencies needed to perform their responsibilities (IIA, 1999).

The auditors’ should be interested in attending courses for the purpose of gaining professional qualification, such as for certification as an internal auditor and the employer can provide financial support. Since, internal audit work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skill approved by the Securities and Exchange Commission (SEC) later in that year. Relying through continuing professional training and development. Given the high level of staffing with temporary employees, the difficulty of recruitment and retention of auditors with the right technical proficiency is evident. Krishnan (2005) revealed that the auditors view the office as given insufficient attention in terms of staffing. Continuous skill upgrading is another dimension that deserves attention so as to achieve a high level of technical proficiency. Therefore, audit quality is arguably a function of extensive staff expertise; reasonableness of the scope of service; and effective planning, execution and communication of internal audits. The audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. In order to ensure good governance, auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards. The head of the audit activity must be able to effectively recruit, retain, and manage highly skilled staff. Moreover, the chief audit executive should be an articulate public spokesperson for the audit activity (Kunkel, 2004).

V. EFFECTS OF RISK BASED AUDIT APPROACH ON THE IMPLEMENTATION OF INTERNAL CONTROL ACTIVITIES IN GOVERNMENT DEPARTMENTS

Griffiths (2006) indicates that one major change demonstrated by the audit report usually consists of a confirmation that controls are operating properly (a term not often defined), and makes recommendations where they are not. The making of recommendations by internal auditors, which managers are expected to accept, could result in the assumption that internal audit were responsible for controls and, by implication, risk management. However, the Turnbull Guidance (and guidance subsequently issued by other organizations) emphasized the reality: managers are responsible for developing the responses to risks and for deciding the action to be taken if risks are not properly controlled.According to Griffiths, (2006) Internal Audit's core role is to provide an opinion to the management and board on the effectiveness of risk management. Where the opinion states risk management to be ineffective, the onus is on management to implement the appropriate response. Internal audit may still make recommendations, but this is part of a 'consultancy' role. Splitting the role of internal audit in this way, has a major implication for the internal audit department: If no risk management framework is in place (risk naïve or risk aware organizations) risk based internal auditing cannot be carried out as there is nothing on which to base the audit work. Only consultancy work to facilitate the implementation of a risk management framework is possible

Effects of Risk Based Audit Approach on the Implementation of Cashbook Management System : Cash management requires adequate cash flow forecasting, as well as effective and efficient use of cash balances. In the management of cash balances, most authors suggest that the creation of a Treasury Single Account (TSA) is the only solution (Schiavo-Campo and Tomassi 1999, Dorotinsky and Pradhan 2007). Institutional arrangements vary from a TSA in a central bank with direct payments, to use of commercial banks, zero-balance arrangements and nightly sweeping. Many developing countries have implemented some variant of a TSA, but there does not appear to be many evaluations of the overall impact of this reform.

Effects of Risk Based Audit Approach on Implementation of Supply Chain Management System : Supply Chain Management is the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole (Mentzer et. al., 2001). Supply chain management (SCM) is the management of a network of interconnected businesses involved in the ultimate provision of product and service packages required by end customers (Harland, 1996) Supply Chain Management spans all movement and storage of raw materials, work-in-process inventory, and finished goods from point of origin to point of consumption. Supply Chain Management involves the sharing of risk with suppliers. This can involve moving the risk up the supply chains to those suppliers best able to manage it. Such devolution of risk will come at a cost and so to that extent it is an economic decision.

The spate in the government departments' supply chain risks and the accompanying pressure from regulatory bodies, changing legislation, customers, and cut-throat competition are forcing many forwarding looking government departments to implement supply chain risk management. Some of the merits associated with supply chain risk management are gaining sustainable competitive advantage (Enyinda, et al., 2008), fewer surprises, better decision making, achieving an improved balanced between opportunity and threat, enhanced competitive position, and manage suppliers more effectively (O'Brien and Joyce, 2007). However, it has been acknowledged that the most challenging aspect of supply chain risk management is the identification of risk factors for mitigation. Therefore, to ensure government departments supply chain resiliency and continuity, it is imperative to effectively assess risks and develop a comprehensive mitigation approach by adopting Risk Based Audit Approach (Srividhya and Jayaranman, 2007).

A well-organised, efficient and transparent public procurement system is a vital component of any sound PFM system and transcends the budget process from procurement planning to audit. "Public procurement systems are at the centre of the way public money is spent since budgets get translated into services largely through the government's purchase of goods, works, and services" (OECD 2005). It is widely acknowledged that it is also the process most susceptible to bribery and corruption, with TI estimating that annually US$ 400 billion is lost worldwide (Ware et al 2007). Procurement reform is taking place throughout the world. Industrialised countries are refining and improving their procurement systems to reflect changes in their purchasing profiles (how and what they buy), middle-income. The Treasury Single Account should be referred to, more correctly, as a Treasury Consolidated Fund (a bank account or a series of connected bank accounts through which all government transactions are processed). Countries are modernising their systems in response to growing public demand for greater efficiency and effectiveness, and transition economies, moving from a state driven to a market based economy, are developing competitive public procurement practices (Hunja 2001).

In many developing countries, procurement systems were based on pre-independence regulations and are now being modernised to improve their efficiency and reduce the potential for corrupt activities (Hunja 2001). Key principles of procurement reform include the promotion of: i) rules-based systems; ii) competition; iii) transparency; iv) accountability and v) economy and efficiency. A well-functioning procurement system is therefore one that has a strong legal framework, institutional arrangements that ensure consistency in policy formulation and implementation, and a professional cadre of procurement personnel. However, according to Soreide, (2002) and Syquia (2007), the key challenge is to adapt these principles to the overall governance conditions in the specific country. According to the KEMSA procurement Review Report (2008) it highlights issues which represent deviations from achieving proficiency of their key supply chain functions. KEMSA has failed to develop arrangements that clarify accountability and contract administration and management structures for delivery of orders, internally and externally. There have also been issues with the effective development and standardization of specifications, because of conflicting interests from users, which have delayed the tendering process. Comprehensive supplier's evaluation and assessment reports are inefficient and are not conducted periodically. There is a considerable focus to encourage supply chain professionals to incorporate risk management strategies in the development of the supply chain strategies. Considerable research has been conducted on risk management strategies in the supply chain, with a bias on the logistics function of the supply chain and the financial impact of risks in the supply chain (Zsidisin & Ellram, 1999; Zsidisin et al., 2000; Zsidisin, 2003; Harland, et al., 2003; Chopra & Sodhi, 2004; Christopher & Peck, 2004; Kiser & Cantrell, 2006). Risk in procurement, however, is often considered from a transactional viewpoint where risk management is focused on the failure to comply with the required processes (Zhao and Duan (2008) this research study focused on the evaluation of the effect of Risk Based Audit Approach on the implementation of supply chain management System.

