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## **External Audit and Financial Accountability in County Governments: A Case of Vihiga County Government**

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**Abstract:** *The study sought to evaluate the role of internal auditing on financial accountability in Vihiga County government. This research was considered useful to the management and stake holders in making decisions, to the policy makers by guiding them on what should be emphasized and to other researchers who want to research in the same field. The study used fraud triangle and agency theories to explain the topic of study. Descriptive research design was used. The study was conducted in Vihiga county government between November 2017 and April 2018. The target population for the study was 78 employees who fell under the revenue department of Vihiga county government. The sample population was 65 of the 78 employees. Random sampling technique was used to choose the sample population. Both primary and secondary data were used in the study. Primary data will be collected using questionnaires and secondary data will be obtained from audited financial statements and audit reports. Data collected was analyzed using SPSS version 20 and regression analysis. The collected data was then presented using pie charts, line graphs and bar graphs. The results indicate  $t=.601$ , R Square of  $.627$  and Beta coefficient of  $.741$  showing appositive and significant relationship between external audit and financial accountability. It was recommended that the board of management should ensure that the people employed by the county government as the auditors has no personal relationship with other employees and management of that organization and that they will be independent in making their decisions. The county government should ensure continuous audit is carried out so that to ensure that cases of fraud are noticed in primary stages rather than only having final audits that may not clearly show cases of fraud in the county government. The internal auditors of the county government should be thoroughly trained through workshops and seminars to ensure they are adequately skilled and are reliable in carrying out the audit work so as to reduce the cost and workload of an external auditor. The county government should ensure that all the transactions are properly recorded and every book of account is properly audited and the comments of the internal auditors are properly followed and implemented.*

**Aims and Objectives:** *to evaluate the role of internal auditing on financial accountability in Vihiga County government*

**Methodology:** *Descriptive research design was used. The study was conducted in Vihiga county government between November 2017 and April 2018. The target population for the study was 78 employees who fell under the revenue department of Vihiga county government. The sample population was 65 of the 78 employees. Random sampling technique was used to choose the sample population. Both primary and secondary data were used in the study. Primary data will be collected using questionnaires and secondary data will be obtained from audited financial statements and audit reports. Data collected was analyzed using SPSS version 20 and regression analysis*

**Results:** *The dimensions of external audit were found to have a significant joint effect on financial accountability. The regression estimates of the regression model show that external audit has a significant effect on financial accountability. The table shows a significant regression coefficient estimate of External audit ( $\beta = 0.714$ ,  $t=6.010$ ,  $p\text{-value} = 0.000$ ). The P-value of the coefficient estimate is less than 0.05 implying significance at 95% level of confidence.*

**Conclusion:** *External audit has a significant effect on financial accountability and therefore should be strengthened.*

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## I. Introduction

Auditing is one of the commonly used methods to monitor and verify financial statements. Thus it has been nosed a tool for preventing fraud. The auditors of local government were to maintain efficient and effective audit unit, implement relevant aspects of internal audit reports, review financial and accounting systems, audit revenue collections and audit all stores, cash, assets and other property owned or in the care of the administration to ensure their safe custody, efficient and economic usage and disposal (Cohen, 2002). The need for internal audit within the county government is underscored by noted irregularities within the county government expenditure. The audit personnel are expected to evaluate accuracy of controls at the business unit levels and organizations and recommend improvement. The personnel have to establish links among the organizations; verify physical assets and make sure they are protected, investigate internal fraud or behavior in violation of company policy. They have to carry out compliance with outside regulatory agencies and the auditing guidelines lay out by the GAAP. There have been several noted cases of misuse of public funds in the local governments and lack of adherence to laid down procedures in the utilization of the funds without examining the value of the public funds among the counties in Kenya that has been mentioned to have misappropriated the funds include Kirinyaga county, Meru county, Mombasa county, Baringo county, Homabay county, Nyeri county, Nairobi county, Kajiado county, Busia county, Vihiga county and Makueni county among others. According to auditor general's 2016/17 report; Mr. Ouko questioned a Sh342.8 million variance in the purchase of goods and services as well as a Sh6.8 million difference in the payment of employees. The audit report said that the county had omitted Sh26.4 million imprests in its documents when the audit was done. The County Auditor apparently is his sidekick with whom most of the financial scams in the county are hatched and who basically approves whatever the County Secretary instructs of him. Recent activity point to misuse of funds by way of large over the cash withdrawals to fund unauthorized and un-budgeted expenses.

