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**THE EFFECTS OF IMPLEMENTING AUDIT REPORT
RECOMMENDATIONS ON CORPORATE GOVERNANCE PRACTICES
IN KENYAN PARASTATALS**

CYRUS OWINO

**A THESIS SUBMITTED TO THE STRATHMORE BUSINESS SCHOOL IN PARTIAL
FULFILLMENT FOR THE DEGREE OF MASTER OF COMMERCE IN FORENSIC
ACCOUNTING AT STRATHMORE UNIVERSITY**



STRATHMORE BUSINESS SCHOOL

STRATHMORE UNIVERSITY

NAIROBI, KENYA

MAY 2024

DECLARATION

I declare that this thesis has not been submitted previously for an award of a degree by this University or any other. This thesis contains no material previously published or written by any other person except where due reference was made in the thesis itself to the best of my knowledge.

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ACRONYMS AND ABBREVIATIONS

CEO	Chief Executive Officer
CG	Corporate Governance
SPSS	Statistical Package for Social Sciences
CRO	Chief Risk Officer
ERM	Enterprise Risk Management
NACOSTI	National Commission For Science, Technology & Innovation



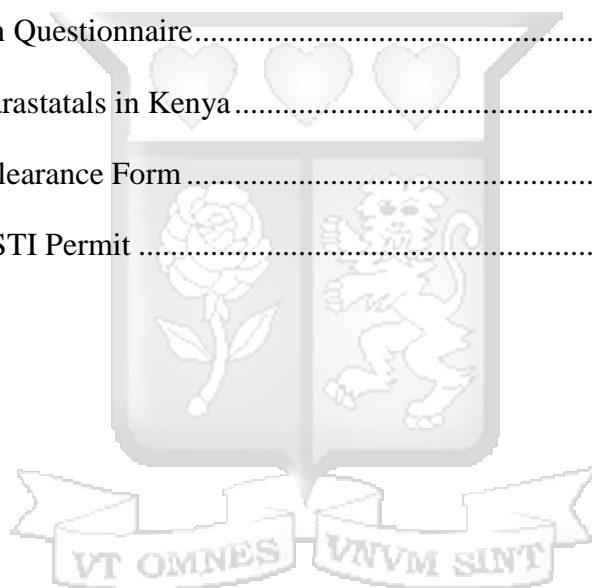
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ABSTARCT

Corporate governance refers to the regulations, rules and standard operating procedures that direct how organizations and businesses run, manage, and control their operations. It involves the regulations, rules, practices and procedures that guide the regulation, management and operation of the activity's organizations. Auditing is the objective and thorough study of a company's data, operations, activities, records and financial statements to see if they fulfil specified standards and laws. Thus, the study seeks to determine the effects of implementation of audit report recommendations on corporate governance practices in parastatals in Kenya. The specific objectives of the study were to establish the effect of quality of audit reports, regular-follow up audits and audit action plans on corporate governance practices in parastatals in Kenya. The study was guided by the agency theory, stakeholders' theory and the signaling theory. correlational research was the anchoring design. The target population of the study involved the management and the board members of the parastatals in Kenya. The target population of the study included 1 auditor, 1 senior manager, 1 accountant and 1 board member as respondents. Stratified sampling was used to selected parastatals from the different ministries to participate in the study. Simple random sampling was used to select respondents who participated in the study from the selected parastatals. The analysis of data was done with the use of SPSS. The results were outlined in the form of descriptive and inferential statistics. From the regression results, there was a significant and positive relationship between quality of audit reports, regular follow up audits and audit action plans with corporate governance practices. The study concluded that quality of audit reports in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. The study further concluded that regular follow-up of audits in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. The study finally concluded that audit action plans in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. The study recommended that the Auditors need to release quality audit reports by ensuring having qualified and experienced auditors and having minimal influence from management. The study further recommended that regular follow up of the previous audit reports needs to be done by the auditor in conjunction with the management. The study also recommended that audit committees or Parliamentary accounts committee needed to draw a formal audit action plan that would guide the process of implementing the audit recommendations where the recommendation issued earlier had not been implemented

CHAPTER ONE: INTRODUCTION

This chapter presents the background of the study and the research problem. The chapter highlighted the objectives of the study. The scope of the study was discussed. The chapter concluded by discussing the significance of the study to practice, policy makers and research.

1.1 Background of the Study

Corporate governance entails the framework including the processes and systems, the rules as well as the relationships guiding the manner in which authority within organizations is exercised and controlled as well as holding companies accountable. It involves the relationship between the company shareholders, stakeholders, management and directors of the board (Kiragu, 2016). Corporate governance entails a system controls and regulates companies and enhances the value of shareholders by ensuring that the owners of the company get correct and accurate information on a timely basis detailing the financial performance of the company (Herdiyopie et al., 2020).

Corporate governance may also be defined to include the regulations, rules and standard operating procedures that direct how the operations of organizations and businesses are controlled, managed and run. It involves the regulations, rules, practices and procedures that guide the regulation, management and operation of the activity's organizations (Anaman et al., 2023). Corporate governance practices serve to find a solution to the agency problem. The owners of the company would want to maximize their interests and bestows the role of managing the operations of the company to the management. However, in some cases, the management may divert and seek to maximize their interests and not the interests of the shareholders. Thus, corporate governance is put in place to oversee the activities of the management as well as monitoring them (Solomon, 2020).

Auditing is the objective and thorough examination of the operations, activities, records, financial statements and the data of the company to see if they fulfil specified standards. Its primary objective is to examine the effectiveness of the company in complying with laws, processes as well as the rules that relates to its management. The presence of an external auditor is a critical element in solving the agency problem inherent between the shareholders and the management of the company (Abdeljawad et al., 2020). The external auditor provides a situation where the management would be forced or encouraged to be accountable for their actions. The external

auditor may also be instrumental in solving macroeconomic challenges including inflation by ensuring the adoption of appropriate accounting policies (Anaman et al., 2023).

Internal audit is an examination conducted on the financial accounting records and financial statements. It is a process that adheres to the regulations of the government including the predetermined top management policies as well as the provisions of applicable professional ties. It serves to check how the financial statements and books portray the real picture of the actual activities of the company and establishing the compliance of the various sections of the company to the set rules and policies (Sudirman et al., 2021). It is the expectation of the users of the financial statements as well as the clients that the auditor would provide adequate information about the condition of the financial statements as provided by the company management (Salehi et al., 2020).

Good corporate governance affects financial statement quality as it explains the internal audit implementation. It is the expectation of the users of the financial statements as well as the clients that the auditor would provide adequate information about the condition of the financial statements as provided by the company management (Herdiyopie et al., 2020). Emphasizing the substance of transaction rather than the legal form goes a long way preventing the various corporate collapses. Putting more weight on the substance of the transaction is essential in considering the true impact and nature of the transaction hence preventing potential manipulation or misinterpretations. This would enable the stakeholders to make informed decisions, ensure accountability and facilitate trust. Mitigating, assessing and identifying risks enable the organization to adequately prepare for potential threats, safeguard their long-term viability and stability (Coffee, 2020).

In Bangladesh, the business sector of Bangladesh just like other emerging nations is characterized by poor monitoring rules. The sector has been subject to two codes a rule-based and a comply-or-explain approach. Bangladesh Securities and Exchange Commission has introduced three different codes in an attempt to comply with the global best practices. The requirements have been enhanced to improve on accountability and openness in the management and board performance. The guidelines include the compensation and nomination provisions that guide the establishment of the policies that provide for the board members' nominations as well as the compensation of the CEO and the directors. Enhancing the measures of corporate governance including transparency, disclosure quality and shareholder rights can considerably benefit businesses (Islam et al., 2022). The study however presented conceptual and contextual gaps as the study at hand dwells on

implementation of audit report recommendations to enhance corporate governance practices in parastatals in Kenya.

In Pakistan, existing research among the Pakistan Stock Exchange listed entities indicates that quality of audit is increased by the brand name of the auditor, which also decreases the audit report lag. Audit opinion affects the audit quality in cases of the presence of an unqualified report. A larger number of independent board members within the board enhances audit quality. Family ownership increases the quality of audit. Taking ownership concentration as a moderator, the relationship between board diligence and the timelines is negative. As the size of the board increases, the quality of audit decreases. Further, the management report lag is decreased by the presence of the audit committee. However, timeliness is not affected by audit committee in the absence of moderation (Waris & Haji, 2023). The study however presented conceptual and contextual gaps as the study at hand dwells on the Kenyan context, Kenya being a developing economy. Further, the study is focused on the size of the board whereas the current study focuses on the implementation of audit reports.

Corporate governance in Indonesia provide risk transfer instruments, savings mechanisms for the insurance companies and promote economic investments. However, governance practices among the insurance companies in Indonesia are poor. The state-owned enterprises companies are involved in several scandals and hence the legal provisions as well as the governance regulations ought to be enhanced. The outcomes further pointed out of the negative effects on the rule implementation on the profits of the insurance entities. Regulatory reform was found to be negatively related to the profitability of the company and thus reduces performance (Vincent et al., 2023). The study however the gaps presented were conceptual and contextual that the current investigation intents to fill. The study dwelled on the corporate governance of insurance companies while the current study dwelled on corporate governance of state parastatals, whose context may be different.

In Palestine, the results on an analysis focusing on the 44 firms listed in the Palestine exchange revealed that audit quality, ownership concentration, the difference between CEO and the board chairman and the independence of the board has a complementary effect and enhances the chance of audit committee formation. However, audit committee formation can be substituted by the ownership and size of the board. Furthermore, investment opportunities were found to moderate

and strengthen the relationship between the quality of audits and audit committee formation (Abdeljawad et al., 2020). The study however presented conceptual and contextual gaps that the study intends to fill. The study dwelled on audit committee formation and its effects on corporate governance whereas the current study is focused on the effects of audit cycle implementation on corporate governance.

In Nigeria, 21% of Nigeria's GDP is contributed by the consumer goods sector, which forms the second largest sector in terms of contribution to the national GDP. In an investigation into how corporate governance traits affect the audit report latency of Nigerian consumer goods firms, the findings indicate that board size, board independence and audit committee composition have an influence on audit report lag. Thus, board size and composition of audit committee affects significantly audit report lag of consumer goods companies in Nigeria while board independences have an insignificant negative impact on the audit report lags in Nigeria (Abdulkarimb et al., 2023). The study however presented conceptual and contextual gaps as the study at hand dwells on the Kenyan context.

One of Africa's fastest-growing manufacturing sectors is that of South Africa, Ghana, and Nigerian corporations. After Nigeria (4.7 years), South Africa (7.85 years), and Ghana (3.9 years), these three countries have the shortest average board tenures. A positive and statistically negligible effect was observed for Nigerian organizations, whereas a statistically significant positive effect was found for the average board term in South Africa and Ghanaian companies' return on invested capital. Firms in Nigeria have the lowest percentage of female directors at 17.3%, Ghana at 17.8% and South Africa at 24.26%. There was as statistically significant positive relationship between female representation on the corporate board and all firms' return on net operating assets (Mensah & Bein, 2023).

Legislations are in place in Tanzania, Kenya and Rwanda that provides that small private companies need not to appoint an auditor, but they may do so if they wish, in which case they are required to follow the act in place. For government parastatals, the external audit is important to ensure that public funds are utilized and managed prudently. An analysis indicates that transparency and accountability are key pillars of corporate governance, and external auditors are key players in the corporate governance matrix that help to foster these corporate governance ideals (Walabyeki, 2016). The study presented a contextual gap since it dwelled on manner of appointing

an auditor, whereas the current study is focused on the implementation of audit report recommendations.

The audit committee in Kenya is mandated to aid the company management in the role of overseeing internal controls and checks including of internal audit monitoring. The management of a company act on behalf of the shareholders of the company in the management of the operations of the company. Thus, it is the expectation of the shareholders that the management would maximize their interests. However, this may not be the case as the management may engage in activities aimed maximizing their interests. As a result, corporate governance is in place to reduce agency problems and are mandated to oversee the activities of the management. An analysis indicates that the tenure of the audit committee as well as multiple directorships forms critical characteristics of the audit committee. These factors are essential in the reduction of the frequency of restatements of financial statements (Ogoro & Simiyu, 2015). The study presented conceptual gap as the study at hand focuses on the effect of implementing audit report recommendations on corporate governance.

1.1.1 Corporate Governance Practices

Corporate governance refers to the regulations, standard operating procedures and rules directing the control, management and running of the operations of businesses and organizations. It involves the regulations, rules, practices and procedures that guide the regulation, management and operation of the activity's organizations (Anaman et al., 2023). Corporate governance practices serve to find a solution to the agency problem. This is because in the corporate setup, the intention of the shareholders is to maximize their interests. In so doing, the contract the management to act on their behalf and run the operations of the entity with the aim of maximizing the interest of the owners. However, this may not be the case as the management may engage in activities that would compromise the interests of the owners. Corporate governance thus is a setup that is aimed at finding the solution to this problem by overseeing the activities of the management (Solomon, 2020).

Corporate governance entails the framework including the processes and systems, the rules as well as the relationships guiding the manner in which authority within organizations is exercised and controlled as well as holding companies accountable. It involves the relationship between the company shareholders, stakeholders, management and the board of directors (Kiragu, 2016).

Corporate governance entails a system controls and regulates companies and enhances the value of shareholders by ensuring that the owners of the company get correct and accurate information on a timely basis detailing the financial performance of the company (Herdiyopie et al., 2020).

Corporate governance practices are recommended in a code of corporate governance called Mwongozo code of governance. Mwongozo (a code of governance for government owned entities) was developed to provide a framework embodying Board charters, Codes of conduct, professional ethics, and performance management. The Code addresses matters of effectiveness of Boards, transparency and disclosure, accountability, risk management, internal controls, ethical leadership and good corporate citizenship. It further provides a platform for addressing shareholder rights and obligations and ensuring more effective engagement with stakeholders. More importantly, the code is significant in ensuring that sustainability, performance and excellence become the hallmark of the Government Owned Entities (State Corporations Advisory Committee, 2023).