Effects of Risk Based Audit Approach on the implementation of Revenue Collection System : Tax revenue reform has been widely influenced by four main theoretical approaches. These are: i) the Public Economics Approach, which emphasises the (micro-economic) efficiency and equity of taxation systems; ii) the Macro- Economic Approach, which emphasises the impact of taxation on economic aggregates e.g. distribution of household income, levels of savings, level of inflation and public debt; iii) the Administrative Approach, which emphasises effectiveness and efficiency in terms of the administrative cost of collecting tax and the cost of compliance and iv) the Political Approach, which recognises the inherent political nature of the taxation process and the various preferences and incentives in existence (Lledo et al 2004). The scope of this review excludes policy related literature. The following paragraphs therefore focus only on two of the main administration 'models'. This does seem to assume that the technocrats are not political appointees themselves. Theoretical Models and Approaches to PFM Reform. The first approach re-aligns organisational activities on a functional basis e.g. collection, education and audit services, rather than on a tax basis e.g. Value Added Tax (VAT) and Income Tax. As part of this shift, a number of revenue bodies have also created large taxpayer units (LTUs) to concentrate limited resources on dealing with all aspects of large taxpayer compliance. The advantages of such an approach are considered to be: i) strengthened accountability; ii) risk-based allocation of resources and iii) better matching of enforcement, service, and educational programmes to specific types of taxpayers (Crandall and Bodin 2005). Consequently, multi-lateral and bi-lateral donors seeking greater efficiency and ways to minimise corruption have promoted many of these changes, in developing and middle-income countries.

The second approach that gathered pace in the early nineties, involves the establishment of Semi-Autonomous Revenue Agencies (SARAs). Some are in developed countries, but most of the almost forty, are in Latin America and Africa. According to Kidd and Crandall (2006), there is no standard governance 'model', but they all have some form of independence from standard public service policies. However, they note that the degree of autonomy varies, with the US having comparatively low levels and Kenya and Peru having relatively high levels. The driving forces behind their creation were low levels of collection, widespread perception of corruption and pressure from international aid agencies. There are various arguments for and against this 'model'. Claimed advantages include greater operational autonomy and freedom from political interference. Some potential problems include the adoption of an enclave approach, negative impact on morale of other government departments and the inherent conflict between the SARA and the MoF (Taliercio 2004, Mann 2004).

Effects of Risk Based Audit Approach on the implementation of Expenditure Control System :

In the public sector, controls are mainly in built in the public financial management system. Public financial management includes the legal and organizational framework for supervising all phases of the budget cycle, including the preparation of the budget, internal control and Audit, procurement, monitoring and reporting arrangements, and external audit.

The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services. An internal audit function is an essential part of any public expenditure management system and should ensure that public spending is within budgetary provisions; disbursements comply with specified procedures, provides for the timely reconciliation of accounts and effective systems for managing and accounting for physical and financial assets (Commonwealth Secretariat, 2005).According to Baltaci & Yilmaz (2006), the effort to reform a fiscal system should include internal control and audit due to the crucial role they play in enhancing accountability and effectiveness. Internal audit provides both governments and related parties with a powerful tool for understanding the extent to which the public institution in question has delivered on budget and effective services. Internal audit activity has become an essential internal assurance mechanism in public financial controls and tool for monitoring and evaluating managerial activities prior to external evaluation by external auditors. A government budget (approved spending) should reflect what it says it will do (government policies). A medium-term perspective is crucial for improving links between policy, planning and budgeting (Holmes and Evans 2003, World Bank 1998). According to Holmes and Evans (2003), "the appeal of MTEFs lies in their potential to link the often competing short-term imperatives of macroeconomic stabilization with the medium and longer-term demands on the budget to contribute to improved policy making and planning, and to the efficiency and effectiveness of service delivery" as an integral part of the annual. Budget process, World Bank (1998) describes an MTEF as consisting of "a top- down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources". In practice, Brumby (2008) states that a working MTEF requires: i) creation of macro-economic and fiscal envelopes; ii) determination and articulation of high level policies (reallocation between sectors); iii) bidding by departments in the context of agreed amounts (reallocation within sectors); iv) iterative bidding processes; and finally v) achievement of a credible budget reconciling policy and available resources.

By implication, he notes that this requires a significant amount of capacity, including adequate data and skills, an ability to set priorities, acceptance of the coordinating role of The National Treasury (TNT) and at the sector level a coordinating ministry, and discipline and control in both the management of bids and in budget execution. OECD and some middle-income countries have introduced MTEFs. However, in the 2007 OECD 'Budget Practices and Procedures Survey', which covers the 30 OECD members and an additional eight countries, only 19 had multi-year expenditure targets - 13 at an aggregate level, four at ministry or agency level, and two at line item level. Donors have supported the introduction of MTEFs in the context of poverty reduction strategies in several developing countries (ODI 2005). Based on experiences in nine African countries, Le Houerou and Taliercio (2002) found that many MTEFs were not part of the annual budget process, political engagement had been limited, and budget behaviour unchanged. An evaluation by Holmes and Evans (2003) of MTEF implementation in eight African countries and Albania, showed that overall results had been mixed with only South Africa and Uganda (possibly) in the maturing category. They also noted that following the initial study, progress in Albania and Rwanda was actually going backwards. A more recent World Bank (2008) report states "although MTEFs have been challenging for many developed countries, Albania, Burkina Faso, South Africa, Tanzania, and Uganda have adopted well-functioning systems, with Bank support."

Schiavo-Campo (2008) is less convinced of the success of MTEF implementations, and states that "the lesson from the discouraging MTEF experience so far is certainly not to forget the need for a medium-term perspective for the annual budget, but to re-size, redefine and reformulate the MTEF approach in a manner suitable to the possibilities and constraints of the different countries". Six years earlier, Le Houerou and Taliercio (2002) came to a similar conclusion. They noted that the introduction of an MTEF is a complex, political and institutional task, not just a technical one. As a 'bundle of items', there is no single method of implementation, reforms need to be tailored to the country context, and sequenced as part of the overall PFM reform programme. It would appear that few lessons were learnt from the earlier evaluations.

