

## Audit and Risk Control among Devolved Units in Kenya

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### Abstract

*The purpose of this paper was to evaluate audit function in relation to risk control among Kenyan devolved units. The county audit reports can provide a good source of knowledge on whether the devolved units have met the objectives for which resources were allocated. Using mixed-method survey, the study was conducted among Kenyan county government's auditors. The target population comprised 94 auditors from whom primary data was gathered by the use of questionnaire with both closed-ended and open-ended questions. The study variables were measured using both the ordinal scale and Likert-type of scale. The Partial correlation analysis, multiple linear regression analysis, and statistical tests such as the F-test and ANOVA were used. Multiple regression analysis was used to determine the relationship between the audit function and risk control. The study findings showed that, having easy access to all required audit information (M=3.49, SD=1.332) had an averagely high influence on risk control while having separate departments for accounting and audit staff (M=4.47, SD=0.959) had the greatest influence on risk control. On the other hand, establishing a corporate governance structure to safeguard the Kenyan County Governments' assets from loss due to theft and other fraudulent activities (M=3.59, SD=1.055) measured above average on its influence on risk control. The top risks faced by devolved units in Kenya according to the findings of this study included financial risk (22.7%), internal control risk (12.0%), and fraudulent risk (9.3%). In conclusion, internal controls, human capital adequacy, audit information, timely implementation of audit findings had a substantially positive impact on risk control. This study recommends that Kenyan Counties should focus more on adequacy of audit information and human capital. Multi-unit approach to Kenyan Counties' audit is also recommended owing to its effectiveness in financial risk control for enriched livelihoods of the Kenyan people.*

**Keywords:** Auditing, Risk Control, Devolved Units, Internal Controls

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### Introduction

Auditing plays a pivotal role in any economy by pointing out possible risk areas that undermine the attainment of an organization's objectives in both small and big organizations. The auditor is therefore considered as a watchdog and not a fault-finder; who examines the Financial Statements and other records of an entity and reports on the accuracy, adequacy, and reality of the accounts. An audit can be defined as the on-site verification activity, such as inspection or examination, of a process or quality system, to ensure compliance to requirements (Baumann, 2014). The auditor has the responsibility to express an independent opinion on the financial statements to the stakeholders based on the evidence obtained over the audit period. The auditor must act as independently as possible while carrying out his audit duties to deliver an objective report to the stakeholders since the recommendations provided are crucial for the future success of the entity as a whole (Baumann, 2014).

In Kenya, the County Government system has been in place for approximately eight years since the implementation of the new constitution. The aim was to devolve resources and some government services to citizens at the grassroots to improve their quality of life. Accordingly, services such as health, education, and sanitation among others became the responsibility of the respective County Governments. The devolved units were to implement other development projects that would improve livelihoods at the grassroots level. The road to prosperity among Kenyans had just begun. However, questions abound from many Kenyan citizens as to whether the gains will ever be realized, as most of the devolved units are dotted with many uncompleted projects on which billions of Kenya Shillings have been spent (Nyambega, 2019). In the wake of all these challenges, this inquiry was timely.

Kenya's Auditor General's (AG's) office is responsible for auditing and reporting on the financial position of Government entities including the County Governments. The forty-seven County Governments in Kenya popularly known as the devolved units were founded on the outcome of the new constitution that came into operation in 2010. The County Governments are in charge of controlling their resources within the County, most of which are transferred from the Central Government. Furthermore, the units have access to other resources obtained from various sources as well as those generated by the Counties themselves.

Proper risk management and internal controls help the County Governments deal with the risks they are exposed to, and effectively pursue their objectives. The controls are therefore an important aspect of the units' governance, management, and operations. The auditor general can and should play a leading role in helping the Counties achieve an integrated, organization-wide approach to risk management and internal control, which ultimately helps create, enhance, and protect stakeholder value (Chaplin, 2019).

Organizations that understand the role of audit in risk control and adequately implement their auditor's recommendations do well in both the global and local economy, and in many cases, they attract better employees and better investments which often translate into growth and sustained success. This applies to the Kenyan devolved units. Risk control includes professionalism and ethics, management engagement, quality control, and proper financial planning to ensure sustainable financial health as well as disaster recovery in the Counties.

An increasing area of attention in the Kenyan devolved units is the governance and culture. This is especially because most of their glitches begin with governance weaknesses and problems with the overall governance culture. An organization's culture plays a major role in risk perception, and commitment to risk control adherence and internal control procedures it employs. Organizational culture should therefore be used as a tool for risk control and effective management, as it explores culture within the broader context of overall core values (Gould, 2019).

According to Gould (2019), risk assessment has been critical to the conduct of all audits for a long time. 'Risk-based auditing' is a term often bandied about and a sure way to cast aspersions on an auditing standard or methodology to assert that it is, 'not risk based'. The idea of a risk-based approach to auditing has been around for at least 20 years, and it is not a difficult concept. It refers to the focus of the audit process on those areas that are most at risk of material misstatement. Nevertheless, both auditors and regulators report problems in determining what constitutes a significant risk, a material risk, and a high-risk area (Gould, 2019). He adds that

appropriate risk assessments should be efficient in terms of cost and effort. If auditors, using their judgment assess the risk appropriately and make clear links between risk assessments and the procedures they perform, the audit stands a chance of uncovering material misstatements by focusing on the right areas. Corrections can be made to the financial statements if necessary and the audit opinion will be appropriate. A key area under investigation in this inquiry was whether Kenyan County Government auditors anticipated and assessed the areas prone to major risk during their audit activities.