## II. Material and Methods

**Target Population:** The target population for the study was 78 employees who fell under the revenue department of Vihiga county government.

**Sample Population:** The sample population was 65 of the 78 employees. Random sampling technique was used to choose the sample population

**Research Design:** A descriptive study design was adopted for this study. This was because the sample was spread all over the country and many respondents were to be reached for accuracy and objective conclusions.

**Data Collection Instruments:** Questionnaires were used to obtain primary data. Document analysis was employed in collecting secondary data.

**Reliability Analysis:** Internal consistency was measured by use of Cronbach alpha where values of 0.70 or higher was considered sufficient.

**Data Analysis and Presentation:** Simple and multiple regression analysis were used to gauge the relationship between variables. Normality was tested using Jacque Bera test, autocorrelation was tested using Durbin Watson statistic, multicollinearity was tested using variance inflation factors. Heteroscedasticity was tested using a scatter plot and a Breach Pagan test. Data was presented using tables, charts, and graphs.

## III. Results

**Response rate:** 48 questionnaires out of 65 were returned demonstrating 73.84% of the targeted sample respondents.

**Validity Results:** The KMO statistics for all the variables were found to be more than 0.7 suggesting the appropriateness of data for the CFA models. Sampling sufficiency was scrutinized by Bartlett's. All Bartlett's statistics had p-values of 0.000 inferring acceptability and suitability as shown in table 1.

Table 1: KMO and Bartlett's tests

	Items retained	AVE	Squared Correlations	KMO	$\chi^2$	Bartlett's test df	P-value
External Audit	6	0.678	0.246	0.529	37.544	15	0.001
Financial Acc	7	0.494	0.188	0.6	62.261	21	0.000

**Reliability Results**

Cronbach's alpha was used in this study to check on the reliability. All the study constructs had reliability measures above 0.7 from all the items used to measure them. Constructs that had indicators that showed inadequate item-total correlations were further expunged this is shown in table 4.2.

**Table 2: Cronbach's Alpha Reliability Table**

Construct	Number of Items	Cronbach alpha	Number of items retained	Cronbach alpha after deletion	Conclusion
External audit	9	0.703	5	0.845	Reliable
Financial Acc	8	0.817	6	0.861	Reliable

**Table 3: Descriptive Statistics Audit Personnel and Fraud Prevention**

	Mean	Std. Deviation	N
The respondent's education qualification	2.50	.735	50
The county government train the internal auditors	2.50	1.282	50
The internal auditors has the right qualification to carry out their duties	1.80	.808	50
The audit work experience assist in preventing fraud	2.28	1.126	50
The internal auditors have relevant work experience for their duties	2.54	1.199	50
The internal auditors adhere to all statutory requirements/regulations	2.50	.974	50
The internal audit staff are adequate for the work load in the county government	2.50	1.199	50

**Table 4: Descriptive Statistics System Control and Fraud Prevention**

	All finance department operations are computerized	Computerization greatly assist in preventing fraud	System network are continuously verified to evaluate effectiveness	All financial transactions are verified for objective audit report	Unauthorized access to financial information is reduced through secured password on computers
N Valid	50	50	50	50	50
Missing	0	0	0	0	0
Mean	2.76	2.28	2.70	2.20	2.12
Median	3.00	2.00	2.50	2.00	2.00
Std. Deviation	1.222	.970	1.035	.833	1.118