The performance of parastatals is affected by corporate governance practices. Some of the practices that affect the performance of parastatals in Kenya include politicization of the appointment process, corruption, impunity, mismanagement of the parastatal assets as well as the irregular appointment of the board of directors. In Kenya, in some cases the directors are perceived to be political aides of prominent politicians whose appointment is part of the reward system for patronage. Most appointments are made without due regard to state corporations' performance contracting regulations on appointment of chief executives (Ileri, 2016). Good corporate governance is the foundation for stable, financially healthy SCs and the key to sustainably limiting the fiscal risks and costs emanating from SCs.

1.1.2 Audit Report Recommendations

Auditing is the objective and thorough examination of the operations, activities, records, financial statements and the data of the company to see if they fulfil specified standards. Its primary objective is to examine the effectiveness of the company in complying with laws, processes as well as the rules that relates to its management. The presence of an external auditor is a critical element in solving the agency problem inherent between the shareholders and the management of the company (Abdeljawad et al., 2020). The external auditor provides a situation where the management would be forced or encouraged to be accountable for their actions. The external

auditor may also be instrumental in solving macroeconomic challenges including inflation by ensuring the adoption of appropriate accounting policies (Anaman et al., 2023). The audit process entails the various stages that need to be achieved so as the final step can yield the needed benefits. The audit process ordinarily is based on planning, execution, reporting then follow-ups. As per this study for corporate governance to be strengthened, a chain reaction needs to occur that is quality audit reports needs to be issued, follow up on that report needs to be done and audit action plan realized on the same report.

Internal audit is an examination conducted on the financial accounting records and financial statements. It is a process that adheres to the regulations of the government including the predetermined top management policies as well as the provisions of applicable professional ties. It serves to check how the financial statements and books portray the real picture of the actual activities of the company and establishing the compliance of the various sections of the company to the set rules and policies (Sudirman et al., 2021). It is the expectation of the users of the financial statements as well as the clients that the auditor would provide adequate information about the condition of the financial statements as provided by the company management (Salehi et al., 2020). The internal audit is an important tool to provide independent assurance that parastatal risk management, governance and internal control processes are operating effectively. It can help to prevent the misuse of funds during the expenditure process, while also flagging issues for management action (Ogunmakin, 2020). Parastatals are also required by Mwongozo to establish an audit committee and employ an internal audit department that reports directly to the audit committee. This ensures uniformity and consistency across national government. For most parastatals the current risk management practices support good corporate governance (Tuya, 2023). However, the challenge has been adherence to the control environment set, as there have been reported cases of misappropriation of resources in some parastatal. For example, the Kenya Medical Supplies Authority (KEMSA) allegedly misused millions of dollars of public funds meant for buying COVID-19 medical supplies. The internal audit in most parastatal can hence be strengthened to become more effective in reducing cases of misappropriation of resources in Kenya and lack of accountability by management (Chau, 2021).

After auditing, the auditor comes up with a report that is presented to the management. The report could be a clean report, a qualified report, a disclaimer or an adverse report. A qualified report is

when is when the auditors are limited in their scope and arises in cases where there is a disagreement between the auditors and the management with regards to the adequacy of accounting policies, acceptability and application. On the other hand, a clean report indicates the absence of issues in the financial statements found by the auditor. Regarding the disclaimer or an adverse report, it indicates that the auditor found that the financial statement is materially incorrect. This conclusion may be as a result of insufficient information provided by the management to support the financial statements (Karadjova et al., 2020). Audit impact and value is measured by the level at which reports and recommendations contribute to improved performance, risk management, and governance. Factors include relevance, implementation of recommendations, and alignment with strategic goals. Communication and feedback are key (Asante-Appiah & Lambert, 2022).

Strengthening corporate governance practices in parastatals has been a desired factor in all parastatals. Societal awareness, technological advances have put more pressure to the auditors as to the expectations with regards to their duties and responsibilities as auditors. The numerous scandals that have occurred globally pointed blame made on the auditors and auditors not giving reports that meet various stakeholders' expectations. The audit expectation gap has widened as a result of these changes. Auditors performing their duties are given more reasonable and unreasonable duties to perform. The expansion of auditor's responsibilities and duties has contributed the need for the audit profession considering carrying out follow up audits more frequently and consistently monitoring the outcomes of such engagements. Auditor's expertise and experience is also called into play in order to give reasonable and far-reaching recommendations.

Audit recommendation, which varies in audit assignments do influence the outcome of those assignments as to whether the adoption of the recommendations can lead to better governance. Achievement of better governance is dependable on how the audit report recommendations made are implemented. One of the goals of many parastatals head and the government is to safeguard the assets and ensuring proper usage of public funds so as to benefit the citizens of a country. The study purports to investigate to what extent can audit report recommendations made and implemented can positively influence better governance or strengthening it so as the goal of safe guarding assets and proper usage of funds can be realized.

As per the Institute of Internal Auditors Governance is the process by which an organization meets its responsibilities. Governance constitute policies, people, processes and procedures. Governance is further explained as to being internal (corporate laws, board of directors) and external (laws and regulation from the government and its agencies). Governance as process is why the audit function is domicile as it plays the role of oversight as it assists directors of the board. The audit function is a valuable component in the governance structure as this form part of the research. Recommendations made by auditors are designed to strengthen the governance and encourage accountability and transparency in organizations. Audit report recommendations do provide valuable methods in bridging the gap between actual practices and standards and providing learning information (Steagall 2004). Chodhury and Kouhy, (2005) noted that the implementation of audit recommendation would result in improved operations, cost savings and a way of saving guarding assets of parastatals.

However, the implementation of these audit report recommendations is still a challenge and in various occasions ignored completely by the organization's managements and directors of the parastatals. (Wadesango et al., 2017) highlighted the challenges of financial constraints, staffing issues and complex issues. Financial constraints were dependable on the recommendation made for instance a recommendation on additional recruitment of personnel so as to allow proper segregation of duties could be hampered by lack of funding or introduction of a new security features to enhance smooth operations in the organization. Staffing issues was majorly on the experience and knowledge of the auditors involved in the preparation of the audit reports, recommendations made thereon and their ability to follow up on implementation of audit report recommendations by management. Experienced and knowledgeable auditors also highlighted issues, risks and recommendation in a language easily understood by the auditees. Complex issues were closely related to the nature of the organization and complex nature of organization operations.

For parastatals to realize the full benefit of audit report recommendations, certain measures must be considered to enable the organization to improve on their governance. The measures may include formulation of new policies to guide the audit profession, enactment of new laws on public finance and utilization of public funds and deliberate actions through funding and trainings organized and facilitated by the government. Studies have shown that when audit report

recommendations are implemented there is improvement of government functions i.e. governance is strengthened and when there is non-implementation of audit report recommendations governance is weakened.

The downfall of Enron Company in 2001 was as partly due to poor governance practices at the organization, (Vinten, 2002). The works of Liu and Lin (2012) indicated that audit report recommendations that were made and implemented had a deterrent effect on corruption in the China government. Additionally, the works of (Dyah Setyaningrum et al., 2013) showed that there were positive effects of implemented audit report recommendations since there was improved system internal controls and financial managements hence the improvement on the financial management and internal control system hence the overall governance. In their study, they noted that local governments that consistently implemented the audit report recommendations and carried out follow up did provide excellent public services to the community and quality financial reports.

In the Cytonn Corporate governance report 2018, it illustrated how various companies (Nakumatt supermarkets, ARM Cement, Chase bank, Imperial bank) went under due to failure to adopt proper governance attributes because of minimal influence from their auditors and audit committees. The main areas of analysis were Board compositions, audit functions among others. Companies that were compliant with governance matters had good overall performance financially and stock price performances in the stock market. Noticeably the implementation of audit report recommendations is affirmed and highly regarded where existence of audit and parliamentary accounts committee presence are felt. These bodies are central to the oversight of organizations governance. Strengthening of governance can be pegged on Internal and external auditors, parliamentary accounts committees and audit committees performing their duties diligently. For the purpose of the study parliamentary accounts committee and audit committee would be used to refer to one and similar body.

1.1.3 Audit of the Parastatals and Corporate Governance

Parastatals are organizations owned by the government. These organizations play a significant role in Kenya's economic development and public service delivery. The government establishes these entities to undertake commercial activities, provide essential services, and promote socio-economic growth in various sectors. The effectiveness of these entities in complying with laws,

processes as well as the rules that relates to its management can be enhanced through auditing. Auditing serves to check how the financial statements and books portray the real picture of the actual activities of the company and establishing the compliance of the various sections of the company to the set rules and policies (Sudirman et al., 2021).

A circular by the head of public service to the cabinet secretaries, principal secretaries and the management of state corporations, the board meetings were restricted to a minimum of four and a maximum of six as per the State Corporations Act. Furthermore, any other regular board meetings beyond the recommended number (six) would require the consent of the relevant cabinet secretary. All board businesses are also supposed to be transacted at the principle registered office and not the branches, unless permission is granted (Head of Public Service, 2020).

In Kenya, the Auditor General is tasked with carrying out audits on the state corporations among others. Auditing of the state corporations in Kenya has been a regular exercise. However, the implementation of the audit cycle recommendations has been facing delays. This has at some point's necessitated action from the authorities. In a circular by the principal secretary, National treasury, all ministries, departments and agencies (MDAs) were directed to ensure that all the outstanding audit issues raised by the office of the auditor general in the audit reports for the years 2021/2022 and 2022/2023 be closed in line with the governments bottom up agenda. The management of the MDAs was also required to submit proof of the closure of the outstanding issues to the chief of staff and head of public service by 2nd October 2023 (State Corporations Advisory Committee Report, 2023).

From the performance audit report by the Auditor General (2023) on the implementation of the last mile connectivity project carried out by the Kenya Power and Lighting Company, Ministry of Energy, the report underscored the immense benefits of the project including increasing access to electricity. The project also achieved most of its objectives. However, the audit report pointed out a number of shortcomings including delays in the implementation of the project, delays in processing tax exemption approvals and import clearance, delays in processing invoices and payments for contractors, delays in issuance of letters of credit for importation of materials and delays due to wayleave disputes. Other findings include delays due to termination of contract, delays in the metering process, and inadequate project awareness to the beneficiaries, inadequate monitoring and evaluation of the project by the ministry, unreliable power supply, faulty meters,

frequent blackouts and transformer breakdowns among others. The report recommended that KPLC to streamline the tax exemption process, ensure adequate planning and implementation of public sensitization process, ensure proper planning of, ensure appropriate vetting of contractors and suppliers, and streamline the metering process (Auditor General's Report, 2023).

Corporate governance thus is a setup that is aimed at finding the solution to this problem by overseeing the activities of the management (Solomon, 2020). Thus, the adequate and timely implementation of the audit cycle recommendations would be instrumental in enhancing the performance of the state corporations because audit reports provide loopholes that ought to be sealed by the parastatals in order to improve on their service delivery and performance.

1.2 Problem Statement

Parastatals has the challenge of adherence to the control environment set, as there have been reported cases of misappropriation of resources in some parastatal. For example, the Kenya Medical Supplies Authority (KEMSA) allegedly misused millions of dollars of public funds meant for buying COVID-19 medical supplies (Musungu, 2022). Non-implementation of audit recommendation has led to reoccurrence of audit findings that reflect flaws within organization corporate governance thus creating no value to the audit process. This is evidenced by some parastatals having reoccurring audit findings year in year out. National cereals and produce board had 6 reoccurring audit findings in the year 2021-2022, Kenya Medical Supplies Agency had 10 audit findings reoccurring in the year 2020-2021, Kenya Airports authority had 10 audit findings in the 2020-2022, Agricultural Development Corporation had 14 audit findings reoccurring in the year 2022-2023, Kenyatta University had 5 audit findings reoccurring in the year 2020-2021. The details are in Appendix 1.

Although the public audit act 2015 (Kenya) have some clauses on implementation of audit recommendations as guidance, it does not provide for the mechanism for ensuring the follow ups are done on the recommendations made by the Auditor General, parliamentary accounts committee, county assemblies and Senate Parliamentary accounts committee delaying to act on Auditors reports. According the Parliamentary Accounts Committee examination of audit reports dated 23/04/2019 and a calendar schedule dated 03/04/2019, it was evidenced that the committee was reviewing audited reports from the Auditor General of the years 2015/ 2016, 2016/ 2017 three years down the line so as to affirm the auditors reports and recommendations thereon.

Inadequate policies on implementation of audit report recommendations, reoccurring of audit findings, delays in acting on audit reports by the audit committees, hampered management of parastatals due to limited accountability and transparency desired are some of the challenges faced. Service delivery to the public lacking transparency and accountability. Without follow ups the audit findings are impractical to create accountability in the audit process a phenomenon that is likely to adversely impact the corporate governances' practices of the government parastatals.

1.3 Research Objectives

The objectives of the study entail the general and specific objectives.

1.3.1 General Objective

The general objective of the study was to determine whether implementation of audit report recommendations enhances corporate governance practices in Kenyan parastatals.

1.3.2 Specific Objectives

The specific objectives were,

- i. To establish the effect of the quality of audit reports on corporate governance practices in parastatals in Kenya.
- ii. To determine the effect of regular-follow up audits on corporate governance practices in parastatals in Kenya.
- iii. To determine the effect of audit action plans on corporate governance practices in parastatals in Kenya.

1.4 Research Questions

- i. What is the effect of the quality of audit reports on corporate governance practices in parastatals in Kenya?
- ii. What is the effect of regular-follow up audits on corporate governance practices in parastatals in Kenya?
- iii. What is the effect of audit action plans on corporate governance practices in parastatals in Kenya?

1.5 Scope of the Study

The study specifically focused on the parastatals in Kenya. The management, auditors as well as the board of the parastatals was contacted to participate. A descriptive survey design was utilized in the study. Primary data was utilized and was gathered using questionnaires. The study also focused on the management, the board of directors and the auditors who were the key respondents in the study. The study was conducted between the periods March and June 2024.

1.6 Significance of the study

The study shall be significant to practice, policy and research.

1.6.1 Significance to Practice

The results of this study would be significant to practice, as it would inform the board and the management of the parastatals of the essence of audit report recommendations implementing of the respective parastatals. Thus, the parastatals would benefit from the outcomes of this study and hence the governance of the parastatals. The outcomes could also provide the profession with more responsibility in attaining sustainable development by providing quality audit report recommendations and ensuring follow ups are done hence being professionally objective in the eyes of the society.