Consideration of internal control and risk of fraud are both areas in which auditors often need to improve their risk assessment processes. In particular, auditors need to remember that internal controls are still relevant where a fully substantive audit approach is adopted, and to be more skeptical about the risk of fraud at long-standing clients (Chaplin, 2019). Internal controls are a set of policies and procedures both financial and otherwise, which are designed and put in place to guide operations within the organization; for example, the internal controls on procurement of goods and services or payment of salaries and wages or recruitment of employees. If internal controls were embraced and adhered to by all members of staff, and especially supervisors and heads of sections and cabinet secretaries of the Kenyan County Governments, audit risk would be substantially reduced overcoming audit queries sought by stakeholders. Each devolved unit in Kenya has designed its own set of internal controls depending on the objectives of the administration in place. A key question was whether these would adequately safeguard the integrity of the County Governments' assets.

International Standards of Auditing (ISA) requires auditors to obtain an understanding of the internal controls relevant to the audit by evaluating the design and implementation of those controls irrespective of the size and complexity of the client, and regardless of the audit strategy. Controls relevant to the audit typically keep check of financial reporting. This implies that auditors focus on controls that would prevent, detect or correct a material misstatement. It is a matter of professional judgment whether a control individually or in combination with others is relevant to the audit. To be able to make this judgment, auditors needed to understand the system within which the controls operate (Chaplin, 2019).

The auditor should be allowed access to the information and explanations they deem necessary to the best of their knowledge in conducting the audit. For this study, the records and the accounting information would be availed by the County administrators in either physical or in digital format, or both upon request by the auditor. In some instances, the auditor would seek information/evidence from third parties with whom the County had dealings or agreements; for example, banks, suppliers of goods/services, and other partners. However, this would be done through the county administrator who would authorize such circularization.

When the auditor faces resistance from access to certain information or explanation that they consider key to their reporting, either because it was not available or it had been destroyed, this would lead to an increased number of audit queries at the end of the exercise. Since such audit queries are in most cases not resolved, a key question in this survey was whether Kenyan County Government auditors experienced resistance in accessing pertinent audit information; as this would lead to speculation by the public on the management of the County resources. This paper hypothesized that the County Governments' financial records were kept safe, under lock and key at all times and that could be available at any time upon request. Furthermore, it

was expected that digital data back-ups were maintained to enhance electronic audit trail; as they were under investigation in this empirical survey.

Human capital (HC) adequacy and competence were critical areas of focus in this inquiry. Specifically, job content design, job description, advertising, the process of hiring and orientation, job description, HC qualifications, and experience as well as HC regional balance; were pertinent features of the survey. A key question was whether these were considered while filling requisite vacancies at the devolved units' level. It was expected that audit risk would be substantially minimized if the County Governments engaged competent and adequate Human Capital. However, questions that stood out were; was the hiring process open and transparent in every County? Did the most deserving candidate always merit the appointment? Were the auditors adequate, and did they possess the relevant skills? Did the auditors freely express their independent opinions on the audit findings? Were the issues raised in their management letters addressed expeditiously? This paper thus sought to address these questions in the analysis.

For example, the management letter is the auditor's charter with administrators on key areas of weaknesses encountered in the course of the audit. Most importantly, the auditor gives essential, professional, and independent recommendations, which if implemented would lead to the prosperity of the Kenyan County Governments and improved livelihoods of the Kenyan people. At the time of the study, members of the Kenyan public were concerned over the accountability status of some County administrators, in the wake of delayed salaries, unresolved audit queries, and issues of financial integrity among others.

## **Theoretical Review**

### ***Agency Theory***

The agency theory is a valuable economic philosophy of accounting and accountability as it aids to elucidate the derivation of the audit occupation. The theory is based on a relationship between two parties: a principal who delegates specified tasks and decisions to another party, the agent. The focus of the agency theory stems from the assumption that 'the agent will behave opportunistically, particularly if their interests conflict with the principal' (Mitchell & Meacham, 2011, p. 151). Agency theory has been employed in various studies to extol the partnerships between principals and agents (Bendickson et al., 2016). They add that Principals delegate work to agents, hoping that the agents will execute those demands in the principals' best interest.

The pursuit of similar interests is not always evident between these two parties causing an agency problem. When different interests arise, necessary attention must be directed to resolving this conflict. These differences are problematic to quantity and requirements governing instruments to enable similarity and mutual risk (Arrow, 1971).

A key question in this survey was whether the Kenyan County Governments' auditors comprehended their roles; and that indeed, they executed them in the best interest of their Governments for the maximum benefit of 'Wanjiku' (name of a woman in Kenya, used to typify village dwellers mostly impacted by Kenyan County Governments' financial activities).

### ***Contingency Theory***

Any firm's bottom-line results; whether Profit (financial), or People (social responsibility), or Planet (ecological preservation), (The contemporary three bottom-line view) is influenced by

a plethora of factors, some within, and others outside the firm. These factors can better be accounted for under the contingency theory. Information is essential for effective decision-making in a forecasting environment. Fostering conditions that promote effective use of existing channels of information to accurately predict anticipated outcomes is therefore seen as a prime element contributing to organizational survival and success (Fulmer et al., 1990). In particular, how individuals' values, behavior, competencies, and the attributes of the tasks they perform, affect the use of different information sources is a pertinent issue in organizational forecast analysis (Zeffane & Cheek, 1994). These factors are important considerations in information systems development and management.

A fundamental question in this research was whether the Kenyan County Government auditors matched their values, behavior, and competencies in their work assignments with an internal control environment that guaranteed the utmost use of information systems in forecasting their entities' bottom-line outcomes.