Challenges encountered by Risk Based Audit Approach in implementing internal control activities in Government departments : The reform of public sector management has become a global trend since the beginning of the 1980s (Pollitt and Bouckaert, 2004), but local (such as county-level) responses have produced highly differentiated trajectories and results. There seems to be a certain distance between the contents of what was prescribed by a spate of reform laws and the actual diffusion of the corresponding management tools; and there seems to be an even larger distance between the mere presence and the actual utilization of the management tools. Major challenges of internal controls and causes of accountability malfunctioning are; desire of the management to achieve certain reporting results, Inappropriate and unreasonable executive compensation arrangements, Confusion over who is responsible for internal control, Indefinite segregation of duties ,Select and reject procedures ,Personal interest over public interest, Compliance with rules and regulations as against principles and values, The right against the acceptable, The issue of substance as against legal form, Concern with both fact and appearance and Rapidly changing business environment. They noted that the implementation of even the most comprehensive control system will not be free from these challenges. The success of a control system largely depends on how these challenges are managed (Steinhoff and Franzel, 2006).

Kimwele, (2011) noted that, in the public sector there is general shortage of skilled labour, and efforts to improve skills in government are often frustrated by migration of labour to the private sector for higher pay when workers have acquired sufficient skills. In corporate sector, risk management and risk based internal audit is considered as a highly skilled art or craft while it is an emerging discipline in government organizations in public sector and need sufficient training to hone employee skills in the subject. Abdullah and Al-Araj (2011), in their study, traditional audit verses business risk audit done in Jordan with a view to establish the audit approaches currently being used by auditors in Jordan established ; absence of adequate training concerning application of RBA, inability to evaluate business risk objectively, absence of professional efficiency possesed by auditors along with the absence of professional standards governing RBA approach, misconception that BRA is a consultancy rather than an audit approach, lack of clarity regarding business risk as having an effect on implementation and recommended training in relevant areas.

Mihret and Woldeyohannis (2007) carried out their study on value added role of internal audit. Interview of evidence indicated that as a result of high-staff turnover, the average tenure of auditors is low. Auditors leave the department via transfers to other departments in the corporation. On the other hand, transfers into the internal audit department are not significant. This results in more new recruits in the department, which adversely impacts the value-adding potential of internal audit. In addition, the number of staff is not sufficient, given the large size and complexity of the corporation's operations. Effort to ensure provision of appropriate training, such as for certification as internal auditors, is not undertaken in a planned and continuous manner. There is no mechanism to ensure participation of auditors in training on the corporation's design of new systems, improvement of existing ones, and introduction of new services. This denotes that internal audit's value-adding role through involvement in development and revision of systems is limited (Lindow and Race, 2002). Since the nature of the business is complex and dynamic, providing continuous and focused training would be essential to attain value-adding internal audit results.

Another challenge of internal control that is considered the enemy of internal control is collusion. Collusion frustrates every aspect of the control process and presents risky situations as less risky. Most of the financial crises in the west are attributed to collusion. Audit staff will have to use more ‘people’ and ‘business’ skills, such as interviewing, influencing and problem solving. While most audit staff will welcome the opportunity to move away from audit programmes to more risk and business based audits, some members of staff may find this move difficult. Training will certainly be required and some staff may have to be transferred. RBIA requires managers to face up to their responsibility for risks. It is easy for managers to compile a list of risks; it is a different matter to accept responsibility for them. In taking responsibility for risks, managers will understand that controls are not the responsibility of internal audit, and hence imposed by that department, but are their own responsibility (Griffiths, 2006).

Rapa and Kauffman, 2005 established that one of the reasons why strategy implementation processes frequently result in difficult and complex problems or even fail in total is the vagueness of the assignment of responsibilities. In addition, these responsibilities are diffused through numerous organizational units resulting in unclear individual responsibilities in the process. To avoid power struggles between departments and within hierarchies, one should create a plan with clear assignments of responsibilities regarding detailed implementation activities. This is a preventive way of proceeding which results in clear responsibilities and therefore avoid potential problems (Rapa and Kauffman, 2005).

Communication aspects should be emphasized in the adoption of risk based audit process. Even though studies point out that communication is a key success factor within risk based audit adoption communicating with employees concerning issues related to the RBA is frequently delayed. In this context, many organizations are faced with the challenge of lack of institution of a two-way-communication program that permits and solicits questions from employees about issues regarding the formulated strategy. In addition to inability lack of communication causes more harm as the employees are not informed about new requirements, tasks and activities to be performed by the affected employees, and, furthermore, cover the reason behind changed circumstances (Rapa and Kauffman, 2005). Knowledge Gap :Shiu, (2008) investigated current use of RBAA in Taiwanese Banking Industry and explored factors associated with the adoption of RBAA by Taiwanese banking industry. This prompted the researcher to assess whether the use of RBAA varied with factors comprising the internal control system not with regards to the banking industry but to the public sector accounting. This study was carried out in Banking industry and not government departments. Amudo and Inanga (2010) in their study

Evaluation of Internal Control Systems concluded that an internal control system is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries. A proactive preventive approach to the problem requires a critical evaluation of existing internal control structures in organizations to determine their capacity to ensure that the organization's activities are carried out in accordance with established goals, policies and procedures. This informed the researcher's to propose whether the risk based audit approach could be the proactive preventive approach to not only examine the capacity of the governments internal control systems for their capacity to attain the established goals, policies and procedures, but also to see if the existing internal control systems were ineffective.