1.6.2 Significance to Policy Makers

The results of this study would further be significant to the policy makers including the government of Kenya. The parastatals are under the Kenyan government and hence the performance of these parastatals would inform the efficiency in the delivery of services to the citizens. Thus, the policy recommendations made by the study to the government, if implemented would enhance the delivery of services. The outcomes of this study could also act as a guidance for making policies and laws for effective monitoring and tracking of audit report recommendations. Audit recommendation could be given more weight towards their implementations. Governance improvement could be measurable.

1.6.3 Significance to Research

The study would be significant to the scholars who would be conducting more studies in the future. The results of the study would inform the existing knowledge in the field of study. Furthermore,

the study would inform the research gaps and the areas that may require further studies. Thus, the study would be significant to future research.

1.7 Chapter Summary

The chapter presented an in-depth synthesis of effects of implementation of audit report recommendations on corporate governance practices on global, regional and local perspective. Research gaps emanating from past scholars in regards to implementation of audit report recommendations on corporate governance practices was uncovered. The statement of the problem was formulated supported by research gaps. The chapter proceed to outline the study significance to parastatals, policymakers through the government and future research. The chapter ended by presenting an organization of the study.



CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section presents the theories that guided the proposed study. Further, in depth critical analyses of past studies are undertaken as guided by the study objectives to identify research gaps. The chapter ends by presenting an operationalization of study variables and conceptual framework.

2.2 Theoretical Framework

The theories that guided the study included agency theory, the stakeholder's theory as well as the signaling theory.

2.2.1 Agency Theory

The theory founded by Jensen and Meckling (1976) and perceives a firm as a set of contracts among persons with self-interests. When an individual perceived as the principal gives authority to another, the agent to represent them, then an agency relationship is said to have been created. However, within this relationship, issues arise (agency problems) because sometimes the agents may in their own interest and not the interest of the individuals they are representing (principals). Thus, the contracts between the principal and the agent should be designed in a way to eliminate the chances of occurrence of the agency problems (Mitnick, 2015).

Within the corporate, the board of directors, act on behalf of the shareholders of the company to oversee the actions of the firms' management who act as the agents of the shareholders (Hendry & Kiel, 2004). The assumption of the theory or the principal agent relationship is that the agent would always act in a manner as to satisfy the interests of the principal. However, this is not always the case because in some cases, the agents are at an advantaged position than the principal for example in terms of the information held. Thus, since the problem is likely to happen, the principal and the agent are bound to seek for the best solution or the best way to deal with the problem. This gives rise to corporate governance practices, which forms an institution for dealing with such problems. The costs incurred by these institutions in the execution of their mandate forms the agency costs (Bo & Driver, 2012).

The theory is relevant to the study as it outlines the relationships between the principals and the agents. At the center of the parastatals in Kenya are the principals who are the government and the citizens of Kenya who have entrusted the agent, which is the management, and the employees of

these parastatals in the management of the affairs of the respective parastatals. Thus, the implementation of the audit report recommendations is in line with the propositions of the theory of reducing agency costs as well as safeguarding the interests of the principal. The theory thus informed the regular follow up audits of the parastatals in Kenya.

2.2.2 Stakeholders Theory

Edward Freeman postulated the theory in 1984 and addresses the values and morals in the management of an organization. The theory underscores the interconnected relationships between the business and its communities, investors, employees, suppliers, customers among other stakeholders. According to the theory, all the stakeholders are important to the firm and hence the need for it to create value for all these stakeholders and not just shareholders (Crane et al., 2004).

According to the theory, various corporations are expected to make efforts to mitigate or reduce conflicts among the stakeholders by valuing them all. This is because every stakeholder has interest in the corporation be it the customer or the shareholder (Mahajan et al., 2023). However, the sole purpose of the business should be to maximize profits and enhance the shareholder value without necessarily giving them special attention. Thus, it is the obligation of the management to improve the shareholder value and by extension the value of the business (Bello & Abu, 2021).

The theory is significant to the study as it outlines the significance of all the stakeholders and not necessarily shareholders in any given setup. In the setup of parastatals, there are a number of stakeholders. Hence, the implementation of the recommendations of the auditors regarding the performance of the parastatals would benefit a lot of other interest groups including the citizens who are indirectly the key shareholders. The theory thus informed the quality of audit reports of the parastatals in Kenya. Thus, is because the quality of audit reports would give the true position on the status of the operations of the parastatal.

2.2.3 Signaling Theory

The theory was postulated by Michael Spence in 1973 and argues of the belief that information pertaining the financial health of an organization may not be available to all parties at the same time. Financial information of an entity serves to provide signal to the entity stakeholders on the performance of the entity. Thus, the entities that are recording good financial performance tend to provide positive information. The theory therefore thus posits that, companies that are most

profitable tend to provide better and useful information to the market (Homayoun & Rahman, 2010).

The theory is essential in providing a situation in which there is information asymmetry between two parties who could be organizations or individuals. This situation occurs when one party chooses the level of information they communicate. The kind of communication delivered also depends on how the receiver chooses to interpret the signal they receive. Hence, the theory attempts to explain the behavior exhibited by two parties, the sender of the signal and the receiver. Quality and timely financial information relay largely affects the usefulness of the information relayed (Connelly et al., 2011).

The theory is of relevance in the current investigation because it is squarely the management who have more information on the performance of the parastatals. However, the essence of auditing is to provide more information on the performance of these parastatals where the information can be shared with the board and by extension the other stakeholders who may use the information or interpret the information as they deem. Thus, upon getting such information, the other stakeholders other than the management are bound to analyze and gauge the performance of these parastatals and act whenever it is necessary. The theory thus informed the audit action plans of the parastatals in Kenya. This is because the audit action plans would signal improved performance in the future when the audit report recommendations are implemented.

2.3 Empirical Review

This section presents an empirical inquiry of past studies on the subject matter of the study. The sections present the conceptualization of implementation of audit report recommendations on corporate governance. Various authors have demonstrated the need for audit follow-ups to be done after a given audit assignment have been completed. It is these follow up audits that work as monitoring tools on the parastatal's operations. However, the implementation of the audit report recommendations has been a challenge to parastatals. The review of literature has been conducted in line with study objectives. The studies above have all highlighted in one way or the other that implementation of audit recommendation can improve governance. The quality of the Auditor has an effect on the audit assignments carried out and subsequent recommendations made thereon. Reasons why some audit recommendations are not implemented by the auditees and the auditees perceptions on audit recommendations. The role of both internal and external auditors with regard

to improvement of governance and how the audit committee can be central to the implementation of the audit recommendation. The studies have also highlighted how the business world has transformed and how good governance of entities are considered by investors and other stakeholders before making decisions. The need for follow up audits has been described as crucial and its lack is purely a futile exercise. The Auditor Generals of various countries e.g. Zambia and Kenya have toiled to improve their work by ensuring the audit recommendations made are acted upon and trying to encourage the legislative arms of governments to create laws and policies that can improve the audits carried out. The need for more funding and trainings on the part of the auditors have been highlighted as a necessary for progression of audit profession. Strategies on how implementation of audit recommendation have been put forth. The studies highlighted the effects of non-implementation of audit recommendation on various countries' economies and entities as well. Theft, frauds mismanagements and closures of entities among other corporate malfeasance have been experienced due to failure of implementing audit recommendations.

However, these studies have not fully addressed the need to ensure certain audit recommendation are actually implemented without fail. Therefore, the study gap is the need to have the adoption of certain audit recommendation as mandatory for implementation by suggesting such recommendations to be considered "audit directives" mirroring executive directives. However, that may call for the amendments of the existing laws and policies. The study that is domicile in Kenya is eluding to adoption of implementation of audit recommendation on two fronts to ensure accountability, credibility and efficiency in parastatals. One recommendation made by the National audit office and recommendations made by committees for example Parliaments accounts committees and audit committees of various parastatals and a report dubbed "Status of Implementation of Audit Recommendation". Those carried out by the National audit office to include matters of internal controls of the parastatals and others carried out by the committees to include elements of frauds, misuse of public funds, intentional disregard of the laws and other matters that affect the public in general. The study calls for the enactment of laws on specific audit matters that are geared towards enriching the governance aspects of entities. The study to research on circumstances that may lead to an audit recommendation matter being considered mandatory for its implementation and criteria that can be used to define the parameters of such. The criteria for selection to take into consideration the availability of resources for implementation, natural environment and sustainability development of human life.

In addition, the above studies can be further summarized into specific line studies as to what was studied and the gaps to those studies relevant to this particular study.

2.3.1 Quality of Audit Reports and Corporate Governance practices

A study Nooranita et al. (2017) highlighted some of the factors that influences auditees to implement the audit report recommendations. They noted that there was the element of attitude and intention by the auditees on implementation of the audit recommendation. The factors that were emphasized and relates to this study were on quality and credibility of auditor, the functioning of the audit committees and their deliberations on governance and follow up audits. The credibility and reliability of an auditor is key in the auditing process (Hatherley & Parker, 1988). Moreover, the involvement of senior auditors in the auditing provides value added recommendations and such recommendations can be implementable. The authors noted that quality auditors provide quality recommendations and therefore the auditees were able to consider the implementations of those recommendations. The composition and functioning of the Audit committees, which most parastatals have done, contributes immensely in the implementation of the audit recommendation. By the fact that the audit committees would always deliberate on the reports from the auditors and direct some actions to be taken the auditees would always tend to implement the recommendation due to the tight scrutiny by the audit committees. The studies presented contextual gaps.

The findings of Nooranita et al. (2017) were further supported by the findings of Setyaningrum (2017) which demonstrated that the quality of auditor was vital in preparation and presentation of audit recommendation and eventually implementation since experienced auditors/ quality auditors were able to perform their duties with high level of integrity and due diligence. The experienced auditors possess skills and expertise that could assist in the monitoring the operation of the entities. The scholars noted quality of audit and subsequent audit report recommendations led to improvement of local government operational performance in Indonesia. “High auditor quality is expected to consistently generate appropriate recommendations”. The study also noted that the auditees were able to act on the audit recommendation on instance where the recommendations were provided by low percentage of audits and quality auditors followed up audit recommendation was due to auditor failing to formulating suitable recommendations. The study was also showed the categorization of various follow ups audits as implemented, not implemented and cannot be

implemented. In other practices report of status of implementation of audit recommendation is considered a crucial report to measure the strength of the organization on acting on audit report recommendations and general performance. To the head of departments in various organization, the implementation of audit recommendation is used as a yardstick to measure effectiveness of the department. The study presented both contextual and conceptual gaps.

In order to compare listed versus unlisted Tunisian enterprises, Kateb et al. (2023) conducted a study on the effects of corporate governance and audit quality on financial performance. Panel data econometric model was used in the study. The outcomes indicated that the performance of the unlisted and listed entities were affected by the size of the board. The unlisted firm performance was affected by variables related to audit while the performance of listed entities was affected by the ownership of the entities. The institutional ownership and board size are governance mechanisms that have been utilized by the listed Tunisian entities to substitute external quality. However, the impact of the quality of audit on the financial performance of the entities characterized principally by family ownership is not affected by post-revolutionary context. However, in a study on the effects of corporate governance on audit quality of Kenyan public financial institutions, Bett and Olouch (2017) used descriptive design with primary data being utilized that was gathered using a structured questionnaire and indicated that the practices of corporate governance are essential in the enhancement of audits quality of Kenyan public financial institutions. The independent directors should be well represented that is at least a third of the board, otherwise the quality of audit would be compromised.

A research study was carried out by Imhoff, (2006) on accounting quality, auditing, and corporate governance. The findings of the study pointed out that accounting and auditing are critical components that relates to corporate governance system. The auditing standards and quality of the accounting can only be fixed by fixing the issues of corporate governance. The results were supported by the findings of Kaawaase et al. (2021) in a study on financial reporting quality, internal audit quality and corporate governance of financial institutions using correlational and cross-sectional research designs were adopted. The outcomes pointed out that board role performance and board expertise are significantly associated with quality of financial reporting. In addition, quality of financial reporting significantly associates with the quality of internal audit quality. The quality of financial reporting does not significantly predict the independence of the

board. Alhababsah (2018) in a study on corporate governance and audit quality further indicated that the responsibility of the audit committees as well as that of the directors of the board significantly determines the quality of the board. Thus, the two bodies are responsible for ensuring and enhancing the quality of the audit reports by effectively controlling the behavior of the management. The study presented a conceptual gap

Owolabi and Babarinde (2020) did an investigation on the effects of corporate governance on audit quality in banks in Nigeria. Secondary data was collected from fifteen listed banks for the period 2007 to 2018. Hausman tests was used to choose the appropriate model between the fixed effects model and the random effects model. Pooled regression analysis was used in the analysis of the data. The outcomes pointed out that board size, composition, ethnic diversity and gender diversity were significant determinants of the quality of audits of the deposit money banks in Nigeria. However, audit quality is not significantly determined by foreign diversity. The audit assurance of the Nigerian Banks is substantially affected by the surge in ethnic representation on the board of directors. However, Erin et al. (2023) in a study on the quality of risk disclosure and risk governance measured by the presence of chief risk officer, enterprise risk management framework, the effectiveness and size of board risk committee used Probit regression and ordered logistic regression. The results pointed out that the presence of chief risk officer, enterprise risk management framework, the effectiveness and size of board risk committee were found to have an effect on the risk information disclosure quality.

Kabwe (2023) did a study on the attributes of corporate governance and the quality of financial reporting focusing on a developing country in Africa. The Zambian-listed companies audited financial statements and quantitative content analysis of annual reports were utilized in data collection. From the outcomes, the relationship between quality of financial reporting and board size was significant statistically. In addition, the relationship between audit committee independence, board gender diversity, board accounting expertise, and financial reporting quality was positive but insignificant statistically. The results were in line with the results of Sunder and Yoon (2023) in a study on the conceptual foundations of audit including competition, signaling, efficiency, independence and quality, which pointed out that many global jurisdictions, have made it mandatory for public entities to carry out independent external audits. The effectiveness of audits facilitates capital investments. The regulations seek to enhance financial reporting effectiveness

by promoting audit market competition and audit quality as well as restricting auditors and managers from acting, which compromise the quality of information. Audit quality, independence and efficiency arise directly and largely from the attributes, relationships, incentives, training, and technology auditors bring to work, and therefore have considerable albeit not total control on them. Formativeness of the system enabled by opportunities for signaling is largely controlled by the regulation of financial reporting system through setting of financial reporting standards, and freedom for companies to choose their accounting methods and degrees of disclosure.