**Table 5: Independence of Auditors and Fraud Prevention**

	Internal auditors have no personal or blood relationship with anyone in the organization	Internal auditors are not influenced by management in the making audit reports	Management and other employees give conducive environment or do not interfere with auditors operation	The audit department carries out its activities independently and objectively	The audit independence plays a great role in preventing fraud
N Valid	50	50	50	50	50
Missing	0	0	0	0	0
Mean	2.88	2.94	2.70	2.64	2.44
Median	2.50	3.00	2.00	2.00	2.00
Std. Deviation	1.534	1.316	1.313	1.336	1.327

**Table 6: Model Summary**

Model	Change Statistics				
	R Square Change	F Change	df1	df2	Sig. F Change
1	.627 <sup>a</sup>	.433	3	46	.730

**Table 7: ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.728	3	.243	.433	.730 <sup>b</sup>
	Residual	25.772	46	.560		
	Total	26.500	49			

**Table 8: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.044	.416		4.908	.000

The internal auditors have relevant work experience for their duties	.061	.092	.100	.669	.507
Computerization greatly assist in preventing fraud	.076	.111	.100	.683	.498
The audit independence plays a great role in preventing fraud	.052	.084	.094	.624	.535

#### IV. Discussion

From the above data, 18% strongly agreed and 50% agreed that the county government train their internal auditors. 22% disagreed that the county government train internal auditors. 10 % had no idea if the county trains the auditors. This shows that the internal auditors of the county were trained on the job or off the job by the county government.

54% of the respondent agreed that internal auditor have the right qualification to carry out the audit work. 36% strongly agreed, 6% remained neutral and 2% disagreed. This indicates that the county government employs the internal auditors who have the right qualification in carrying out their audit work and prevent fraud.

16% strongly agreed that internal auditors had work experience. 44% agreed. 22% were neutral, 6% disagreed and 12% strongly disagreed that internal auditors have enough work experience in carrying out their audit duties. This shows that most departments had internal auditors with enough work experience while some departments had internal auditors without working experience on auditing at all.

52% agree that the internal auditors adhere to statutory requirements while 48 % were either neutral or disagreed, this shows that there were some sections which had the auditors who did not comply with the statutory requirements in carrying out their audit work. This depicts that some auditors had no idea about the regulations set by the audit governing body in preventing fraud.

16% strongly agreed and 48% agreed that the auditors are sufficient in carrying out the audit work. 18% were neutral not knowing if they are sufficient or not while disagree and strongly disagree was 6% and 12% respectively. This shows that there were some sections that had few internal auditors and therefore some of them were overburdened by the workload.

#### V. Conclusion

External audit was found to have appositive and significant effect on financial accountability. Thus if the organization puts into consideration factors such as training of auditors, updating of computer systems and securing them with passcodes, enhancing audit independence, continuous audit, taking into consideration the various audit findings, automation of duties, compliance to statutory regulations as stated in KAG and stated minimum work experience for the internal auditors will greatly help in fraud prevention in the county government.

The research concludes that there is fraud in the County government of Vihiga though it is in low levels that it cannot be observed by the general public. The county government has been experiencing much fraud as seen from the auditor general report that is released annually.

Though some of the respondents argued that some of the above stated factors do not help minimize fraud, it can be concluded that fraud can be managed by clearly outlining duties and rotation of duties will help minimize such cases. The county government should ensure that it has strong system control measures by updating systems, locking the offices, passcodes and centralization of control system to ensure proper and effective audit is carried out.

The board of management should ensure that the people employed by the county government as the auditors has no personal relationship with other employees and management of that organization and that they will be independent in making their decisions.

The county government should ensure continuous audit is carried out so that to ensure that cases of fraud are noticed in primary stages rather than only having final audits that may not clearly show cases of fraud in the county government.

The internal auditors of the county government should be thoroughly trained through workshops and seminars to ensure they are adequately skilled and are reliable in carrying out the audit work so as to reduce the cost and workload of an external auditor.

The county government should ensure that all the transactions are properly recorded and every book of account is properly audited and the comments of the internal auditors are properly followed and implemented.

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