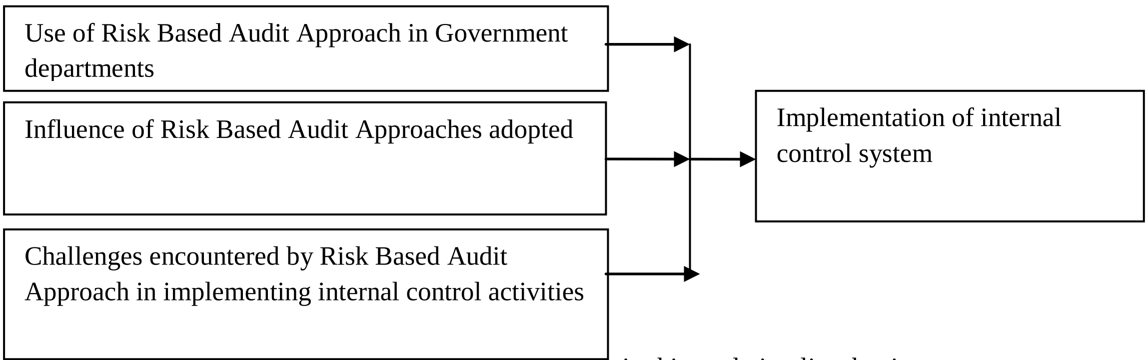
A sound internal audit function plays an important role in contributing to the effectiveness of the internal control system. It should provide the management with accurate information on the effectiveness of risk management and internal controls including regulatory compliance. At present, there are various types of internal audit approaches, which basically adopt the methodology of transaction testing, testing of accuracy and reliability of accounting records and financial reports, integrity, reliability and timeliness of control reports, and adherence to legal and regulatory requirements. However, all these do not provide any opinion on the qualitative dimension of business management including risk management. As such, the researcher saw a need for redefining and redirecting the scope of audit so as to take care of adoption of modern tools of risk management, adequacy and effectiveness of such tools, as well as to assist the Government Departments within Uasin Gishu County to mitigate the risks (Amudo and Inanga, 2010).The effectiveness should also be according with the efficiency and both are the fundamental management responsibilities. Effectiveness is judged on the basis of the results on the implementation of ICS. In an organization, the success of ICS as well as recognizing its effectiveness is based on meeting its objectives. The most effective representation of the control is done through recording. The manager has a responsibility to ensure that there is an internal control and therefore, emphasizing their function in monitoring the sales and the performance of the people. This gives rise to the relation of internal control in detecting or preventing the misstatements or errors in the records thus, allowing the controls to be consistent to avoid the discrepancies in the values (CPA, 2002). The researcher attempted to analyse whether the four issues raised by (Baffour2010) in his study also had a bearing on her study as they were very vital in enhancing the implementation of a risk based audit approach and again, add value to the internal audit department of The National Treasury. All organisations need an effective Internal Control System (ICS). The best ICS's are those with high senior management involvement both in their creation and ongoing monitoring and high awareness by all the people involved in the business. The effectiveness of the Internal Control System is a combination of the ease with which people can understand the risk analysis and the monitoring of the time it takes to find and resolve incidents, and this is where the RBAA comes in. The two factors together enable cost effective modifications to be made to the ICS in the light of the actual risks facing the organisation.

VI. CONCEPTUAL FRAMEWORK

The aim of the study was to establish the effects of Risk Based Audit Approach on the implementation of internal control systems in government departments. The researcher conceptualized Risk Based Audit Approach as the independent variables; Use of Risk Based Audit Approach in Government departments, Influence of Risk Based Audit Approaches adopted, and challenges encountered by Risk Based Audit Approach in implementing internal control activities. The dependent variable will be implementation of internal control systems.

Independent Variable **Dependent Variable**

Risk Based Audit Approach Internal Control Systems



The conceptual framework in this study implies that i f Risk Based Audit Approaches/strategies such as; risk management, annual risk based planning, internal audit standards, and internal auditing capacity building are adopted in Government departments, will enhance implementation of internal control system. The researcher also considered the influence of Risk Based Audit Approach on cash book management system, supply chain management system, revenue collection, and expenditure control system. Finally, the researcher conceptualize that, for Risk Based Audit Approach to enhance implementation of internal control systems, the challenges encountered during implementation should be addressed, this challenges ranges from improving the capacity of the employees to adopt the RBAA, proper communication on implementation, and establishment of clear structure and processes for implementation. These independent variables will influence implementation of internal control systems in government departments.

Research Design : The research design consists of a case study on the effect of RBAA on internal control systems in government departments in Uasin Gishu County. Case Study provides a great deal of information that is accurate (Kothari, 2008). Furthermore (Bickman, 2000) argues that the intention of a case study research is to gather data at a particular point in time and use it to describe the nature of existing conditions. Therefore the researcher found it necessary to use descriptive and analytical design for the study. The purpose of descriptive studies is to understand the characteristics of a group in a given situation, think systematically about aspects in a given situation, offer ideas for further research and help make certain simple decisions (Cooper & Schindler, 2003).

Target Population

The study targeted the officers working in the County with a specific interest on the 136 Heads of Department from the three Sub County treasuries.

Table 3.1: Target Population

Treasury	Internal Auditors	Other Departmental Heads	Total
Eldoret West	3	57	**60**
Eldoret East	1	40	**41**
Wareng	1	34	**35**
Total	**5**	**131**	**136**

Source: (Author, 2014)

Sampling Size and Techniques : The sampling technique of the study is census, Kothari (2008). Census involves sampling all the elements of the population. Census was appropriate in this study because the size of the population was small. The sample size consists of all the 136 departmental heads in the three sub county treasuries to ensure a fair representation.

VII. DATA COLLECTION METHODS

This research study was conducted using two sources of data; primary and secondary data. Primary data was collected using questionnaires. These were issued to departmental heads. Questionnaires were administered by the researcher directly to the respondents and a follow up was conducted by the researcher to ensure the questionnaires were filled in accordance with the research. Secondary data from research articles and other relevant written literature (Mugenda, 2003).Secondary data was gathered from a variety of sources including analysis of case studies, reviewing websites, books and journals and searches of relevant literature reviews like internal audit reports. The validity of instruments were acceptable because they produced data (Smyth, 1993). This is the ability of the tool to measure the different variables and how they interact and influence each other. The researcher sort the opinion of her supervisors on the validity of the questionnaires. This included the question format, typology and ability of the questionnaire to capture on the research problem.This process enhanced correction on the questionnaires so as to make them effective in the research process; the vague questions were replaced with the specific ones that captured the purpose of the study. Reliability was confirmed through the test retest method. Orodho, 2004 argue that reliability is the extent to which data collection procedures and tools are consistent and accurate. An instrument is said to be reliable if it measures what was supposed to measure (Fraenken and Wallen, 2003). To ensure that the research instruments are reliable, a test retest was done ***among*** the audiences. These responses were compared with the total responses collected from the field by the researcher.

VIII. DATA ANALYSIS

The data analysis procedure for the study involved editing of raw data to detect errors and omissions, coding of responses, classification of data with common characteristics and tabulation, being the process of summarizing raw data and displaying the same in compact form for further analysis. The results from the questionnaires and interview schedules were analysed using descriptive statistics such as measures of central tendencies such as mean, median and standard deviation were used. Pie- charts and bar graphs were used to present the data analysed. Statistics package of social science (SPSS) and Ms excel 2010 was used to analyse the data.

IX. RESULTS AND DISCUSSION

Risk Based Audit Approaches/ strategies used in government departments

Level of use of RBAA in government departments : The first objective of the study was to establish Risk Based Audit Approach strategies used in implementing internal control activities in Government departments in Uasin Gishu County. Majority of the respondents 103(75.74%) reported to use RBAA approach on the control system in their department. Among them, 58(42.65%) reported the level of use (in %) as 61-80% as indicated in figure 4.1.this is an indication of the popularity or the knowledge of RBAA approach by the respondents. The benefits of RBAA approach seem to be significant hence its adoption.