2.3.2 Regular-follow up audits and Corporate Governance practices

A study by Kontogeorgis (2018) and others on Role of Internal audit on corporate governance demonstrated how the internal audit function was a critical function towards strengthening governance in many entities. Success of governance in entities could be attributed to a functionality of the Internal Audit workings. The authors noted “the good operation of internal audit function can be a tool for the improvement of quality of corporate governance and management”. The current study is toiling to find out if that is the case. The study on roles of internal audit noted how important corporate governance had grown in the recent years and how the public had installed the need of efficiency and effectiveness in business, which could only be achieved through good governance. They also noted that the global stock markets considered good corporate governance as a basic basis to accept business, (Al-Baidhani, 2016). Corporate governance was also viewed as tool to achieve competitive advantage and hence efficiency in the entity’s operations. Most parastatals in Kenya have boards that help the organization to streamline and improve on the governance. However, the challenges lie in the implementations of the recommendations put forward. The study provided that, when corporate governance practices are fully observed investments in various sectors thrives and investors can be less worried about the risk and their investments. A contextual gap was notable in the studies.

The study by Muhammad Din et al. (2017) aimed at finding out whether follow ups of audit findings had significant effects in the reduction of financial losses in government entities in Indonesia, whether the reports by the Auditor General Office in Indonesia in which audit opinions were expressed aided the local governments in accountability and transparency. From the results, legitimacy of organization was dependable on the auditor’s effort to bridge the gap between the various stakeholders in the organization by performing their duties in manner that the

organizational design and management was maintained, protected and observed. Therefore, the follow up audits were meant to act as the antidote for the increasing financial losses in the government entities in Indonesia. The authors noted that less the level of financial losses is recorded when there are greater levels of follow-ups of the financial investigation results. The study concluded that follow ups of financial investigations or other types of audits, had a significant positive effect on audit opinions and the follow ups of these audits led to decreased levels of financial losses to the local governments. These measures are key in the implementation of the audit recommendation and through this the governance aspect of that entity were reinforced, the study alluded to that. However, these steps taken as per study on implementation of audit follow ups is a quite a departure from the Kenya systems where audit report recommendations are still not considered for any actions as those prescribed above. The study further examined the types of audit opinions that were issued to the local governments and the impacts it had on the need to create accountability and transparency in local governments.

The findings of Muhammad Din et al. (2017) also concur with the findings of Dyah Setyaningrum and Khalif Azhar (2019) which indicated that audit findings and subsequent follow up of those audit findings had great influence in reducing level of corruptions in ministries/institutions in Indonesia. The higher the number of audit findings in a given ministry had direct relation with the numbers of corruption cases and conduction of follow ups in the proceeding period showed a reduction on the level of corruption and better usage of public funds. Ministries that did not act on the auditor's recommendations ended up having more audit findings in the preceding years. The authors affirmed that weakness in the internal controls system, noncompliance with laws and regulations were some of the major contributors to corruption cases in many ministries. Corruption thrived where there was noncompliance, which in turn led to bad quality of governance and high level of deviations. For corruptions to be reduced it was found that some key elements such as supervision, control and audit activities were to be employed consistently. The authors noted the three elements were important for the government auditor in order to enhance public accountability and good public governance. Therefore, it was necessary for the auditor to possess the necessary skills and expertise to detect excessive use of public funds and be able to report as so for corruption cases in ministries to reduce. The study concluded that the audit findings could be used as guidelines in conducting investigation on corruption cases and the supervision of ministries through monitoring by auditors could reduce the level of corruption in a ministry. The authors also

highlighted the findings of Liu and Lin (2012) that stated that improvement after audit process was more important than detection of audit findings itself, meaning follow up audits and implementation of audit recommendation was key to any improvement in the ministries. “Without follow ups the audit findings are impractical to create accountability in the audit process.”

A research study was conducted by Anaman et al. (2023) on the impact of external auditors on corporate governance of unlisted firms from the perspective of a developing country. A quantitative research survey design was utilized. Primary data was utilized and was gathered using structured questionnaires, which were administered to 485 respondents using convenience and purposive sampling methods. From the results, adherence to the code of conduct, familiarity with corporate governance codes and presence of boards are prevalent in Ghanaian unlisted firms. Furthermore, there was a positive and significant impact of the role external auditors on corporate governance in Ghanaian unlisted firms. However, the findings of Baker Owsen (2002) in a study on corporate governance, the increasing role of auditing pointed out of the increasing accounting research interest on relationships between control of business organizations, auditing and accounting. Mainstream research in management, finance and accounting have remained focused on questions of corporate governance with the aim of enhancing the shareholder benefits. Thus, the functioning and structure of audit committees of such boards and boards of directors are primary concerns within this line of research. The study presented both contextual and conceptual gaps.

A research study by Attaf and Bensbahou (2023) on governance of internal audit and its role in adding value in the context of improving its environmental management. The outcomes reported that internal audit governance is statistically significant in the context of improving their environmental performance in adding value to companies. Internal audit enhances the company value by providing timely appropriate information and by raising the efficiency of management performance in decision-making. It also assists in responding to all risks, including risks related to environment as well as regularly updating the management of the company on environmental performance more so when there are impending risks. However, in a study on the role of auditors in corporate governance, Samanta and Das (2009) pointed out that the division between control and ownership, which characterizes almost all modern companies, necessitates the need for corporate governance. The main challenge of the division is the agency costs. Corporate

governance is put in place to enhance the shareholder interest and acts in place of the principal who is the shareholder to oversee the actions of the management who are the agents given authority by the shareholders to run the operations of the company on their behalf. The role of the auditors in such agency is to facilitate the shareholders with true information about the performance financially of the company. The smooth functioning of the auditors depends on the cooperation of the management. Kipngetich (2012). Relationship between risk-based audit and corporate governance of state corporations in Kenya. A descriptive research design and simple random sampling technique were adopted. From the results, internal auditing staffing, auditing standards, annual risk-based planning, risk management and risk assessment had a strong positive relationship with corporate governance. Hence, the corporate governance practices identified should be enhanced for the company to be able to timely detect risks as well as concentrating on high risk areas leading to increased accountability and transparency. The study presented both contextual and conceptual gaps.

Kiragu (2016) did a study on the role of Auditors in Enhancing Corporate Governance in Commercial Banks. The study adopted primary data collected using questionnaires in its analysis. The outcomes indicated that providing opinion on verifying the existence of assets, financial statements, assessing compliance with policies and procedures, evaluating controls and operations, advising managers and evaluating risks all enhances corporate governance. Audit committees were also found to play significant roles including the transparency and reliability of the statements and oversee financial reporting and disclosure, establishing a direct reporting relationship with the external auditors, ensuring risk management process is comprehensive and ongoing, monitor choice of accounting principles, significant and report figures and review internal audit plans. Conceptual and contextual gaps.

2.3.3 Audit Action Plans and Corporate Governance practices

Another study by Newman (2018) and others investigated why the auditees were reluctant to implement audit report recommendations and the reasons thereon. Non-implementation of audit recommendation was seen as a step backwards towards achieving great efficiency and effectiveness in government entities. This led to reoccurring of audit issues that eventually contributed to the cumulative losses to National Railways of Zimbabwe among other government owned entities. The study further investigated the matter on non-implementations and did identify

some strategies that if employed significant changes could be realized. Some of the reasons for non-implementation of the audit report recommendations were financial constraints by the entity, inadequate staffing or staff members with limited skills and expertise and complexity of some issues. These authors highlighted that sometimes non-implementation was due to lack of resources that were beyond the entity's capabilities e.g. staffing issues and lack of adequate funds since some of the audit report recommendations required a bit of those aspects. Despite reasons for non-implementations the study ascertained that some audit report recommendations were unique and their implementation ought to have been treated as mandatory audit report recommendations. This aspect is in line with this particular study on finding out whether the public and professionals at large should start considering having some audit report recommendations mandatory for implementation although the word recommendation is considered a suggestion that the auditee may decide to work on it or leave it. This weakness is amplified by the lack of a legislative framework to guide and to compel the auditees to adopt and implement audit report recommendations. The scholars also noted that there was need for a time control as to how long the auditee should implement an audit recommendation and not to overstretch some matters. However, the study did not give a specific timeframe for implementation of audit recommendation as compared to other studies that noted a timeframe of one year was adequately sufficient for implementation.

Furqan et al. (2021) analyzed the effects of audit findings and audit report recommendations follow up with regard to financial reporting and service delivery. Their analysis highlighted how the audit report recommendations made and implemented had positive impact in quality service delivery to the people of Indonesia. Financial reports prepared had improved due to the audit recommendation that had been made by the auditors on the public sector accrual accounting adoption. This is one aspect that the current study is researching on as to whether the implementation of a particular audit recommendation can bring great improvement. The Indonesia government adopting the use of accrual accounting methods in their public sector had brought great improvement in the quality of the financial statements. The results are in tandem with the findings of Nerantzidis et al. (2023) in a study on the impact of the audit committee on audit fees which suggested the evolving nature of the audit committee's roles and responsibilities as a result of regulatory and environmentally related economic reforms. Enhancement of oversight of auditor activity, internal control and financial reporting have been triggered by the impact of the presence of financial expertise

promoted by either hard laws or soft ones, meeting frequency, independence and audit committee size. Thus, it is essential to note the important role played by the audit committee in financial reporting, and it is considered one of the most important board committees.

Turley and Zaman (2014) did a research study on the corporate governance effects of audit committee. The outcomes pointed out a framework for identifying potential perceived effects leading to their utilization and effects documented on aspects of the audit function and analyzing how the quality of financial reporting is affected by audit committees and on corporate performance. Furthermore, there was no relationship between characteristics and the achievement of particular governance effects or the adoption of audit committee structures and hence the need for caution over expectations that greater codification around factors such as expertise and the independence of audit committee members as a means of rectifying the past weaknesses in audit committees' arrangements. However, in a study on the impact of internal audits on corporate governance in the banking industry of Oman, Bilal et al. (2018) indicated that internal audit and efficient corporate governance have a good and significant association. Additionally, the nature of the task, competence and appropriate professional care, internal audit independence, and corporate governance all had a favorable and substantial link. The influence of managing the activity of internal audit, improvement program and quality assurance on corporate governance practices was not statistically significant. The findings of Mahmoodi et al. (2023) in a study on the stability of corporate governance and accounting information quality on the Iraq stock exchange listed entities also indicated a negative relationship between managerial stability and ownership stability on the quality of accounting information. Additionally, there was a similar relationship between accounting information quality and independent auditor tenure stability. That is, there was an insignificant relationship between the stability of the tenure of audit committee and the quality of accounting information. The study was conducted in the context of Iraq and hence presenting a contextual gap.

2.4 Summary of Literature and Research Gaps

Even though several of studies have been conducted around the topic of study, notable research gaps are evident that necessitate the study at hand. A study by Anaman et al. (2023) on the impact of external auditors on corporate governance of unlisted firms from the perspective of a developing country indicated a positive and significant impact of the role external auditors on corporate

governance in Ghanaian unlisted firms. However, it did not elaborate the effects of regular-follow up audits on corporate governance of parastatals in Kenya. Further, Kiragu (2016) in a study on auditors' role in enhancing commercial banks' corporate governance pointed out that auditors provide opinion on financial statements, assesses the policies and procedure compliance, advise managers, evaluate operations and control as well as verifying the existence of assets. However, it did not elaborate the effects of regular-follow up audits on corporate governance of parastatals in Kenya. Bilal et al. (2018) on the other hand studied on how corporate governance is influenced by internal auditing in Oman banking sector and pointed out a significant positive relationship between internal audit. However, it did not elaborate the effects of regular-follow up audits on corporate governance of parastatals in Kenya.

The studies above have all highlighted in one way or the other that implementation of audit recommendation can improve governance. The quality of the Auditor has an effect on the audit assignments carried out and subsequent recommendations made thereon. Reasons why some audit report recommendations are not implemented by the auditees and the auditees perceptions on audit report recommendations. The role of both internal and external auditors with regard to improvement of governance and how the audit committee can be central to the implementation of the audit recommendation. The studies have also highlighted how the business world has transformed and how good governance of entities are considered by investors and other stakeholders before making decisions. The need for follow up audits has been described as crucial and its lack is purely a futile exercise.

However, these studies have not fully addressed the need to ensure certain audit recommendation are actually implemented without fail. Therefore, the study gap is the need to have the adoption of certain audit recommendation as mandatory for implementation by suggesting such recommendations to be considered "audit directives" mirroring executive directives. However, that may call for the amendments of the existing laws and policies. The study that is domicile in Kenya is eluding to adoption of implementation of audit recommendation on two fronts to ensure accountability, credibility and efficiency in parastatals. One recommendation made by the National audit office and recommendations made by committees for example Parliaments accounts committees and audit committees of various parastatals and a report dubbed "Status of Implementation of Audit Recommendation". Those carried out by the National audit office to

include matters of internal controls of the parastatals and others carried out by the committees to include elements of frauds, misuse of public funds, intentional disregard of the laws and other matters that affect the public in general. The study calls for the enactment of laws on specific audit matters that are geared towards enriching the governance aspects of entities. Table 2.2 summarizes the study gaps.