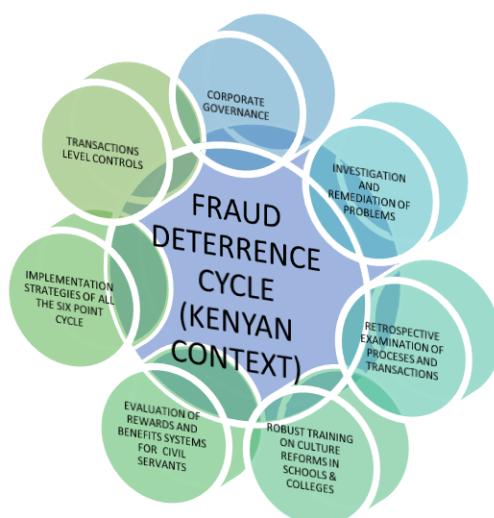
### ***Continuous Audit Theory***

If you do it once, and there are no mechanisms to re-cast, check and authenticate; the activity is untested. Modern organizations are currently embracing the monitoring and evaluation system. The system is more entrenched in the Non-Governmental Organizations (NGOs) which are not for profit but work to promote community development. They use the system to 'return' and monitor, evaluate, and re-direct activities and goals as they protect donated funds to continue to attract more funding to achieve their objectives. Governments belong to this class of entities, as they accrue funds from 'donations' inform of taxes and work to promote community posterity through their choice programs such as the current Big 4 agenda in Kenya. To assure that activities and programs are designed for the benefit of the communities continuously, the Continuous Audit Theory (CAT) propositions are applied. Since the introduction of CAT by Vasarhelyi and Halper (1991), the concept has increasingly moved from theory into practice. They created what was known as the *Continuous Process Auditing System* (CPAS) which has fundamentally informed the contemporary high-tech audit systems employed by experts in an increasingly changing technological world.

A survey by PricewaterhouseCoopers in 2006 showed that half of all surveyed entities employed elements of CAT methods, and the majority of the rest were planning to use it shortly (Alles et al., 2008). They add that besides its growing pragmatic impact on the auditing practice, the CAT concept is a rare example of a significant change led by researchers. A key question was whether the Kenyan devolved units' auditors continuously improved their internal control environments as envisaged in the Auditor General's (AG) management and other audit propositions.

### ***The Transaction Cost Economics Theory***

Transaction Cost Economics Theory (TCET) (Williamson, 1975; 1985) is founded on the premise that costs matter to all forms of entities. TCET conceptualizes intra-organization invention as a series of activities linked by financial transactions (Spraaakman, 1997).



**Figure 1: Audit Cycle**

*Source (Researchers)*

This narrative is theorized in Figure 1, which underpins the inextricably intertwined risky financial environment in which the Kenyan Counties derive their activities in the quest for value maximization. For example: how do Kenya's County Government bosses design and support transaction controls and how do they link these with Human Capital (HC) competencies and rewards? How do they carry out investigations continuously and retrospectively; and commensurate remedial actions taken at the implementation level?

TCET has become the dominant focus in contracting HC (Schepker et al., 2014) as it has a hub on the governance implications of asset specificity, as a form of asset-based co-specialization within entities (Joskow, 1993; Riordan & Williamson, 1985). Riordan and Williamson (1985) propose that between the outside hiring and internal training (repositioning) cost alternatives, firms choose the most efficient combination. More specifically, devolved units in Kenya were expected to think about internal versus external costs of accounting. Accordingly, this theory was applied in this study to exemplify total transactions costs as they relate to auditing in Kenya's devolved organizations.

### **Empirical Review**

In a survey carried out in five Portuguese hospitals, Cruz-Correia et al (2013) undertook the analysis of the existence, adequacy, and quality of audit information, describing contingent scenarios and found that existing audit trials did not have enough quality to guarantee traceability or to be used in Health Information Systems. They made valuable recommendations to improve the quality, adequacy, and consistency of audit information. Keerasuntonpong et al. (2019) employed a secondary data review of the Thailand Government to assess the Government's accountability and found that reliability and timeliness of annual report disclosures were the most problematic, followed by accessibility and adequacy of audit information.

It is universally accepted by most entities that Human Capital (HC) is the most valuable resource any firm can manage (Chouhan & Naghshbandi, 2015). Since the 1980s,

organizations are increasingly relying on their HC for intrinsic growth, and especially in what has emerged as the post-industrial economies (Flamholtz et al., 2002) dominated by the Knowledge-Information-Service-Sector (KISS) firms (Lio, 2018). In these firms, Information Communications Technology (ICT) dominated service delivery. The Kenyan County Governments employ the IFMIS system to execute their mandate. A key question was whether their HC is sufficiently competent. Mello (2011) investigated most Fortune 500 organizations in the USA, Canada, and Europe while challenging limited focus by the firms on HC morale, and demonstrated how employees can be treated as assets that can be managed, invested in, and leveraged for profits. Abu-Musa (2008) studied Saudi Firms and concluded that accountants need to enhance their knowledge and skills of computerized information systems (CIS) for planning, directing, supervising, and reviewing the work performed.

Rubino and Vitolla (2014) investigated how the Control Objective for Business Information and related Technology (COBIT) framework, integrated within the internal control frameworks, enables improvement in the quality of financial reporting while helping to reduce or eliminate material weaknesses of internal controls over financial reporting. They found that the implementation of the COBIT framework, or more generally the adoption of effective IT controls, provides important benefits to the entire organization. Furthermore, IT control objectives have a direct impact on the IT control weaknesses and indirectly on the other categories of material weaknesses. A key inquiry in this survey was whether or not Kenya's devolved units had resolute objectives on Integrated Financial Management. Information System (IFMIS) as well as the entire control environment. O'Leary et al., (2006) established that internal control evaluation is a critical component of the overall audit process, mandated by auditing standards worldwide. They gauged the relative importance external auditors assign to the three elements: (i) control environment (ii) information systems and (iii) control procedures. In the survey, 94 practicing auditors evaluated internal control structures in two fictitious companies, one with strong internal control elements throughout, the other with one of the three sets at a lower reliability level and found that auditors consider control environment the most important element of internal control.