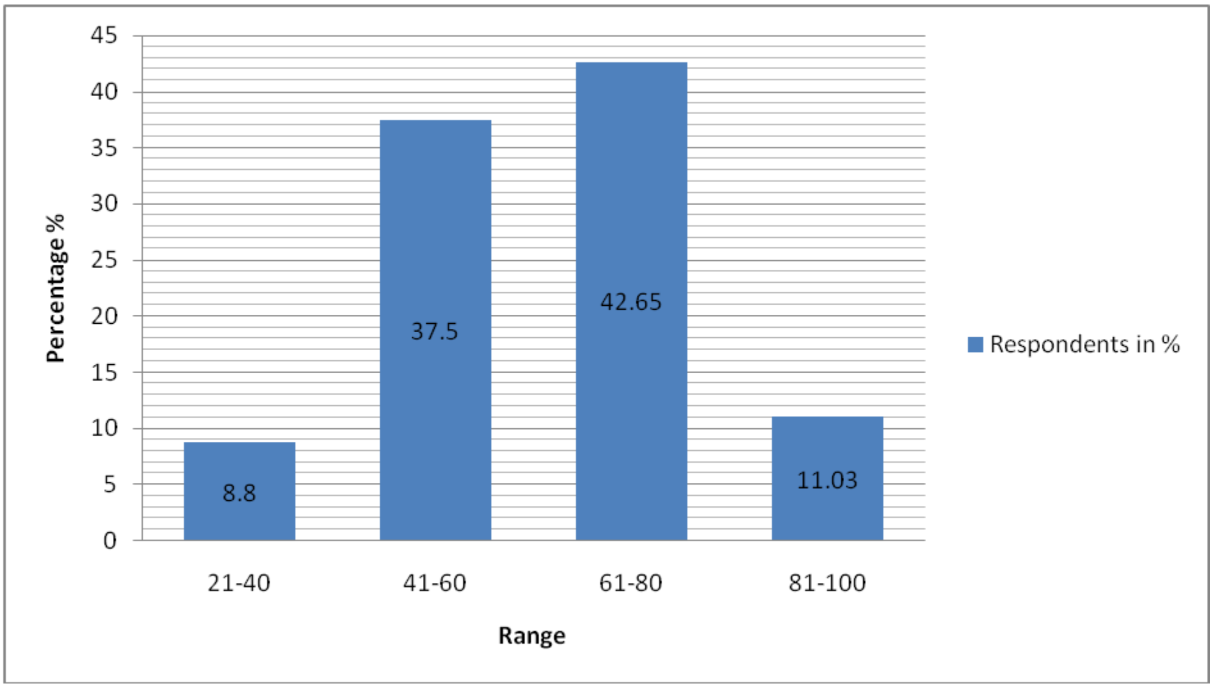


Figure 4.1 Level of use of RBAA in government departments

To mitigate against risks the government introduced RBAA as a system to assess, identify and prevent risks in government departments across the country. In Uasin Gishu County, RBAA use is at 75.74%% on control system in the departments. However, only a small proportion (42.65%) of the respondents reported level of use as ranging from 61-80% .This means many of the departmental use of RBAA in their control systems is below 60%. According to Fraser and Henry (2007) as organisation grow in size and complexity, effective risk management becomes increasingly problematic. However, Carcello et al (2005) asserts that increased organisational complexity would result in greater risk and companies facing higher risk will increase their organisational monitoring.

The use of Risk register : Among the participants, 82(60.29%) reported to have reliable risk register in their departments and rated their completeness and correctness of the content register as complete/correct 64 (47.06%) as in Figure 4.2.The implication is that majority of respondents not only understand RBAA, they are competent and committed to the implementation of RBAA.

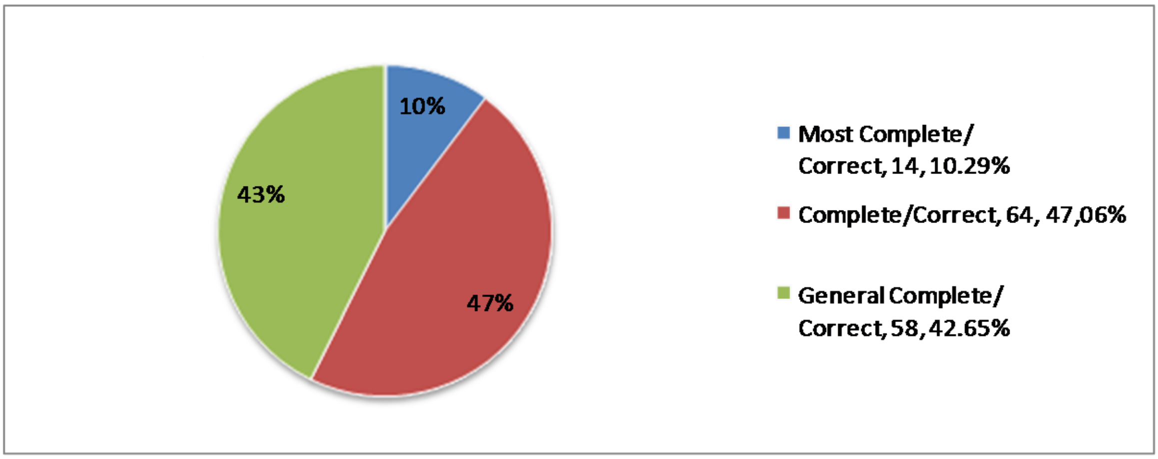


Figure 4.2: Completeness and correctness of content of risk register

Risk registers are very important tools in RBAA system. The effectiveness of RBAA derives from a reliable risk register and a complete register should be available for audit planning (Griffiths, 2006). 60.29% of the respondents reported having reliable registers in their departments but only 47.06% rated the completeness and the correctness of the contents. Most complete and correct registers were reported by only 10.29%. This implies that RBAA has not been impressed fully and assessment, identification and recording of risks for planning is quiet at low level.

Definition of RBAA activity in the Audit charter : Less than half of the respondents 53(39%) reported that the definition of RBAA activity in the Audit charter is clear as indicated in figure 4.3. Only 14% of the respondents reported RBAA activity definition being very clear. 21% of the respondents reported that RBAA activity was not defined in the audit charter in their departments. This gives an indication of varied understanding of RBAA. Some of the respondents agree on the definition of RBAA in the Audit charter, others have a different opinion, based on their understanding, 26% of respondents hold the opinion that the definition of RBAA in the Audit charter as being inadequate, maybe some of the respondents may have not seen the Audit charter hence the reason for divided opinions.