Table 2.1: Summary of Research Gaps

Author	Focus	Results	gaps	Focus of current study
Kateb et al. (2023)	The impact of corporate governance and audit quality on financial performance focusing on listed versus unlisted Tunisian companies.	The performance of the unlisted and listed entities is affected by the size of the board. The unlisted firm performance was affected by variables related to audit while the performance of listed entities was affected by the ownership of the entities.	The study presented a contextual gap as it was focused on Tunisian firms where some of the firms may be private firms	Looks at audit quality and corporate governance of parastatals in Kenya
Bett and Olouch (2017)	The effects of corporate governance on audit quality of public financial institutions in Kenya.	The practices of corporate governance are essential enhancing the quality of audits of Kenyan public financial institutions.	The study presented a conceptual gap as it was focused on the effects of corporate governance on audit quality in Kenyan financial institutions most of which are private	Looks at audit quality and corporate governance of parastatals in Kenya

Author	Focus	Results	gaps	Focus of current study
Kaawaase et al. (2021)	Corporate governance, quality of financial reporting and internal audit of financial institutions.	Internal audit quality is significantly associated with financial reporting quality.	The study presented a conceptual gap as it was focused on the effects of corporate governance on audit quality in Ugandan financial institutions most of which are private	Looks at audit quality and corporate governance of parastatals in Kenya
Alhababsah (2018)	Corporate governance and audit quality.	The responsibility of the audit committees as well as that of the directors of the board significantly determines the quality of the board.	The study presented a conceptual gap as it was focused on corporate governance effects on quality of audit	Focuses on audit quality and corporate governance
Anaman et al. (2023)	External auditors' impact on corporate governance of unlisted firms from the perspective of a developing country	The adherence to the code of conduct, familiarity with corporate governance codes and presence of boards are prevalent in Ghanaian unlisted firms.	The study presented both conceptual and contextual gaps as it was focused focus of the study was unlisted firms in Ghana which may pose a different context	Focuses on regular-follow up audits and corporate governance of parastatals in Kenya
Kiragu (2016)	Role of Auditors in Enhancing	Providing opinion on financial statements, confirming the	The study presented a conceptual gap as it was focused on the	Focuses on regular-follow up audits and

Author	Focus	Results	gaps	Focus of current study
	Corporate Governance in Commercial Banks	existence of assets, assessing compliance with policies and procedures, evaluating controls and operations, advising managers, and evaluating risks all enhances corporate governance	role auditors in enhancing corporate governance	corporate governance of parastatals in Kenya
Bilal et al. (2018)	The influence of internal auditing on effective corporate governance in the banking sector in Oman.	A significant positive relationship between internal audit and effective corporate governance.	The study presented a conceptual gap as it was focused on the influence of internal auditing	Focuses on the effect of implementation of audit report recommendations

2.5 Conceptual Framework

The conceptual framework, Figure 2.1 gives details of the relationship between quality of audit reports, regular follow up audits, audit action plans and corporate governance among Kenya's parastatals. It is was postulated that quality of audit reports, regular follow up audits, audit action plans have an influence on corporate governance among Kenya's parastatals and the effect is controlled by type and size of the parastatal.

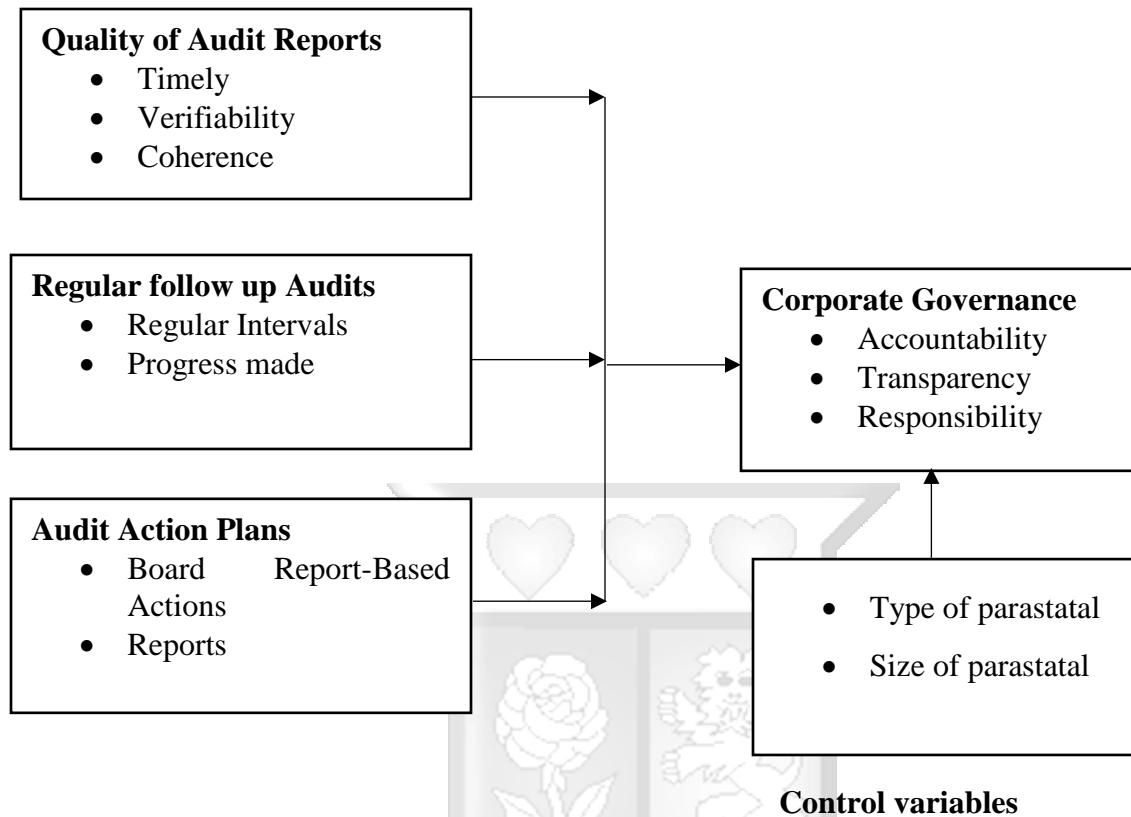


Figure 2.1: Conceptual Framework

2.6 Operationalization of Variables

Table 2.2 outlines the variable measurement. The independent variables are quality of audit reports, regular follow up audits and audit action plans. The dependent variable, corporate governance practices by public parastatals and control variable are type and size of parastatal. The audit process entails the various stages that need to be achieved so as the final step can yield the needed benefits. The audit process ordinarily is based on planning, execution, reporting then follow ups. As per this study for corporate governance to be strengthened a chain reaction needs to occur that is; quality audit reports need to be issued, follow up on that report needs to be done and audit action plan realized on the same report.

Table 2.2 Variable Operationalization

Variable	Variable Definition	Measurement indicators	Literature sources	Supporting Theory
Quality of Audits report	Entails the key elements, both contextual and quantifiable, that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis	<ul style="list-style-type: none"> • Timely • Verifiability • Coherence 	Nooranita et al. (2017); Setyaningrum (2017); Kateb et al. (2023); Kaawaase et al. (2021)	Agency theory, the stakeholder's theory as well as the signaling theory
Regular follow up Audits	Audits which verifies that corrective actions have been accomplished as scheduled	<ul style="list-style-type: none"> • Regular Intervals • Progress made 	Kontogeorgis (2018); Din et al. (2017); Dyah Setyaningrum and Khalif Azhar (2019); Anaman et al. (2023)	Agency theory, the stakeholder's theory as well as the signaling theory
Audit Action Plans	Outlines the necessary steps to address and correct audit findings and is used to ensure compliance with internal and external regulations, policies, and standards.	<ul style="list-style-type: none"> • Board Report-Based Actions • Reports 	Newman (2018); Furqan et al. (2021); Nerantzidis et al. (2023); Turley and Zaman (2014)	Agency theory, the stakeholder's theory as well as the signaling theory

Variable	Variable Definition	Measurement indicators	Literature sources	Supporting Theory
Corporate Governance	Corporate governance refers to the regulations, standard operating procedures and rules directing the control, management and running of the operations of businesses and organizations.	<ul style="list-style-type: none"> • Accountability • Transparency • Responsibility 	Anaman et al. (2023); Herdiyopie et al. (2020); Solomon (2020)	Agency theory, the stakeholder's theory as well as the signaling theory
Control Variable	It is a variable that is not of interest to the study's objectives, but is controlled because it could influence the outcomes of the study.	<ul style="list-style-type: none"> • Type of the parastatal • Size of parastatal 	Alhababsah (2018)	Agency theory

2.7 Chapter Summary

The theories guiding this investigation were outlined the study. These Agency, Stakeholders and Signaling Theories. In addition, empirical review of studies conducted on quality of audit reports, regular-follow up audits and audit action plans. The chapter also presented a summary of the research gaps and conceptual framework.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was adopted to answer the study's research questions. It highlighted the research philosophy, research design, the target population of the study and the sampling methods that were employed. Additionally, the chapter outlines the data collection as well as analysis methods. The chapter ends by presenting the validity and reliability of instrument to be utilized in data collection, which are instrumental in enhancing the results of the study and ethical considerations guiding the research.

3.2 Research Philosophy

Research philosophy is the belief about the ways in which data should be collected, analyzed and utilized. It is the foundation in which knowledge is based and assists the research to understand and minimize research biases (Sekaran & Bougie, 2016). There are four main forms of research philosophy including positivist research philosophy, interpretivist research philosophy, pragmatist research philosophy and realistic research philosophy. Pragmatism research philosophy argues that the language and thoughts are tools to predict an action rather than describing a reality. Pragmatism are appropriate for both quantitative and qualitative researches (Sekaran, 2016). Interpretivism on the other hand argues that research is dependent on the researcher's view and subjective interpretation of social phenomenon. Positivism advances for objective and methodological approach to research.

This study adopted the positivist research philosophy, which seeks an objective, unconditional and independent view. Furthermore, its research findings are observable and measurable truths that are quantifiable statistically (Tamminen & Poucher, 2020). With this philosophy, a structured methodology guided by a scientific principle follows the formulation of a problem based on the aims of the study in answering the research objectives. The positivist research philosophy is suitable in this study because it helped answer research questions by anchoring the study on scientific objectivity (Park et al., 2020). With the positivist approach, the results would also be analyzed scientifically to give logical results (Collis & Hussey, 2014). With the positivist research philosophy, only the factual information gained through observation can be trusted. Therefore, the role of the researcher is limited to collection and interpretation of the information.

3.3 Research design

A research design is an arrangement of conditions for the collection and analysis of data in a way that brings about relevance and also meaning to the economy and procedure (Akhtar, 2016). Research design is a guiding blueprint that a study employee in answering the set study objectives (Bartolomé *et al.* 2019). The research design tends to define the roadmap to undertake the study and the method to be followed to address the research objectives. As indicated by Abutabenjeh and Jaradat (2018), research design carries the manner in which the study objectives should be framed, methods to collect data and nature of data to be collected.

The study utilized correlational research design in its analysis. Without influencing or changing any of the variables, a correlational research design examines correlations between them. The direction and/or degree of the association between two or more variables is reflected in a correlation (Queirós *et al.*, 2017). Quantitative techniques are used in correlational study design to examine the correlations between variables.

3.4 Population and Sampling

3.4.1 Population

A target population in a research study involves the population of interest or the entire population or a set that possess the characteristics that are of interest to the researcher and hence are considered to be essential for data analysis (Willie, 2022). Population entails all members that meet a specified criterion or a set of specifications (Datta, 2018). The target population of the study involved the management and the board members of the parastatals in Kenya. There are 246 parastatals in Kenya (List attached in Appendix II). The target population of the study included 1 senior manager, 1 auditor, 1 board member and 1 accountant making a total of 4 respondents. Stratified sampling was used to ensure fair representation of the parastatals. The parastatals were classified into categories from parent ministries. The categorization was on parastatals that are of regulatory, manufacturing, commercial, education, training and research, and in nature and existences. Thereafter random sampling was done from each category of parastatals. Table 3.1 shows the target population.

Table 3.1: Target Population

Category of Parastatal	Number of parastatal	Target respondents
Regulatory	123	492
Education, Training & Research	52	208
Manufacturing	20	80
Commercial	51	204
Total	246	984

Source: National Treasury & Planning 2019

3.4.2 Sampling and Sample Size

A sample entails the selected persons or objects that are intended to participate in the research. It entails a subset of the target population that possess the characteristics that are important in research. A sample serves as a general representative of the intended audience. The process of choosing a sample from the target population is known as sampling (Etikan & Bala, 2017). The study used the simplified method of Yamane (1967) to determine the sample size of the respondents who took part in the investigation. This is computed using the formula that is provided.

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = population size

e = the level of precision

1 = Constant

This formula assumes a significance level of 0.5, the level of precision of 5% and a confidence level of 95%.

Sample size for; $n = 984 / \{1 + 984(0.05)^2\}$

= 284.4= 284 respondents apportioned as follows.

Table 3.1: Sample Size Distribution

Category of Parastatal	Target respondents	Sample size
Regulatory	492	142
Education, Training & Research	208	60
Manufacturing	80	23
Commercial	204	59
Total	984	284

Source: Researcher 2024

The sample size of the study therefore included 284 respondents comprising auditors, senior managers, accountants and board members who were contacted from the different corporations in different ministries. Stratified sampling was adopted in the study to select the state corporations to participate in the study. Simple random sampling was utilized in selecting senior manager, auditor, board member and accountant from each of the state corporations to participate in the study.

3.5 Data Collection Methods

Primary data was relied on and was collected in the study using structured questionnaires. The questionnaire was developed based on research objectives. The questionnaire was structured in a way that the first section A asks the general information of the respondents. The second section B had questions on the quality of audit reports, section C was on regular-follow up audits, section D was audit action plans and section E was on corporate governance. The questionnaires were administered to the respondents who were given ample time to fill them. Thus, the researcher adopted a drop and pick later method, and use of online questionnaires where emails and links were sent to respondents for their action. The respondents, accountants, senior managers and auditors were accessed directly whereas the board members were accessed through the auditor who reported functionally to the board. The auditors after seeking consent provided the board members' contact details in form of email addresses for sharing the online based questionnaire for filling.

3.6 Data Analysis

Questionnaires were collected back from the respondents for analysis upon being filled. However, before analysis begins, the questionnaires were sorted out to separate the fully filled and the partially filled questionnaires. After sorting out, the data entry on the excel sheet began where coding of the data was done. The data was then be transferred to SPSS software, which facilitated the inferential and descriptive analysis. The inferential analysis entailed regression and correlation analysis. Additionally, the descriptive results included standard deviations, mean, median, percentages and frequencies. A multiple linear regression will be conducted in the study. Multiple linear regression allows the researcher to account for all of the potentially important factors in one model. The advantages of this approach are that this may lead to a more accurate and precise understanding of the association of each individual factor with the outcome (DiStefano et al., 2019). The ordinal regression model that was utilized is presented as;

$$Cr = \beta_1 Qa + \beta_2 Rf + \beta_3 Ap_3 + \varepsilon$$

Where,

Cr stands for Kenyan parastatal corporate governance practices

Qa represents the quality of audit reports of the respective parastatals

Rf represents regular-follow up audits of the respective parastatals

Ap represents audit action plans of the respective parastatals

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ are the variable coefficients

3.6.1 Diagnostic Tests

The diagnostic tests estimated in the research included normality test, multicollinearity test and auto-correlation. The diagnostic tests were conducted before estimating the regression model. Severe multicollinearity magnifies standard errors of the model resulting to incorrect model coefficients (Alin, 2010). A variance inflation factor was adopted to check of collinearity in dataset. The $VIF > 5$ implies that multicollinearity is present in the data (Jurczyk, 2009). In case of severe multicollinearity, this was cured by removing some of the highly correlated independent variables.