Increased concerns regarding corporate accountability in various developed nations have been associated with the need for appropriate risk management and internal control systems (Saren & Christopher, 2010). Concern over methodologies used to conduct audits and identify risks for clients has been an important issue for auditors well before the major known financial scandals (Katum et al., 2015). Segal (2019) employed an interpretive approach to study audit experts and unravel key audit matters (risk areas). He found that experts have various perceptions of what makes a matter "key"; and that these vary from materiality to subjectivity and difficulty, as well as incorporating a time-based consideration. Furthermore, Concerns identified include a significant increase in cost and an increase in potential liability, triggering the need for thorough internal risk management policies; as the audit experts concluded that key audit risks should be pragmatically identified and most current audit methods have failed to achieve this goal. This survey sought to unravel the numerous key audit risks affecting Kenya's devolved units' audit quality.

If auditors perform their inspection roles and managers fail to implement the findings detailed in the Management Letter (ML), the entire costly exercise leads to naught. Audits and more specifically such as is contacted by the AG on the Kenyan devolved units provide fundamental information on key financial management weaknesses which must be overcome to enhance

public sector financial governance in Kenya. It is notable that, as of the date of this writing, only one County Government in Kenya had received clean audit findings. A fundamental concern of this survey was whether Kenyan County Governments executed the Attorney General's ML concerns.

### Methodology

The study employed the critical realism philosophy and was centered on the mixed methods research design. The survey was anchored on the cross-sectional sampling scheme. Combining qualitative and quantitative data, as well as critical research (Mertens, 2007) has been brought to a level of legitimacy as a result of numerous outstanding documented works (Creswell, 2009). The key assumption of the study was that the implementation of appropriate audit findings was a key risk control measure among the Kenyan devolved units.

The target population was 94 audit staff, comprising of the two auditors, in each County stationed at the main administrative office (2\*47 Counties in Kenya). The staff was selected for this study on audit and risk control because they were directly involved in the audit vocation.

A simple random sampling technique was employed in the inquiry due to its suitability as a scientific determinant of who would be selected. Consequently, each of the County Auditors (CAs) had an equal chance of being selected to form the study sample.

The sample size was calculated based on Yamane (1967) formula as follows:

$$n = N / (1 + Ne^2)$$

Where

N= Target population size

n= is the size of the sample

e= is the marginal error allowance (which is taken to be 0.05 in this study)

$$n = 94 / (1 + 94 * 0.05^2)$$

= 76 (38 Counties). Accordingly, all the 47 Counties were allocated numbers and 38 were randomly selected to form the study sample.

A mixed-method research design was used in this study due to its suitability as it allows the collection of both qualitative and quantitative data, as well as data integration into more meaningful findings (Tashakkori & Creswell, 2007). A detailed schedule of activities and especially all the procedures to be followed throughout the project was prepared, and the plan was followed strictly by the researchers. This was essential in ensuring minimum costs and timely completion of the research agenda.

The questionnaire on its part was pre-tested on pilot respondents who were not going to be part of the study respondents but knowledgeable in the study aspects, to ensure their validity and relevance. The pilot respondents were auditors from the office of the Controller of budget. Reliability is the establishment of whether a research instrument provides consistent results over time, given the study variables. Cronbach's Alpha test was used to establish whether

different respondents provided consistent responses. A coefficient of 0.70 and above implies a high degree of reliability of the data. This test was performed on the data findings to confirm the reliability of the instrument.

Validity means measuring what ought to be measured in a study. Both the questionnaire and the measurement process were to be guided by the conceptual framework to measure the key elements and ensure both face and construct validity because they reflected the key components of the study variables as described in the existing literature. Foddy (1994) discusses the validity and reliability in terms of the questions and answers making sense, and in particular, emphasizes that the questions must be understood by the respondents in the way intended by the researchers and that the answers provided by the respondents must be understood by the researcher in the way intended by the respondents.

The following specific objectives were the subject of the inquiry:

1. To assess the level of access to adequate audit information and records by the auditors of devolved units in Kenya,
2. To investigate the adequacy of human capital in the devolved units in Kenya,
3. To review the internal controls adopted by the devolved units in Kenya,
4. To identify the risks associated with the audit of devolved units in Kenya, and
5. To assess the level of implementation of audit recommendations by the devolved units in Kenya.

Closed-ended questions were used in the study as they provided easier analysis since they were in their immediate usable form. Open-ended questions were also used since they encouraged the respondents to give an in-depth response on the study variables. The study variables were measured using both the ordinal scale and Likert-type scale (1= Very strongly disagree; 2= strongly Disagree; 3= Disagree 4= Not sure; 5= Agree; 6= strongly agree; 7= Very Strongly Agree). A *t*-test was employed to analyze any disparities among the respondents. The questionnaires were administered to the respondents using a drop and pick later method. The researchers visited the respondents' offices or made phone calls; introduced themselves to the relevant respondents by explaining to them the nature and purpose of the study, and then left the questionnaires which were later picked after two days, or a period which both the researcher and the respondent agree on.