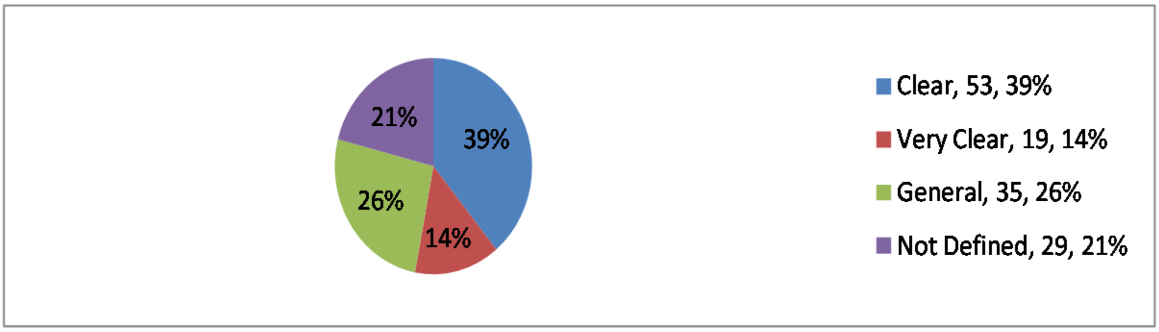


Figure 4.3: Definition of RBAA activity in Audit charter

The purpose, authority and responsibility of internal audit activity should be formally defined in a charter as regulated by the standards for the professional practise of internal auditing (IIA, 2004). Less than half of the respondents (39%) reported that the definition of RBAA activity in the Audit Charter was clear. Only 14% of the respondents reported RBAA activity definition being very clear. This level of RBAA activity definition strongly affects the level of RBAA use in government departments `in Uasin Gishu County. Were it that a bigger percentage of the respondents found the definition as being very clear then the level of usage may have gone higher.

Proportion of engagement and annual audit planm : The researcher sought to establish the level of engagement in annual audit plan based on annual risk assessment and departmental unit risk character. The results are presented in figure 4.4

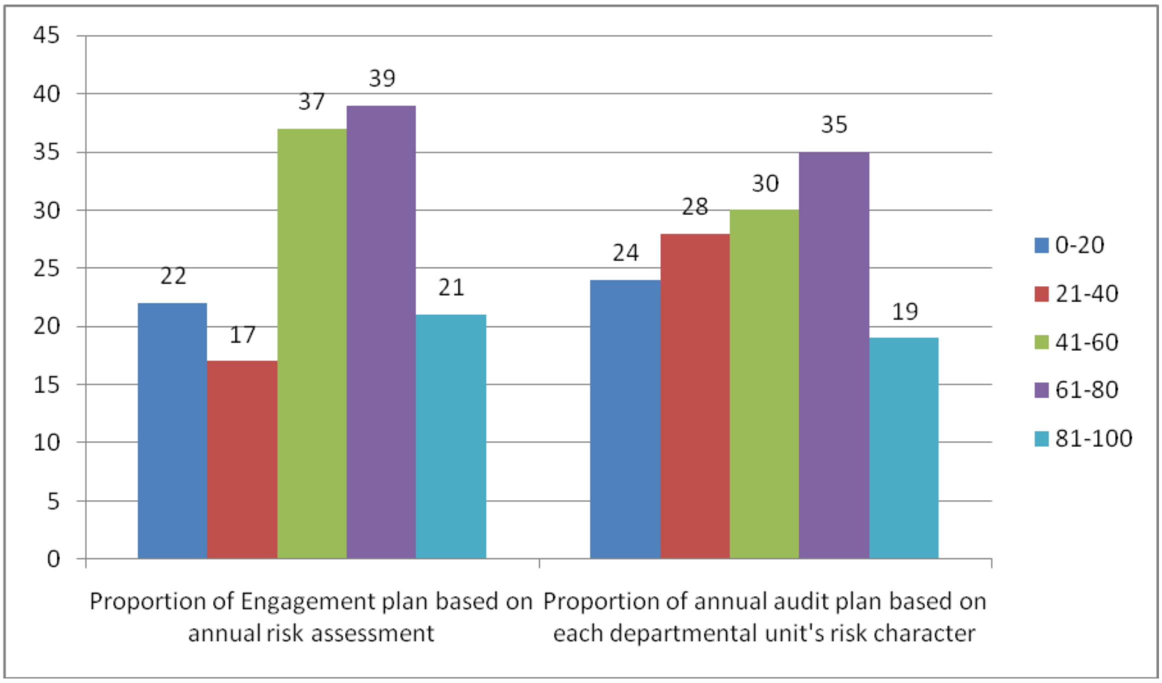


Figure 4.4: Proportion of engagement and annual audit plan

A good number 39(29%) reported that the proportion of engagement plan based on annual risk character was 61-80% while 35(26%) reported that 61-80% of the annual plan is based on each department unit's risk character as in table fig 4.4.

Frequency of Reporting to the committee : It was also important to establish the frequency in which the committees are briefed on risk assessment; the findings are presented in figure 4.5