Kolmogorov Smirnov test was employed in testing for normality. The null hypothesis is that error terms of the data is normally distributed. When the calculated p-value is < 0.05 , we fail to reject null hypothesis. Nonetheless, if the p-value is < 0.05 , the error variation in the dataset is normally distributed. In case of violation of normality tests, non-parametric tests like spearman rank correlation.

3.7 Research Quality

3.7.1 Validity

Validity of the research instrument entails the extent it measures that it purports to measure (Franklin & Ballan, 2001). Validity was measured using both construct and content validity. For content validity, the supervisor was consulted widely on the contents of the instrument and whether the goal of the study can be achieved using the instrument. In addition, the views and improvements of the respondents with regards the instrument were incorporated before the actual data collection exercise. For construct validity, KMO tests was used.

3.7.2 Reliability

The main aim of the pilot test is to ascertain the consistency of the data collection instrument (Orodho & Kombo, 2002). In this study, the reliability of the data collection instrument was

measured using the Cronbach's Alpha method. The values > 0.7 implied that the data collection instrument is reliable. Any Cronbach's Alpha value < 0.7 implied that the instrument is not reliable to measure the respective variable and hence the statements on the variable should be improved or omitted.

3.8 Ethical Considerations

The ethical issues entailed the conduct of the researcher as well as the utilization of the data collected during the study. Before collecting data, the researcher sought permission from Strathmore University ethics committee where an introductory letter was issued upon successfully completing the proposal. The researcher further sought a research permit from NACOSTI. After receiving these two letters, the researcher now organized to collect the data. Before data collection is carried out, the respondents were duly notified of the date and the intention of the study. The aim of the study was also clearly communicated to them, that the information provided was utilized for academic purposes only and was treated with utmost confidentiality. Two research assistants were hired who assisted in the distribution and collection of questionnaires. These research assistants were adequately trained on the code of conduct during data collection exercise.

3.9 Summary of the chapter

The chapter presented the research methodology that the study adopted. The chapter outlined the research design, research philosophy, the target population and the sampling methods that were employed. Additionally, the chapter outlined the data collection methods and research quality that involved checking the instrument validity and reliability. Furthermore, data analysis techniques and diagnostic tests were discussed. The chapter ended by outlining the ethical issues to be observed during the research.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The chapter presents an outline of the data analysis and the presentation of the results of the analysis. In this study, primary data collected using structured questionnaires were utilized. The objective of the study was to determine whether implementation of the audit report recommendations can enhance corporate governance practices in Kenyan parastatals. Specifically, the study sought to determine the effect of quality of audit reports on corporate governance practices, the effect of regular follow-up audits on corporate governance practices and the effect of audit action plans on corporate governance practices in Kenya Parastatals. The results of analysis were presented in the form of descriptive and inferential results. Descriptive results were presented in the form of percentages, means and standard deviation. Inferential statistics were presented in the form of correlation and regression results.

4.2 Response Rate

The sample size for the study were 284 respondents comprising auditors, senior managers, accountants and the board members of the Kenyan parastatals under study. Thus, a total of 284 questionnaires were administered to the respondents. However, 199 questionnaires were dully filled and received back giving a response rate of 70.1% as provided for in Table 4.1.

Table 4.1: Response Rate

	Frequency	Percent
Response	199	70.1
Non-Response	85	29.9
Total	284	100

4.3 Demographic Characteristics

The study sought to analyze the demographic characteristics of the respondents including their positions in the parastatals under review, their length of service, the frequency of auditing, whether they receive audit recommendations and finally whether the audit recommendations are acted upon once released. The results are outlined in Table 4.2.

Table 4.2: Demographic Characteristics

Position in the Parastatal	Frequency	Percent
Senior Manager	44	22.1
Auditor	55	27.6
Board Member	40	20.1
Accountant	60	30.2
Total	199	100
Length of Service	Frequency	Percent
5 - 10 Years	58	29.1
11 - 15 Years	68	34.2
Over 15 Years	73	36.7
Total	199	100
Frequency of Auditing	Frequency	Percent
Quarterly	52	26.1
Semi-Annually	69	34.7
Annually	78	39.2
Total	199	100
Receipt of Audit Recommendations	Frequency	Percent
Yes	121	60.8
No	78	39.2
Total	199	100
Action on Audit Recommendations	Frequency	Percent
Often	113	56.8
Rarely	86	43.2
Total	199	100

From the results, 30.2% of the respondents were accountants at the parastatals under review, 27.6% were auditors, 22.1% were managers and finally 20.1% were board members. Thus, majority of the respondents were accountants. Furthermore, 36.7% of the respondents had served in their respective parastatals for more than 15 years, 34.2% had served for between 11 and 15 years and finally, 29.1% had served between 5 and 10 years. Thus, majority of the responses were deemed knowledgeable on whether the audit reports for respective parastatals were implemented or not. It can be observed from the results that 39.2% of the respondents did indicate that auditing in their respective parastatals was done annually, 34.7% pointed out that auditing in their respective parastatals was done semi-annually and finally, 26.1% pointed out that auditing was done on quarterly basis. Furthermore, 60.8% of the respondents indicated that they often receive audits

reports while 39.2% did not receive audit reports more often. It is clear that 57% of the respondents pointed out that audit recommendations are often acted upon by the parastatals under review while 43% pointed out that the audit recommendations are rarely acted upon.

4.4 Descriptive Analysis

Descriptive statistics in the study were provided in the form of percentages, mean and standard deviations. The study employed primary data collected using structured questionnaires. The responses were measured using a Likert Scale ranging from the values 1 to 5 with the value 1 representing that the response was in strong disagreement and the value 5 implying that the response was strongly in agreement. The study further computed the means with a mean of 1 indicating that the average response was in strong disagreement, mean of 2 implying disagreement, mean of 3 implying moderately in agreement, mean of 4 implying an agreement on average and finally a mean of 5 implying a strong agreement on average.

4.4.1 Quality of Audit Reports

A summary of the responses on the questions on quality of audits are presented in Table 4.3.

Table 4.3: Descriptive Statistics for Quality of Audit Reports

	M	S Dev	Median
The auditors are credible and qualified	3.7	1.2	4.0
The audit committee are involved in the selection of auditors	3.6	1.3	4.0
The audits report that we receive are always are implementable in the eyes of management.	3.6	1.2	4.0
The audit reports that we receive are comprehensive and provide information on diverse areas within the parastatal	3.7	1.2	4.0
The audit reports that we receive have had an impact in the parastatal's operations	3.6	1.3	4.0
There is no sign of manipulation of the reports to fit the desires of the management	3.7	1.3	4.0
Aggregate Mean and Standard Deviation	3.7	1.3	4.0

The statement on whether the auditors are credible and qualified recorded a mean and standard deviation of the statement were 3.7 and 1.2 respectively implying the responses agreed on average. The question, audit committee are involved in the selection of auditors had a standard deviation

and a mean of 3.6 and 1.3 respectively. In addition, majority of the respondents agreed with a mean of 3.6 and a standard deviation of 1.2 that the audits reports that audit reports that they receive are always are implementable in the eyes of management.

The audit reports that we receive are comprehensive and provide information on diverse areas within the parastatal had a mean of 3.7 and an SD of 1.2. Furthermore, majority of the participants of the study strongly agreed with a mean of 3.6 and a standard deviation of 1.3 that the audit reports that we receive have had an impact in the parastatal's operations. There is no sign of manipulation of the reports to fit the desires of the management attracted a mean and standard deviation of the statement were 3.7 and 1.3 respectively. The aggregate mean and standard deviation for the statement was 3.6 and 1.3 respectively implying that on average the respondents agreed with the statements on quality of audit reports.

In addition, when the respondents were asked to indicate whether the auditor general should display annually parastatals performance in responding and acting on auditors' recommendations. Majority 92 percent of the respondents were of the opinion that auditor general should display annually parastatals performance in responding and acting on auditors' recommendations. This will help boost on the implementation of audit recommendations for better corporate governance. As per the respondents, this action will also enhance the uptake and adherence to the auditor's recommendations, enhance public trust and confidence in the efficient running of the Parastatals and ensures transparency and accountability. Only 8% of the respondents indicated that the auditor general should not display annually parastatals performance in responding and acting on auditors' recommendations citing the sensitive nature of some matters in the audit reports. Further, when asked about the level of confidence in the reporting by the parastatal auditors, the aggregate mean response was 7.34. The level of confidence was measured on scale of 1 to 10 where mean response of 1-4 implied low confidence, 5-7 moderate confidence and 8-10 high confidence. Based on the results, there is moderate confidence by the public in the reporting by the parastatal auditors. The median results (4.0) indicate that majority of the respondents agreed with the questions on the quality of audit reports.

4.4.2 Regular Follow-Up Audits

A summary of the responses on the questions on regular follow-up audits are presented in Table 4.4.

Table 4.4: Descriptive Statistics for Regular Follow-Up Audits

	M	S Dev	Median
The parastatal has annual audit plans for carrying out follow up audit reports	3.6	1.2	4.0
Accountability of audit process can be attained through follow up audit reports	3.7	1.3	4.0
The reports are always accessible to all the stakeholders for follow ups	3.6	1.3	4.0
The follow up of audit reports provided to the stakeholders have improved parastatals operations and minimized inefficiencies	3.6	1.2	4.0
There is action taken on follow up audit reports after presented to the audit committee	3.5	1.3	4.0
Audit findings have reduced over the period due to carrying out follow up audits regularly	3.7	1.2	4.0
Aggregate Mean and Standard Deviation	3.6	1.3	4.0

From the results, the statement the parastatal has annual audit plans for carrying out follow up audit reports recorded a line mean and standard deviation of the statement were 3.6 and 1.2 respectively implying the responses were in tandem on average. The question, accountability of audit process can be attained through follow up audit reports had a standard deviation and a mean of 3.7 and 1.3 respectively. In addition, majority of the respondents agreed with a mean and standard deviation of 3.6 and 1.3 respectively that the reports are always accessible to all the stakeholders for follow-ups.

The follow up of audit reports provided to the stakeholders have improved parastatals operations and minimized inefficiencies had a mean of 3.6 and an SD of 1.2. Furthermore, majority of the participants of the study strongly concurred with a mean of 3.5 and a standard deviation of 1.3 that there is action taken on follow up audit reports after presented to the audit committee. Audit findings have reduced over the period due to carrying out follow up audits regularly attracted a line mean and standard deviation of the statement were 3.7 and 1.2 respectively. The aggregate mean and standard deviation for the statement was 3.6 and 1.3 respectively implying that on average the respondents agreed with the statement's regular follow-up audits. The median results (4.0) indicate that majority of the respondents agreed with the questions on the regular follow-up

of audits.

Further, the study sought to establish the availability of the audit reports in the parastatals. The results are shown in Table 4.5.

Table 4.5: Accessibility of Audit Reports

	Frequency	Percent
Accessible	20	90.1
Not Accessible	179	9.9
Total	199	100

It was established that audit reports in the parastatal were not available. This is an indication that the audit reports were kept so much confidential and could not be disclosed to the public. This may make it challenging to make a follow up of audit recommendations and whether the suggested audit recommendation was implemented or not. The lack of availability of the audit reports to other members of the public makes it hard to hold the board management parastatals accountable.

4.4.3 Audit Action Plans

A summary of the responses on the questions on audit action plans are presented in Table 4.6.

Table 4.6: Descriptive Statistics for Audit Action Plans

	M	S Dev	Me dia n
Audit report recommendations on environment, health & misappropriation of resources be made mandatory for implementation	3.6	1.3	4.0
The board of directors of the parastatal usually act on the recommendations of the auditors	3.6	1.2	4.0
Strict timelines of six months for implementation of audit recommendation is ideal	3.6	1.3	4.0
A status report on implementation of audit report recommendations and action there on is necessary for parastatals	3.7	1.3	4.0
The implementation of the previous audit report recommendations has steered the parastatal towards the position of better performance	3.6	1.2	4.0
The Public Audit act 2015 needs amendment to incorporate audit actions plans	3.7	1.3	4.0
Aggregate Mean and Standard Deviation	3.6	1.3	4.0

It is clear that, the question audit report recommendations on environment, health & misappropriation of resources be made mandatory for implementation recorded a line mean and standard deviation of the statement were 3.6 and 1.3 in that order indicating the responses were in tandem on average. The question, the board of directors of the parastatal usually act on the recommendations of the auditors had a standard deviation and a mean of 3.6 and 1.2 respectively. Additionally, majority of the respondents agreed strict timelines of six months for implementation of audit recommendation is ideal recorded a line mean of the statement was 3.6 and its standard deviation was 1.3.

In addition, majority of the respondents concurred with a mean of 3.7 and a standard deviation of 1.3 that a status report on implementation of audit report recommendations and action there on is necessary for parastatals. The statement the implementation of the previous audit report recommendations has steered the parastatal towards the position of better performance had a mean of 3.6 and an SD of 1.2. The Public Audit act 2015 needs amendment to incorporate audit actions plans attracted a line mean and standard deviation of the statement were 3.7 and 1.3 respectively. The aggregate mean and standard deviation for the statement was 3.6 and 1.3 respectively implying that on average the respondents agreed with the statements on audit action plans. The median results (4.0) indicate that majority of the respondents agreed with the questions on the audit action plans.

The study further sought to identify the challenges of implementing audit report recommendation. The results are shown in Table 4.7.