## Results

The researchers conducted a pilot study to ensure that the data acquired via the data collection instrument was valid and reliable. Cronbach's alpha ( $\alpha$ ), the most commonly acknowledged interior consistency measure, was used. It highlighted the extent to which a collection of test items could be treated as a single latent variable. As a cut-off for reliabilities, a suggested estimate of 0.6 or higher was used (Rousson et al., 2002). Internal consistency was measured by the Alpha, which would rise if a given item assessed a similar construct. According to the study results, all questionnaire control activities had the highest reliability ( $\alpha = 0.873$ ) as shown in Table 2. The reliability values of all five scales were above the stipulated threshold of 0.6, indicating that they were all dependable (Rousson et al., 2002).

**Table 1: Case Processing Summary**

		N	%
Cases	Valid	55	100.0
	Excluded	0	0.0
	Total	55	100.0

**Table 2: Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.873	.867	23

**Response Rate**

Fifty-five questionnaires were returned and validated for data analysis. This represented a response rate of 72%.

**Demographic Characteristics of the Respondents****Table 3: Demographic Characteristics**

Variable	Category	Number	Column %
Gender	Male	42	76.4%
	Female	13	23.6%
Age of the respondents	Below 50 Years	38	69.1%
	More than 50 Years	17	30.9%
Level of Education	Bachelor's degree	17	30.9%
	Master's degree	11	20.0%
	CPA-K	6	10.9%
	Others	5	9.1%
	Bachelor's and CPA-K	10	18.2%
	Bachelor's, Master's degree & CPA-K	6	10.9%
How many years have you been in the current position	Less than 1 Year	0	0.0%
	1-5 Years	19	34.5%
	More than 5 Years	36	65.5%

*Source: Field Data*

According to the research findings, 76.4% ( $n=42$ ) of the overall survey participants were male, while 23.6% ( $n=13$ ) were female an indicator that male employees continue to make up a higher proportion of the workforce in the various Kenyan County Governments. Furthermore, 69.1% of the respondents were aged below 50 years, implying that a high and growing proportion of the County Government employees were younger people. In addition, approximately 90% of the participants had at least a bachelor's degree. This showed that Kenyan County auditors were adequately skilled and knowledgeable. The findings further revealed that majority of respondents had more than five years experience in their positions and were hence capable of providing reliable survey information.

*Descriptive Analysis***Table 4: Other Auditors Named by the Respondents**

		Frequency	Percent	Valid %	Cumulative %
Valid	Internal auditor	14	25.5	60.9	60.9
	Independent auditors (Consultants appointed by Donors)	8	14.5	34.8	95.7
	Others	1	1.8	4.3	100.0
	Total	22	41.8	100.0	
Missing	System	33	58.2		
Total		55	100.0		

*Source: Field Data*

The inquiry revealed that the Kenyan Auditor General (AG) did not conduct audits in all the County Governments, implying that other external auditors were hired to carry out the activity. Donor-appointed auditors such as the World Bank, UNICEF, WHO, and DANIDA; were among the independent auditors cited by the respondents. In addition, auditors from the Ethics & Anti-Corruption Commission (EACC), Kenya Revenue Authority (KRA), the Procurement Regulatory Authority (PRA), Treasury, and Kenya National Audit Office among others were also mentioned in this study.

The study findings in Table 4 is an indication that Kenyan County Governments benefited from diverse audit opinions which would lead to reduced financial risks and improved livelihoods of the Kenyan people.

**Table 5: Access to Adequate Audit Information and Records**

	N		Mean	Std. Deviation
	Valid	Missing		
My County is audited by Kenya's Auditor General only	53	2	3.32	1.661
I always have easy access to all required audit information	55	0	3.49	1.332
I always have easy access to all required audit records	55	0	3.42	1.315
I always have easy access to accurate audit information	54	1	3.43	1.297
I always have easy access to accurate audit records	52	3	3.17	1.324
I always have easy and timely access to all required audit information	42	13	2.79	1.279
I always have easy and timely access to all required audit records	53	2	2.98	1.263
My county's statements are frequently audited by an independent public accountant	52	3	3.15	1.564

*Source: Field Data*

In Table 5, respondents shared their views on having access to proper audit information and records, as well as the impact it had on risk control in their devolved units. The study findings revealed that, having easy access to all required audit information ( $M=3.49$ ,  $SD=1.332$ ) had the greatest influence on risk control; while having easy and timely access to all required audit

information was perceived to have the lowest impact. This suggested that having easy access to all required audit information was paramount in auditing for risk control, although efforts were needed to ensure that all the audit information was easily accessible and promptly.

In Table 6, respondents shared their opinions on the sufficiency of human capital and its impact on risk management in their devolved entities. The study findings depicted that having separate departments for accounting and audit staff ( $M=4.47$ ,  $SD=0.959$ ) had the greatest influence on risk control; while having adequate accounting and audit staff was perceived to have the lowest impact. This implied that having separate departments for accounting and audit staff is supreme in auditing for risk control. However, there was the need to ensure that Kenyan County Governments had sufficient accounting and audit staff.

**Table 6: Adequate Accounting and Human Capital**

	N		Mean	Std. Deviation
	Valid	Missing		
My County has separate departments for accounting and audit staff	55	0	4.47	.959
My County has enough accounting and audit staff	54	1	3.20	1.509
Accounting and audit staff have at least a degree from a recognized University and a professional qualification such as Certified Public Accountant (CPA)	54	1	3.96	1.149
Most accounting and audit staff in my County are honest in their work dealings	55	0	3.47	1.230
Most accounting and audit staff consistently report and depart from work timely	55	0	3.55	1.245
Audit concerns raised are adequately addressed and differences of opinion if any, resolved before the final audit results are communicated	54	1	3.46	1.284

*Source: Field Data*

Table 7 shows measures of internal control practices derived from the respondents' key statements. The study results showed that establishing a corporate governance structure to safeguard the Kenyan County Governments' assets from loss due to theft and other fraudulent activities ( $M=3.59$ ,  $SD=1.055$ ) had the greatest influence on risk control; while having clear mechanisms for staff to disclose a potential conflict of interest with outside activities, relationships, or financial interests was perceived to have the lowest impact. This implied that having an established corporate governance structure to safeguard County assets from loss due to theft and other fraudulent activities was fundamental in auditing for risk control, although there was the need to ensure the Counties had clear mechanisms for staff to disclose a potential conflict of interest with outside activities.