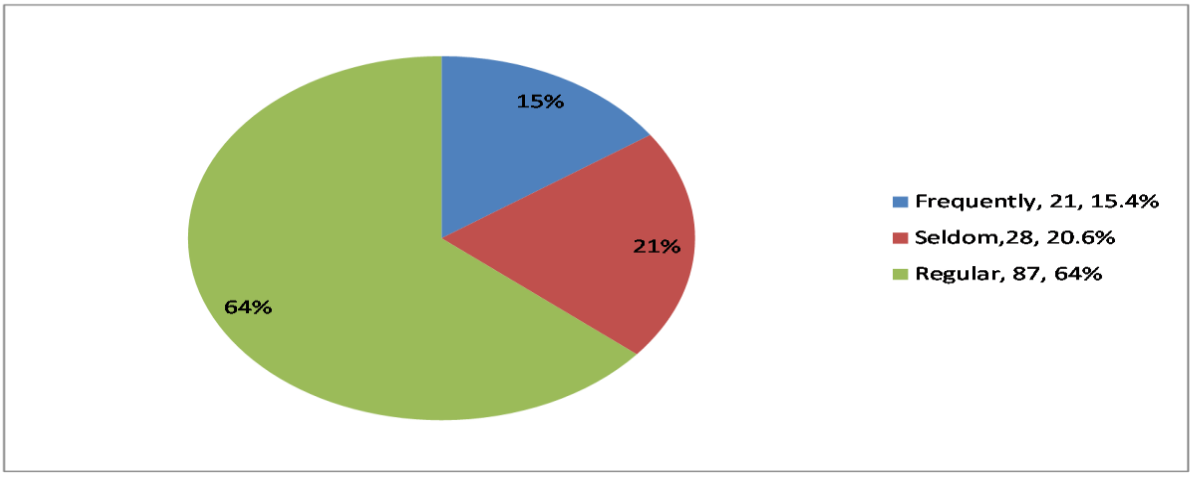


Figure 4.5: Frequency of reporting to the committee

More than half of the respondents 81(64.29%) reported that the priority of audit activities is determined on risk management while only 33(24.26%) reported to have audit committee in their department. Out of those who had audit committees in place, 21(63.64%) reported that they regularly report to the committee regarding department's significant risk exposures and controls as in figure 4.5 Only 15.4% of the respondents indicated that they reported frequently to the committee. Reporting to a committee regarding department significant risk exposures and controls is very important in implementing RBAA. Only 15.4% of the respondents indicated that they reported frequently to a committee. According to (Griffiths, 2006), RBAA is all about providing an opinion on whether risks are being properly managed. As it stands, evaluation of adequacy and effectiveness of control as regards reliability and integrity of financial operation information, safeguarding of assets and compliance with laws, regulations and contracts is below average. The will therefore results in poor implementation of internal control systems.

Allocation of internal audit resources :,The success of any undertaking depends on the budgetary allocation in support of the activities. The researcher investigated resource allocation towards internal control activities. The results are presented in figure 4.6

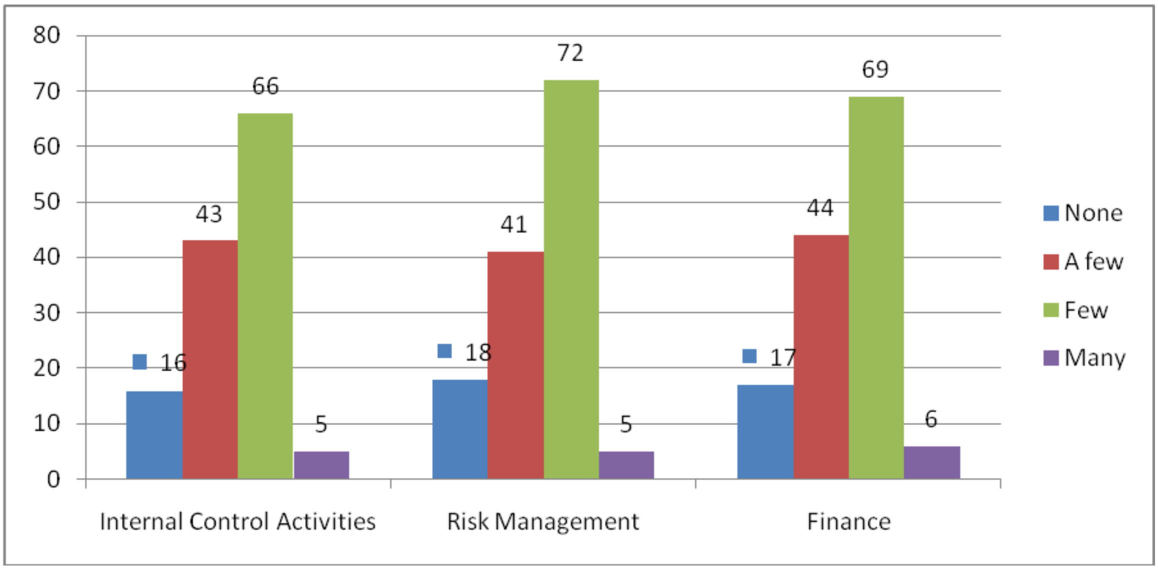


Figure 4.6: Allocation of internal audit resources

Half of the respondent 68(50%) ranked allocation of internal audit resources to internal control activities as few (fig 4.6). 72(53%) and 69(51%) of the respondents ranked allocation of internal audit resources to risk management and finance as few respectively. The implication is that limited resources are being allocated to internal audit control activities, risk management and finance. The cause for this may be lack of resources or lack of the support of the top management. On average, resources allocated to RBAA activities on internal control activities, risk management and finance are few this could be a constraint to implementation of RBAA activities in the county.

Influence of RBAA on the implementation of internal control activities in

Government departments : The second objective of the study was to examine the extent in which Risk Based Audit Approach has influenced implementation of internal control activities in Government departments in Uasin Gishu County.

Frequency of evaluating adequacy and effectiveness of internal controls

Table 4.2 present the findings on Frequency of evaluating adequacy and effectiveness of control.

Table 4.2: Frequency of evaluating adequacy and effectiveness of control

Evaluation	Rarely	Regular	Sometimes	Always
Reliability and Integrity of Financial and Operational Information	25(18.4%)	51(37.5%)	46(33.8%)	14(10.3%)
Effectiveness and Efficiency of Operations	27(19.9%)	50(36.8%)	36(26.5%)	23(16.8%)
Safeguarding of Assets	35(25.7%)	49(36%)	34(25%)	18(13.3%)
Compliances with Laws, Regulations and Contracts	22(16%)	54(40%)	30(22%)	30(22%)

Field Data (2014)

A good number reported frequency of evaluation as regular for Reliability and Integrity of Financial and Operational Information 51(37.5%), Effectiveness and Efficiency of Operations 50(36.8%), Safeguarding of Assets 49(36%) and Compliances with Laws, Regulations and Contracts 54(40%) as in table 4.2.The implication is that evaluation of adequacy and effectiveness of internal controls is done always. This is an indication of lack of support of the evaluation or lack of enough competent personnel to carry out the evaluation.

Influence of Risk Based Audit Approach on internal control system

Table 4.3 presents the response on Influence of Risk Based Audit Approach on internal control system.

Table 4.3: Departmental status

Statements	SA	A	D	SD
Bank reconciliation statements are up to date	26(19%)	54(40%)	45(33%)	11(8%)
Statement of assets and liabilities are reflective of the true position	13(10%)	61(45%)	40(29%)	22(16%)
Imprests are surrendered promptly	26(19%)	56(41%)	41(30%)	13(10%)
Department assets are properly safeguarded	23(17%)	64(47%)	39(29%)	10(7%)
Greater adherence to the laid down government financial regulations	33(24%)	73(54%)	19(14%)	11(8%)
Internal auditors can help to identify and evaluate risks	34(25%)	68(50%)	20(15%)	14(10%)
The internal auditors use methods of identifying risks in the department which are easy to understand	21(15%)	69(51%)	32(24%)	14(10%)
Internal auditors normally consult in determining the key objectives of your Department	24(18%)	58(43%)	37(27%)	17(12%)
Internal auditors review the major risks identified in the organisation	23(17%)	68(50%)	30(22%)	15(11%)
Internal audit department generate audit reports on the reviews of the internal control systems with adequate and timely information	30(22%)	69(51%)	26(19%)	11(8%)
Reports from the auditors are valuable to my ministry	46(34%)	64(47%)	19(14%)	7(5%)

Field Data (2014)

Most respondents 80(59%) agreed that Bank reconciliation statements are up to date, while 56(41%) disagreed. 74(55%) agreed on Statement of assets and liabilities are reflective of the true position, and 62(45%) disagreed. Majority 82(60%) agreed that Imprests are surrendered promptly while 54(40%) disagreed, On departmental assets properly safeguarded 87(63%) agreed and 49(39%) disagreed.