Table 4.7: Challenges of Audit Report Implementation

	Frequency	Percent
Financial Constraints	54	26.92
Lack of Management Support	73	36.54
Competency in Staffing	23	11.54
Complexity of the Recommendation	49	25.00
Total	199	100

It was established that lack of management support was the common challenge affecting the implementation of audit report recommendations (36.54%). This was followed by financial

constraints (26.92%) and complexity of the recommendations (25%). Competency in staffing challenge was also another significant challenge. The results imply that lack of management support in the implementation of audit report recommendations remains the major problem in the implementation of audit report recommendations in government parastatals.

4.4.4 Corporate Governance Practices

A summary of the responses on the questions on corporate governance practices are presented in Table 4.8.

Table 4.8: Descriptive Statistics for Corporate governance Practices

	M	S De v	Med ian
The board of directors have been conducting board meetings in accordance with the state corporations act.	3.7	1.2	4.0
The board meetings have been resourceful in enhancing the management of the parastatals.	3.6	1.3	4.0
There has never been any conflict between the management and the board of directors relating to the operations of the parastatal.	3.6	1.2	4.0
The board of directors have played a key role in ensuring timely and adequate implementation of audit report recommendations	3.6	1.3	4.0
There should be adequate representations of gender and expertise in the board	3.7	1.3	4.0
There is improved oversighting of the parastatals	3.7	1.2	4.0
There is improved accountability of the parastatals	3.7	1.1	4.0
Aggregate Mean and Standard Deviation	3.7	1.2	4.0

From the outcomes, the question the board of directors have been conducting board meetings in accordance with the state corporations act recorded a line mean and standard deviation of the statement were 3.7 and 1.2 respectively implying the responses were in tandem on average. The question, the board meetings have been resourceful in enhancing the management of the parastatals had a standard deviation and a mean of 3.6 and 1.3 respectively. Additionally, majority of the respondents agreed with a mean of 3.6 and standard deviation of 1.2 that there has never been any conflict between the management and the board of directors relating to the operations of the parastatal.

The board of directors have played a key role in ensuring timely and adequate implementation of audit report recommendations had a mean of 3.6 and an SD of 1.3. Furthermore, with a mean of

3.7 and a standard deviation of 1.3 agreed on average that there should be adequate representations of gender and expertise in the board. The statement there is improved oversighting of the parastatals attracted a line mean and standard deviation of 3.7 and 1.2 respectively. The statement, there is improved accountability of the parastatals had a mean of 3.7 and an SD of 1.1. The aggregate mean and standard deviation for the statement was 3.7 and 1.2 respectively implying that on average the respondents agreed with the statement's corporate governance practices.

Further, the study sought to rate the performance of the audit committee of the parastatal from 1-5 where 1-1.49 being very poor, 2.0 -2.49, somewhat poor, 3.0-3.49 moderate, 3.5-4.4 good and 4.5-5.0 very excellent. Based on the results, the aggregate mean response was 3.34 implying moderate rating about the performance of the audit committee of the parastatals. The median results (4.0) indicate that majority of the respondents agreed with the questions on the corporate governance practices.

4.5 Diagnostic Tests

The diagnostic tests estimated in the research included normality test, multicollinearity test and auto-correlation. The diagnostic tests were conducted before estimating the regression model.

4.5.1 Test for Multicollinearity

Severe multicollinearity magnifies standard errors of the model resulting to incorrect model coefficients (Alin, 2010). A variance inflation factor was adopted to check of collinearity in dataset. The $VIF > 5$ implies that multicollinearity is present in the data (Jurczyk, 2009). In case of severe multicollinearity, this was cured by removing some of the highly correlated independent variables. Multicollinearity test results are outlined in Table 4.9.

Table 4.9: Multicollinearity Test Results

	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Quality of Audit Reports	0.713	1.403
Regular Follow-Up of Audits	0.708	1.413
Audit Action Plans	0.701	1.426

From the results, it is clear that the VIF values for all the variables in the study were <5 implying that there was no multicollinearity among the independent variables in the study ($1.403 < 5$, $1.413 < 5$ and $1.426 < 5$).

4.5.2 Normality Tests

Kolmogorov Smirnov test was employed in testing for normality. The null hypothesis is that error terms of the data is normally distributed. When the calculated p-value is <0.05 , we fail to reject null hypothesis. Nonetheless, if the p-value is <0.05 , the error variation in the dataset is normally distributed. Normality Test Results are outlined in Table 4.10.

Table 4.10: Normality Test Results

	Kolmogorov-Smirnova Statistic	df	Sig.
Corporate governance practices	0.082	195	0.224
Quality of Audit Reports	0.092	195	0.073
Regular Follow-Up of Audits	0.066	195	0.095
Audit Action Plans	0.087	195	0.114

From the results tabulated in Table 4.10, the normality test results for the study indicate that all the significance values for the variable in the study are >0.05 that is $0.224 > 0.05$, $0.073 > 0.05$, $0.095 > 0.05$ and $0.114 > 0.05$. Thus, the study makes the conclusion that the data follows a normal distribution and hence can be used for further analysis to give reliable inferences.

4.5.3 Test for Autocorrelation

To check for autocorrelation error terms in data across time, Durbin Watson test was employed. As a rule of thumb, a value of Durbin Watson of 2.0 indicates there is no autocorrelation detected in the sample. However, a value <2.0 indicates positive autocorrelation whereas a value >2.0 indicates negative autocorrelation. Autocorrelation Test Results are outlined in Table 4.11.

Table 4.11: Autocorrelation Test Results

Model	Durbin-Watson
1	1.858

The Durbin-Watson value for the study was 1.858 a figure close to 2 implying that there was no severe autocorrelation in the study.

4.6 Inferential Analysis

The inferential statistics of the study involved both correlation and regression analysis. Correlation analysis was used to determine the strength and direction of relationship between the implementation of audit reports and corporate governance practices of the Kenyan parastatals. Regression analysis served to determine the linear relationship between the dependent and the independent variables in the study. The dependent variable was corporate governance practices while the independent variables were quality of audit reports, regular follow-up audits and audit action plans.

Table 4.12: Validity Test Results

Variable	Indicators	Factor loadings	KMO and Bartlett's Test			
			KMO Measure of Sampling Adequacy	Approx. Chi-Square	df	Sig.
Quality of Audit Reports	Statement 1	0.831	.906	667.553	15	.000
	Statement 2	0.784				
	Statement 3	0.821				
	Statement 4	0.835				
	Statement 5	0.827				
	Statement 6	0.836				
Regular Follow-up of Audits	Statement 1	0.802	.918	665.799	15	.000
	Statement 2	0.806				
	Statement 3	0.858				
	Statement 4	0.801				
	Statement 5	0.840				
	Statement 6	0.834				
Audit Action Plans	Statement 1	0.841	.913	630.830	15	.000
	Statement 2	0.789				
	Statement 3	0.785				
	Statement 4	0.82				
	Statement 5	0.839				
	Statement 6	0.817				
Corporate Governance Practices	Statement 1	0.819				
	Statement 2	0.836				
	Statement 3	0.801				

Variable	Indicators	Factor loadings	KMO and Bartlett's Test			
			KMO Measure of Sampling Adequacy	Approx. Chi-Square	df	Sig.
	Statement 4	0.826				
	Statement 5	0.768				
	Statement 6	0.797				
	Statement 7	0.777	.919	770.888	21	.000

The validity test results for the measurement indicators for all the variables attracted factor loadings > 0.5. As a result, all the measurement indicators for implementation of audit report recommendations was retained for further analysis. For the KMO and Bartlett's Test, the calculated p-value for the study variables were all <0.05 implying that the measurement indicators attained the validity test threshold.

4.6.1 Correlation Analysis

Correlation analysis was used to determine the strength and direction of relationship between the quality of audit reports, regular follow-up audits, audit action plans and corporate governance practices of the Kenyan parastatals. The study adopted Spearman's method. The results are presented in Table 4.10.

Table 4.13: Correlation Results

			Corporate Governance	Quality of Audit Reports	Regular Follow-Up of Audits	Audit Action Plans
Spearman's rho	Corporate Governance	Correlation Coefficient	1	.520**	.417**	.465**
		Sig. (2-tailed)	.	0.000	0.000	0.000
		N	199	199	199	199
	Quality of Audit Reports	Correlation Coefficient	.520**	1	.364**	.398**
		Sig. (2-tailed)	0.000	.	0.000	0.000
		N	199	199	199	199
	Regular Follow-Up of Audits	Correlation Coefficient	.417**	.364**	1	.406**
		Sig. (2-tailed)	0.000	0.000	.	0.000
		N	199	199	199	199

Audit Action Plans	Correlation Coefficient	.465**	.398**	.406**	1
	Sig. (2-tailed)	0.000	0.000	0.000	.
	N	199	199	199	199

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

It is clear that quality of audit reports had a positive and statistically significant relationship with corporate governance practices of the Kenyan parastatals ($r=0.520$, $p=000<0.05$). The correlation between regular follow-up of audits and corporate governance practices of the Kenyan parastatals was both positive and statistically significant ($r=0.417$, $p=000<0.05$). The correlation between audit action plans and corporate governance practices of the Kenyan parastatals was both positive and statistically significant ($r=0.465$, $p=000<0.05$).

4.6.2 Regression Analysis

Regression analysis served to determine the linear relationship between the dependent and the independent variables in the study. The dependent variable was corporate governance practices of the Kenyan parastatals while the independent variables were quality of audit reports, regular follow-up audits and audit action plans. Multiple linear regression allows the researcher to account for all of the potentially important factors in one model. The advantages of this approach are that this may lead to a more accurate and precise understanding of the association of each individual factor with the outcome (DiStefano et al., 2019).

Table 4.14: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.694a	0.482	0.474	0.6574

Source: Primary Data, 2024

The results in Table 4.11 points out that the estimated model explains to a tune of 48.2% of the total variations in corporate governance practices of the Kenyan parastatals. This is supported by the R Squared value of 0.482 in the estimated model. This implies that the independent variables under study including quality of audit reports, regular follow-up audits and audit action plans are significant in explaining corporate governance practices of the Kenyan parastatals. The remaining 51.8% of the variations in corporate governance practices of the Kenyan parastatals is explained by other factors not included in the study that are also significant in explaining corporate governance practices of the Kenyan parastatals.

Table 4.15: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	78.446	3	26.149	60.504	.000b
Residual	84.275	195	0.432		
Total	162.721	198			

From the results presented in Table 4.12 indicate the statistical significance of the estimated model. The model is statistically significant as supported by the estimated P value in the model ($0.000 < 0.05$) as well as the estimated F value (60.504) less than the F critical 2.08380 from the F tables. The estimated results can therefore be used for further analysis to give reliable inference.

Table 4.16: Multiple Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.344	0.307		1.118	0.265
Quality of audit reports	0.407	0.078	0.317	5.200	0.000
Regular follow-up of audits	0.334	0.073	0.282	4.596	0.000
Audit action plans	0.300	0.069	0.267	4.344	0.000

The ordinal regression model that was utilized is presented as;

$$Cr = 0.344 + 0.407QA + 0.334RF + 0.3AP$$

Where,

Cr stands for Kenyan parastatal corporate governance practices

QA represents the quality of audit reports of the respective parastatals

RF represents regular-follow up audits of the respective parastatals

AP represents audit action plans of the respective parastatals

From the results, the coefficient of the variable quality of audit reports was positive (0.407) and statistically significant ($p=0.000 < 0.05$). This implies that a unit improvement in quality of audit reports among the Kenyan parastatals would yield a significant 0.407 units improvement in corporate governance practices among the Kenya parastatals. Thus, the study concludes that

quality of audit reports in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals.

Furthermore, the coefficient of regular follow-up of audits was positive (0.334) and statistically significant ($p=0.000<0.05$). This implies that a unit improvement in the regular follow-up of audits among the Kenyan parastatals would yield a significant 0.334 units improvement in corporate governance practices among the Kenya parastatals. Thus, the study concludes that regular follow-up of audits in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals.

Finally, the coefficient of audit action plans was positive (0.300) and statistically significant ($p=0.000<0.05$). This implies that a unit improvement in the audit action plans among the Kenyan parastatals would yield a significant 0.300 units improvement in corporate governance practices among the Kenya parastatals. Thus, the study concludes that audit action plans in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals.

4.7 Chapter Summary

The chapter presented the analysis of data as well as the presentation of the results. This included the response rate of the study, the demographic results of the study, the descriptive results as well as the diagnostic tests. The study further presented the inferential results of the study including both correlation and regression results.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The section outlines the discussion of the analysis results as well as presents the conclusions of the study and makes recommendations based on the conclusions. The discussion of the results as well as the conclusions are was done in accordance with the objectives of the study.

5.2 Discussion of the Main Findings

The correlation results indicated that quality of audit reports had a positive and statistically significant correlation with corporate governance practices of the Kenyan parastatals. From the regression analysis, the coefficient of the variable quality of audit reports was positive and statistically significant. This implies that a unit improvement in quality of audit reports among the Kenyan parastatals would yield a significant improvement in corporate governance practices among the Kenya parastatals. Thus, the study concludes that quality of audit reports in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. The results are in line with the propositions of agency theory which outlines the relationships between the principals and the agents. At the center of the parastatals in Kenya are the principals who are the government and the citizens of Kenya who have entrusted the agent, which is the management, and the employees of these parastatals in the management of the affairs of the respective parastatals. Thus, the implementation of the audit report recommendations is in line with the propositions of the theory of reducing agency costs as well as safeguarding the interests of the principal. The theory thus informed the quality of audit reports of the parastatals in Kenya.

The results are in tandem with the findings of Kabwe (2023) who indicated that the relationship between quality of financial reporting was significant statistically. In addition, the relationship between audit committee independence, board gender diversity, board accounting expertise, and financial reporting quality was positive but insignificant statistically. Furthermore, the findings of Sunder and Yoon (2023) further indicated that the effectiveness of audits facilitates capital investments. The regulations seek to enhance financial reporting effectiveness by promoting audit quality as well as restricting auditors and managers from acting, which compromise the quality of information. Audit quality, independence and efficiency arise directly and largely from the attributes, relationships, incentives, training, and technology auditors bring to work, and therefore

have considerable albeit not total control on them. Formativeness of the system enabled by opportunities for signaling is largely controlled by the regulation of financial reporting system through setting of financial reporting standards, and freedom for companies to choose their accounting methods and degrees of disclosure. However, the results contrast the findings of Kateb et al. (2023) who argued that the impact of the quality of audit on the financial performance of the entities characterized principally by family ownership is not affected by post-revolutionary context.