**Table 7: Internal Controls**

	N		Mean	Std. Deviation
	Valid	Missing		
My County has established a corporate governance structure to safeguard County assets from loss due to theft and other fraudulent activities	54	1	3.59	1.055
My County has established transactional level controls to safeguard County assets from loss due to theft and other fraudulent activities	54	1	3.57	1.039
My County undertakes a retrospective examination of business transactions to help detect fraud before it becomes large and harmful	55	0	3.40	1.211
My County has established mechanisms to investigate suspected, alleged, or actual frauds and take action such as suspension or dismissal	53	2	3.42	1.117
My County has clear mechanisms for staff to disclose a potential conflict of interest with outside activities, relationships, or financial interests	54	1	2.76	1.258

*Source: Field Data*

One of the objectives of this study was to identify the numerous key audit risks affecting the audit quality of Kenya's devolved entities. The respondents highlighted several risks that could have an impact on their units' functions in Table 8. The top risks faced by devolved units in Kenya according to the findings of this study included financial risk, 22.7% ( $n=17$ ), internal control risk, 12.0% ( $n=9$ ), and fraudulent risk, 9.3% ( $n=7$ ). This implied that the units would have to keenly focus on these if they hoped to minimize financial risks and promote the quality of the Kenyan Peoples' lives.

**Table 8: Key Risks Associated with the Audits**

Risk	Number	Percent
Financial Risk	17	22.7
Internal Control Risk	9	12.0
Fraudulent Risk	7	9.3
Political Risk	6	8.0
Operational Risk	6	8.0
Non-Compliance Risk	6	8.0
Human Resource management Risk	5	6.7
Managerial Risk	5	6.7
Reputational Risk	5	6.7
Detection Risk	4	5.3
Payment of no-existent employees	3	4.0
Strategic Risk	2	2.6
Total	75	100

*Source: Field Data*

A key objective of this survey was to assess the level of audit recommendations' implementation by the devolved units in Kenya. The survey results are presented in Table 9 and showed that, although 76.4% ( $n=42$ ) of Kenya's devolved units executed all their audit

recommendations, the implementation pace was slow. Only 14.5% ( $n=8$ ) of respondents stated that their Counties followed through on all audit recommendations, while 5.5% ( $n=3$ ) indicated they did not make any follow-ups at all. This implied that audit findings' implementation faced challenges in Kenya's devolved units. This trend had the potential of enhancing financial risk and lowering the quality of the Kenyan peoples' lives.

**Table 9: Implementation of Audit Recommendations**

		Frequency	Percent	Valid %	Cumulative %
Valid	Implements all the audit recommendations promptly	8	14.5	15.1	15.1
	Implements all the audit recommendations but in a slow phase	42	76.4	79.2	94.3
	Audit recommendations not implemented at all	3	5.5	5.7	100.0
	Total	53	96.4	100.0	
Missing	System	2	3.6		
Total		55	100.0		

*Source: Research Data*

According to Table 10, respondents believed that County financial risk management improved Wanjiku's quality of life ( $M=4.22$ ,  $SD=0.975$ ). This implied that if all potential Kenyan County Governments' financial risks were addressed, County citizens' livelihoods would be enhanced. Furthermore, the study indicated that risk control reduced corruption in the Counties' financial governance ( $M=4.22$ ,  $SD=0.917$ ). Reduced corruption would greatly supplement Wanjiku's quality of life.

**Table 10: Risk Control**

	N		Mean	Std. Deviation
	Valid	Missing		
Risk Control enhances Wanjiku's quality of life in my County	55	0	4.22	.975
Risk Control minimizes corruption in my County	55	0	4.22	.917
Risk Control promotes clean audit opinion in my County	55	0	4.31	.998

*Source: Field Data*

### **Correlation Analysis**

Correlation analysis was conducted to investigate the relationships that existed between the dependent (Risk Control) and the independent variables. In addition, it helped to examine any relationships among the independent variables. Results in Table 11 showed that Risk Control and Internal controls were significantly positively correlated,  $r(55) = 0.284$ ,  $p < .05$ . This implied that internal controls were essential in promoting financial risk controls for Kenyan peoples' improved livelihoods. There was also an observed positive correlation between Risk Control and Audit information,  $r(55) = 0.290$ ,  $p < .05$ . This implied that risk control was promoted by the quality, adequacy, and consistency of audit information. The results further showed that Risk Control and Human Capital Competencies had a significant positive

association,  $r(55) = 0.357$ ,  $p < .01$ . Accordingly, these would promote financial risk controls leading to Wanjiku's improved quality of life.

**Table 11: Correlation Analysis**

		Key Risks	Implementation	Audit information Records	Human Capital Competencies	Internal Risk Controls	Control
Key Risks	Pearson Correlation	1					
	Sig. (2- tailed)						
	N	48					
Implementation	Pearson Correlation	-.237	1				
	Sig. (2- tailed)	.113					
	N	46	53				
Audit information and Records	Pearson Correlation	.106	.138	1			
	Sig. (2- tailed)	.474	.323				
	N	48	53	55			
Human Capital Competencies	Pearson Correlation	.121	.100	.437**	1		
	Sig. (2- tailed)	.411	.475	.001			
	N	48	53	55	55		
Internal Controls	Pearson Correlation	.100	.258	.591**	.561**	1	
	Sig. (2- tailed)	.498	.062	.000	.000		
	N	48	53	55	55	55	
Risk Control	Pearson Correlation	-.104	.140	.290*	.357**	.284*	1
	Sig. (2- tailed)	.481	.316	.032	.007	.035	
	N	48	53	55	55	55	55

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

\* . Correlation is significant at the 0.05 level (2-tailed).