The findings indicated that RBAA has resulted in ggreater adherence to the laid down government financial regulations since 106(78%) agreed and 30(22%) disagreed. Majority of the respondents 102(75%) agreed that Internal auditors can help to identify and evaluate risks and 34(25%) disagreed. Most of them 90(66%) also agreed that internal auditors use methods of identifying risks in the department which are easy to understand while 46(34%) disagreed. The results indicated that internal auditors normally consult in determining the key objectives of the Departments, 82(61%) agreed and 54(39%) disagreed. on internal auditors reviewing the major risks identified in the organisation, on Internal audit department generating audit reports on the reviews of the internal control systems with adequate and timely information 99(73%) agreed and 37(27%) disagreed. And

110(81%) agreed that reports from the auditors are valuable to the ministry while 26(19%) disagreed. The results indicated that RBAA adopted in Uasin Gishu has positively influenced internal control systems as indicated in table 4.3. Internal auditors are potentially important providers of independent evaluations of the organisations risk management and internal control system (assurance), eventually combined with more practise oriented management assistants (consulting) in this area (Sarens and De Beelde,(2006). This new role has led internal auditors to internal expertise that requires different technical competence and in-depth understanding of risk that some internal audit may not possess, for example, the appropriate qualifications and experience; including the necessary specialized skills (e.g. risk management and system design), industry Specializations as industry-specific factors influenced the risk appetite of the business and technological expertise (Fraser and Henry 2007). This situation could have potentially serious consequences as an internal audit function which has been allocated a prominent role in the assessment of the appropriateness of risk management but which lacks the necessary expertise could be a weak link in the risk management "chain" (Fraser and Henry, 2007).

Challenges encountered in implementing RBAA. : As indicated in figure 4.7, more than half of the respondents reported Lack of relevant knowledge (53%), lack of experience (54%), Lack of proper tools to identify risks (69%) and lack of relevant principle or guidelines (57%) as the main challenges encountered in implementing RBAA.

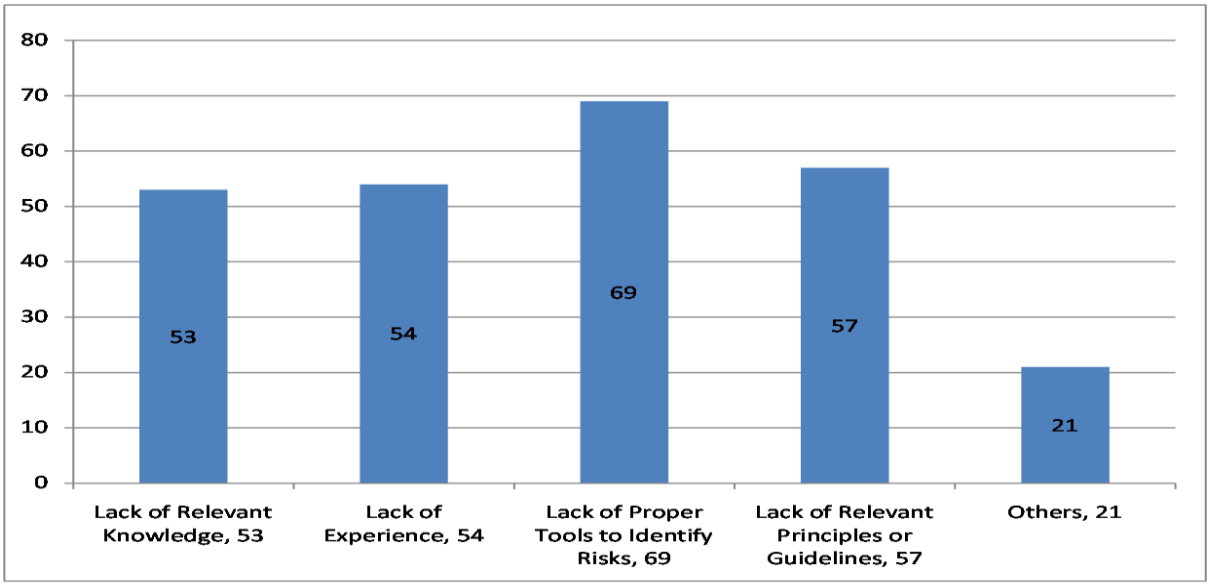


Figure 4.7: Challenges encountered in implementing the RBAA

It is clear that the significant challenges affecting the implementation of RBAA are Lack of proper tools to identify risks in the department and lack of relevant knowledge of RBAA pose a great threat to the implementation of the RBAA in the Government Departments within Uasin Gishu County.Though not captured statistically, lack of audit committees, inadequate strength of the internal audit department in terms of numbers of human resources and physical resources such as motor vehicles also came up as issues that may hinder the uptake of RBAA in the Public sector.In addition, 23% of the respondents strongly suggested that the internal auditors should revert to the old system of audit (Preaudit) as they felt it would enhance a better utilisation of the public funds as it offered a more preventive mechanism compared to the Risk based Audit Approach which they felt was more reactive.

X. CONCLUSIONS

Majority of the respondents reported to use RBAA approach on the control system in their department. Engagement plan based on annual risk character of the annual plan is based on each department unit's risk character. Few departments reported to have audit committee in their department. Out of those who had audit committees in place, majority reported that they regularly report to the committee regarding department's significant risk exposures and controls. Few of the respondents indicated that they reported frequently to the committee.

The study indicated that Risk based Audit Approach positively influence implementation of internal control system. From the response, bank reconciliation statements are up to date, Statement of assets and liabilities are reflective of the true position, Imprests are surrendered promptly, departmental assets properly safeguarded, greater adherence to the laid down government financial regulations, Internal auditors can help to identify and evaluate risks and internal auditors use methods of identifying risks in the department which are easy to understand. It is concluded that, challenges encountered in implementation of Risk based Audit approach in implementation of internal control systems are; Lack of relevant knowledge, lack of experience, Lack of proper tools to identify risks and lack of relevant principle or guidelines as the main challenges encountered in implementing RBAA.

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