*Source: Field Data*

From the study findings, internal controls and adequate audit information were highly positively correlated,  $r(55) = 0.591$ ,  $p < .01$ , implying that having proper audit information aided internal control operations leading to enhanced financial risk controls and Wanjiku's improved quality of life. Furthermore, Internal controls and Human capital competencies were also highly positively correlated,  $r(55) = 0.561$ ,  $p < .01$ , and so were Adequate audit information and Human capital competencies,  $r(55) = 0.437$ ,  $p < .01$ , again leading to a similar positive impact on Kenyan livelihoods.

#### **Diagnostic Tests of the Regression Model**

Diagnostic tests helped to evaluate the nature of the data and to establish the model that would be used in the study. This implied the regression findings were impartial, consistent, and

efficient. Diagnostic tests were performed to ensure that the assumptions linked to the OLS regression model were correct. The focus was on violations of normality, heteroscedasticity, and Multicollinearity error assumptions.

### ***Test of Multi-collinearity***

To test for Multicollinearity, both the Variance Inflation Factor (VIF) and reciprocal of Tolerance were applied. Several 0.10 (1/VIF0.10) in the Tolerance Statistics would indicate a problem with Multicollinearity. A Variance Inflation Factor greater than 10 (VIF > 10) indicates that Multicollinearity is problematic. Table 12 shows that all the VIF values for each coefficient were less than 10 (VIF < 10), implying that this assumption was not violated.

**Table 12: Multicollinearity Test**

Model	Collinearity Statistics		
	B	Tolerance	VIF
1 (Constant)	3.548		
Key Risk associated with the audit of devolved units in Kenya	-.221	.843	1.186
Level of implementation of audit recommendations by devolved units in Kenya	-.401	.680	1.471
Access to adequate audit information and audit records	.272	.597	1.676
Adequate accounting and audit Human Capital	.368	.613	1.632
Internal Controls adopted by Kenya's devolved units	-.151	.413	2.420

### ***Test of Normality***

To examine if residuals behaved normally, both Kolmogorov-Smirnov and Shapiro Wilk tests were performed. If the p-value was more than 0.05 ( $p > 0.05$ ), the study would fail to reject the null hypothesis (with 95% confidence), and the residuals would be assumed to be normally distributed. Table 13 shows that both Kolmogorov-Smirnov and Shapiro-Wilk tests were insignificant,  $p < 0.05$  indicating that the assumption was violated.

**Table 13: Tests of Normality**

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Risk Control	.259	55	<.001	.778	55	<.001

### ***Testing for Heteroscedasticity***

The Breusch- Pagan test was used to determine heteroscedasticity in this investigation. Residuals are homoscedastic, according to the null hypothesis. As a result, if the F statistic strongly rejects the null hypothesis at a 90% or 95% level of significance, heteroscedasticity is present. Table 14 shows that the result was significant,  $p < 0.05$  indicating that residuals were not homoscedastic.

**Table 14: Studentized Breusch-Pagan Test**

<i>data: model</i>		
BP	df	p-value
17.379	5	0.003835

**Final Regression model**

The overall effects of the independent variables namely; internal controls, human capital adequacy, audit information, application of audit findings, and plethora of other risks on risk control, was investigated using Analysis of Variance (ANOVA) as shown in Table 15 below. According to the ANOVA results, the overall fitted model was significant  $F(5, 40) = 4.729, p < .05$ . This implied that at least one of the independent variables in the model had a substantial impact on Risk Control.

The coefficient of determination, often known as the model summary, was used to assess how effectively the statistical model predicted future events. The square of the sample correlation coefficient between results and expected values was the coefficient of determination,  $R^2$ .

**Table 15: ANOVA**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.402	5	.280	4.729	.002
Residual	2.371	40	.059		
Total	3.773	45			

a. Dependent Variable: Natural logarithm of Risk Control

b. Predictors: (Constant), Internal Controls adopted by Kenya's devolved units, Key Risk associated with the audit of devolved units in Kenya, Level of implementation of audit recommendations by devolved units in Kenya, Adequate accounting and audit Human Capital, Access to adequate audit information and audit records.

The results of the fitted model are presented in Table 16 below.

**Table 16: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	1.135	.318		3.574	<.001
Key Risk associated with the audit of devolved units in Kenya	-.074	.092	-.111	-.811	.422
Level of implementation of audit recommendations by devolved units in Kenya	-.156	.100	-.239	-1.572	.124
Access to adequate audit information and audit records	.106	.053	.327	2.017	.050
Adequate accounting and audit Human Capital	.145	.060	.384	2.397	.021
Internal Controls adopted by Kenya's devolved units	-.063	.065	-.190	-.972	.337

a. Dependent Variable: Natural logarithm of Risk Control ( $\ln RC$ )

Table 16 showed the results of the effect of each independent variable on Risk Control. Based on the research results, only one variable, namely Adequate accounting and audit Human Capital had a significant effect on Risk Control,  $t(55) = 2.397, p < 0.05$ . This implied that, while the model was important in identifying Risk Control, as indicated by the ANOVA results,

Adequate accounting and audit Human Capital was the most important factor in forecasting Risk Control. The final fitted model according to the results was presented as below:

$$\ln(RC)=1.135+0.106ADAIR+0.145AAHC-0.063IC-0.074KR -0.156LI$$

According to the model specified, the interpretations of the model coefficients is based on the inverse logarithm of the tabulated values. Hence, according to the findings in Table 16, constant value is 1.135 and so the inverse logarithm is 13.646 which in this case represent the mean value of Risk Control when all of the independent variables in the model are set to zero. The value of the inverse logarithm of the coefficient of Key Risk associated with the audit of devolved units in Kenya is 0.843 which implies that a unit increase in the Key Risk associated with the audit of devolved units in Kenya is associated with 0.843 units increase in Risk Control when other variables are held constant. On the other hand, a unit increase in Level of implementation of audit recommendations by devolved units in Kenya causes an increase of 1.432 units in Risk Control when other variables are kept constant. At the same time, a unit increase in Access to adequate audit information and audit records cause an increase of 1.276 units in Risk Control when other variables are held constant. The findings also indicate that, a unit increase in adequate accounting and audit Human Capital leads an increase of 1.396 units in Risk Control, while holding other variables constant. Lastly, a unit increase in Internal Controls adopted by Kenya's devolved units causes an increase of 1.156 units in Risk Control.

To measure the precision of the fitted model, the coefficient of determination, often known as the model summary, was used. In other words, this was used to assess how effectively the statistical model predicted future events. The square of the sample correlation coefficient between results and expected values was the coefficient of determination,  $R^2$ .

**Table 16: Model Summary**

Model	R	R Square	Adjusted R Square	Std. An error of the Estimate
1	.610	.372	.293	.24347

*a. Predictors: (Constant), Internal Controls adopted by Kenya's devolved units, Key Risk associated with the audit of devolved units in Kenya, Level of implementation of audit recommendations by devolved units in Kenya, Adequate accounting and audit Human Capital, Access to adequate audit information and audit records*

R was the square root of R-squared, and was the correlation between the observed and predicted values of the dependent variable as shown in Table 17. The proportion of variance in the dependent variable (Risk Control) that was predicted using the independent variables was known as R-square. The coefficient of determination ( $R^2$ ) of the model was 0.372, indicating that the independent variables (Internal Controls, Human Capital adequacy, Audit Information, Application of Audit Findings, and Plethora of other Risks on Risk Control) explained 37.2% of the variation in Risk Control, leaving 62.8% to be predicted by factors not included in this inquiry. R-squared had an adjusted value of .293, with a standard error of estimate of .163.

## Discussion

The findings of the study are in support of the survey carried out in five Portuguese hospitals, Cruz-Correia et al. (2013) who analyzed the existence, adequacy, and quality of audit

information, describing contingent scenarios and found that existing audit trials did not have enough quality to guarantee traceability or to be used in Health Information Systems.

The findings are also consistent with Keerasuntonpong et al. (2019) in their study, they employed a secondary data review of the Thailand Government and assessed the Government's accountability and found that reliability and timeliness of annual report disclosures were the most problematic, followed by accessibility and adequacy of audit information. The study findings also agree with (Chouhan & Naghshbandi, 2015). That it is universally accepted by most entities that Human Capital (HC) is the most valuable resource any firm can manage.

### **Conclusion and Recommendations**

Male employees continue to dominate Kenyan Counties as 76% of the survey participants were male while their female counterparts were only 24%. This implied that Kenya's struggle to embrace affirmative action and the third gender rule was unrealized. However, the majority of the workers were younger professionals, with 90% possessing at least a bachelor's degree. Besides the office of the AG's officers, Kenyan Counties were audited by external auditors such as the World Bank, UNICEF, WHO, and DANIDA. Others included the EACC, KRA, PRA, and Treasury, implying that the combined efforts of the audit groups greatly enhanced transparent financial management and improved the livelihoods of the Kenyan people. Accordingly, a key Kenyan devolution objective was achieved. The witnessed arrest and prosecution of several County Governors by the EACC supplemented the study findings. Furthermore, the survey participants promoted (i) access to all required audit information, (ii) the need for separate departments for audit and accounting staff, and (iii) the establishment of corporate governance structure to safeguard County Governments' assets has the practices which would greatly enhance financial, internal, as well as fraudulent risk controls, identified as those with the utmost potential of eroding Wanjiku's quality of life.

According to the study findings, internal controls, adequate audit information, and Human Capital competencies were all separately significantly positively correlated with risk control. In addition, internal controls and adequate audit information; internal controls and Human Capital competencies, as well as adequate audit information and Human Capital competencies were each positively correlated. This implied that the independent variables enhanced each other, and each promoted risk control on the Counties' financial governance for enriched Wanjiku's quality of life. The overall model was 0.372, indicating that the independent variables explained 37.2% of the variation in Risk Control. However, adequate audit information and Human Capital adequacy were the leading factors in predicting risk control.

In conclusion, internal controls, Human Capital adequacy, audit information, timely implementation of audit findings, and keen focus on risks such as financial, fraudulent as well as internal controls had a substantial positive impact on risk control, which promoted Kenyan Counties' effective financial management for Wanjiku's improved livelihood. However, the Kenyan Counties should focus more on the adequacy of audit information and Human Capital if they hoped to control financial risk significantly for the Kenyan peoples' improved quality of life.

The multi-unit approach to Kenyan Counties' audit was strongly recommended owing to its effectiveness in financial risk control for enriched livelihoods of the Kenyan people. Furthermore, the third gender rule and affirmative action should be promoted during the

employment of County workers. Further research was also recommended to unravel the factors responsible for the 62.8% of the Kenyan devolved units' financial risk control for improvement of Kenyan's quality of life.

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