The results are further consistent with the findings of Bett and Olouch (2017) which indicated that the practices of corporate governance are essential in the enhancement of audits quality of Kenyan public financial institutions. The independent directors should be well represented that is at least a third of the board, otherwise the quality of audit would be compromised. Kaawaase et al. (2021) further indicated that the quality of financial reporting significantly associates with the quality of internal audit quality. The quality of financial reporting does not significantly predict the independence of the board. The findings of Owolabi and Babarinde (2020) further pointed out that board size, composition, ethnic diversity and gender diversity were significant determinants of the quality of audits of the deposit money banks in Nigeria. However, audit quality is not significantly determined by foreign diversity. The results of Setyaningrum (2017) further concurred and demonstrated that the quality of auditor was vital in preparation and presentation of audit recommendation and eventually implementation since experienced auditors/ quality auditors were able to perform their duties with high level of integrity and due diligence.

The results from the correlation analysis indicated that the correlation between regular follow-up of audits and corporate governance practices of the Kenyan parastatals was both positive and statistically significant. From the regression analysis, the coefficient of regular follow-up of audits was positive and statistically significant. This implies that a unit improvement in the regular follow-up of audits among the Kenyan parastatals would yield a significant improvement in corporate governance practices among the Kenya parastatals. Thus, the study concludes that regular follow-up of audits in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. The results are in tandem with the propositions of stakeholder theory as it outlines the significance of all the stakeholders and not necessarily shareholders in any given setup. In the setup of parastatals, there are a number of

stakeholders. Hence, the implementation of the recommendations of the auditors regarding the performance of the parastatals would benefit a lot of other interest groups including the citizens who are indirectly the key shareholders.

The results are consistent with the findings of Anaman et al. (2023) who indicated that adherence to the code of conduct, familiarity with corporate governance codes and presence of boards are prevalent in Ghanaian unlisted firms. In addition, a study by Attaf and Bensbahou (2023) which reported that internal audit governance is statistically significant in the context of improving their environmental performance in adding value to companies. Internal audit enhances the company value by providing timely appropriate information and by raising the efficiency of management performance in decision-making. It also assists in responding to all risks, including risks related to environment as well as regularly updating the management of the company on environmental performance more so when there are impending risks. The findings of According to Dyah Setyaningrum and Khalif Azhar (2019) further indicated that audit findings and subsequent follow up of those audit findings had great influence in reducing level of corruptions in ministries/institutions in Indonesia. Ministries that did not act on the auditor's recommendations ended up having more audit findings in the preceding years. The authors affirmed that weakness in the internal controls system, noncompliance with laws and regulations were some of the major contributors to corruption cases in many ministries.

The findings Kontogeorgis (2018) are also in tandem with results and indicated that success of governance in entities could be attributed to a functionality of the Internal Audit workings. The authors noted "the good operation of internal audit function can be a tool for the improvement of quality of corporate governance and management. Furthermore, Muhammad Din et al. (2017) established that legitimacy of organization was dependable on the auditor's effort to bridge the gap between the various stakeholders in the organization by performing their duties in manner that the organizational design and management was maintained, protected and observed. The findings of Kiragu (2016) were also in tandem and indicated that providing opinion on verifying the existence of assets, financial statements, assessing compliance with policies and procedures, evaluating controls and operations, advising managers and evaluating risks all enhances corporate governance. Audit committees play significant roles including the transparency and reliability of the statements and oversee financial reporting and disclosure, establishing a direct reporting

relationship with the external auditors, ensuring risk management process is comprehensive and ongoing, monitor choice of accounting principles, significant and report figures and review internal audit plans.

The correlation between audit action plans and corporate governance practices of the Kenyan parastatals was both positive and statistically significant. From the regression analysis, the coefficient of audit action plans was positive and statistically significant. This implies that a unit improvement in the audit action plans among the Kenyan parastatals would yield a significant improvement in corporate governance practices among the Kenya parastatals. Thus, the study concludes that audit action plans in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. The results concur with the findings of signaling theory because it is squarely the management who have more information on the performance of the parastatals. However, the essence of auditing is to provide more information on the performance of these parastatals where the information can be shared with the board and by extension the other stakeholders who may use the information or interpret the information as they deem. Thus, upon getting such information, the other stakeholders other than the management are bound to analyze and gauge the performance of these parastatals and act whenever it is necessary.

The results concur with the findings of Furqan et al. (2021) who indicated that financial reports prepared had improved due to the audit recommendation that had been made by the auditors on the public sector accrual accounting adoption in Indonesia. Furthermore, the findings of Nerantzidis et al. (2023) argued that the enhancement of oversight of auditor activity, internal control and financial reporting have been triggered by the impact of the presence of financial expertise promoted by either hard laws or soft ones, meeting frequency, independence and audit committee size. Thus, it is essential to note the important role played by the audit committee in financial reporting, and it is considered one of the most important board committees. The findings of Bilal et al. (2018) indicated that internal audit and efficient corporate governance have a good and significant association. The nature of the task, competence and appropriate professional care, internal audit independence, and corporate governance all had a favorable and substantial link. The influence of managing the activity of internal audit, improvement program and quality assurance on corporate governance practices was not statistically significant.

Furthermore, the results are in tandem with the findings of Newman (2018) which indicated that non-implementation of audit recommendation was seen as a step backwards towards achieving great efficiency and effectiveness in government entities. This led to reoccurring of audit issues that eventually contributed to the cumulative losses to National Railways of Zimbabwe among other government owned entities. The findings of Turley and Zaman (2014) further pointed out a framework for identifying potential perceived effects leading to their utilization and effects documented on aspects of the audit function and analyzing how the quality of financial reporting is affected by audit committees and on corporate performance. Mahmoodi et al. (2023) in the findings pointed out that there was a negative relationship between managerial stability and ownership stability on the quality of accounting information. Additionally, there was a similar relationship between accounting information quality and independent auditor tenure stability.

5.3 Conclusion

The study concludes that quality of audit reports in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. Quality of audit reports enhances the quality of audit recommendations and hence enhancing the operations of the parastatals. The effectiveness of audits facilitates capital investments. By promoting quality of audit reports, the effectiveness of financial reporting is also enhanced. Audit quality arise directly and largely from the attributes, relationships, incentives, training, and technology auditors bring to work, and therefore have considerable albeit not total control on them. Reduction of agency costs is realized and the principal (government and its citizens) is well placed to ensure the agent (management) is accountable.

The study further concludes that regular follow-up of audits in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. Adherence to the code of conduct, familiarity with corporate governance codes and presence of boards are prevalent in Ghanaian unlisted firms. It also assists in responding to all risks, including risks related to environment as well as regularly updating the management of the company on environmental performance more so when there are impending risks. This supports the signaling theory were the follow up process will inform the other stakeholders on the happening of the parastatals and whether efforts are made to ensure the betterment of the parastatal

The study finally concludes that audit action plans in the Kenyan parastatals is a significant determinant of corporate governance practices among the Kenyan parastatals. The enhancement of oversight of auditor activity, internal control and financial reporting have been triggered by the impact of the presence of financial expertise promoted by either hard laws or soft ones, meeting frequency, independence and audit committee size. The nature of the task, competence and appropriate professional care, internal audit independence, and corporate governance all have a significant and substantial link. Thus, the propositions of agency theory, signaling theory and stakeholder theory were validated.

5.4 Recommendations

The study recommended that the Auditors need to release quality audit reports. This can be done by ensuring those involved in the audit process are qualified and experienced auditors and there is also minimal influence from management. Thus, this implies that, the auditors ought to be left to carry out their work independent of any influence so that the stakeholders may get the true picture of the performance of the parastatal.

The study further recommended that regular follow up of the previous audit reports needs to be done by the auditor in conjunction with the management. This would help in enhancing the implementation of the recommendations as well as checking the progress of the implementation. This would ultimately improve on the operations, performance and sustainability of the parastatal in the long run.

Finally, the study recommended that audit committees or Parliamentary accounts committee needs to draw a formal audit action plan that would guide the process of implementing the audit recommendations where the recommendation issued earlier had not been implemented.

Policy makers need to consider of creating laws that ensures managements have acted on the audit reports recommendations so that a solution for the audit findings are reached.

As per the current practice and knowledge the audit process ends at follow up stage then it goes back to planning for another audit cycle. However, this process does not bring benefit to the parastatals where some audit findings are left unimplemented and no solution or remedy provided to it. Therefore, audit action plans need to be considered for incorporation in the audit process.

5.5 Suggestions for Further Research

The study recommends that further studies be conducted on auditing and financial performance of parastatals in Kenya. Several parastatals report huge losses in Kenya despite the support from the government. This has been attributed to corruption cases. However, this has to be proved empirically, thus the need for the study.



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APPENDICES

Appendix I: Summary of Reoccurring Audit findings on subsequent years of various parastatals

1.National cereals and produce board

Financial year ending 30th June 2021

- I. Variances between Opening Stock in the Financial Statements and the ERP System
- 2.Variances Between Closing Stock in the Financial Statements and the ERP
3. Lack of Ownership Documents on Land
4. Unsupported Revaluation Adjustment
- 5.Long Outstanding Trade Debtors and Prepayments
6. Irregular Employment terms

Financial year ending 30th June 2022

- 1.Lack of Ownership Documents on Land
2. Unsupported Revaluation Adjustment
3. Long Outstanding Trade and Other Receivables
4. Inadequacies with Navision ERP System Ledgers
- 5.. Irregular Recruitments

2.Kenya Medical Supplies agency (KEMSA)

Financial year ending 30th June 2021

- 1.Unsupported Contracts – Warehouse Works
- 2.Unsupported Distribution Costs
- 3.Long Outstanding Balances Receivables and payables
- 4.Unsupported Expired Inventories

- 5.Unsupported Trade and Other Payables
- 6.Unexplained Loss of Revenue
- 7.Non-Compliance with the Public Procurement and Asset Disposal Act, 2015 on pharmaceutical inputs, non-pharmaceutical items
8. Irregular Extension of Distribution Contracts

- 9.Weakness in Cash Management system
- 10.Unapproved Staffing

Financial year ending 30th June 2020

- 1.Unconfirmed Net Sales
- 2.Unapproved Staff Costs
- 3.Unsupported Distribution Costs
- 4.Unsupported Covid-19 Inventories
- 5.Long outstanding Trade and Other Payables from Exchange Transaction
- 6.Long outstanding Trade and Other receivables from Exchange Transaction
- 7.Noncompliance PPAD ACT on Procurement of COVID-19 Items, non-pharmaceuticals inputs,
- 8.Procurement of Pharmaceutical and Non- Pharmaceutical Items after Expiry of Contract

3.Kenya Airports Authority

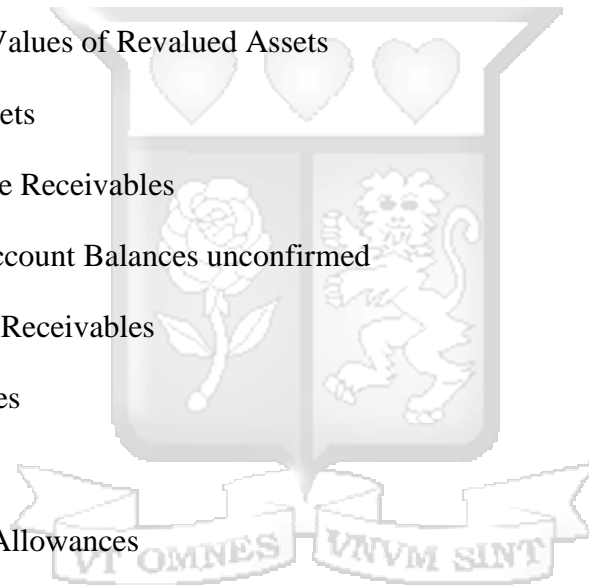
Financial year ending 30th June 2020

- 1.Lands without title deeds- Ukunda & Manda airstrip
- 2.Parcels of land with dispute- JKIA, Wilson airport, Malindi airport, Kitale air strip, Eldoret airstrip
- 3 Stalled projects
- 4.Omission of Biological assets
- 5.Long outstanding trade and other receivables from Kenya airways, KRA,

- 6.Unauthenticated balance of receivables
- 7.One-time customers Account balance unconfirmed
- 8.Long outstanding staff receivables
- 9.Unconfirmed Inventories - Obsolete Stock
- 10.Irregular Payment of Special Duty and Extraneous Allowances,

Financial year ending 30th June 2022

- 1.Land Without Ownership Documents
- 2.Parcels of Land in Dispute
- 3.Failure to Incorporate Values of Revalued Assets
- 4.Omitted Biological Assets
- 5.Long Outstanding Trade Receivables
- 6.One Time Customer Account Balances unconfirmed
- 7.Long outstanding Staff Receivables
- 8.Unconfirmed Inventories
- 9.Stalled Projects
- 10.Irregular Payment of Allowances



4.Agricultural Development Corporation

Financial year ending 30th June 2023

- 1.Failure to Disclose Material Uncertainty in Relation to Sustainability of Services
- 2.Unsupported Receivables from Exchange Transactions
- 3.Long Outstanding Trade Debtors
- 4.Unsupported and Long Outstanding Payables
- 5.Unsupported Adjustments on PPE
- 6.Unsupported Assets Balances

- 7.Unsupported Prior Year Adjustment to Depreciation Expense
- 8.Unsupported Investment at Kenya Grain Growers Co-operative Union
- 9.unserviced Borrowings
- 10.Failure to Remit Statutory Deductions
- 11.Non-Compliance with Law on Ethnic Diversity
- 12.Staff Exceeding Mandatory Retirement Age
- 13.Use of Outdated Software and Stand-Alone System
- 14.Failure by the Corporation to Undertake Governance Audit

Financial year ending 30th June 2022

- 1.Failure to Disclose Material Uncertainty in Relation to Sustainability of Services
- 2.Long Outstanding and Unsupported Receivables from Exchange Transactions
- 3.Unsupported Prior Year Adjustments
- 4.Unsupported and Long Outstanding Payables
- 5.Misstatement of Borrowings Balances
- 6.Unsupported Property, Plant and Equipment
- 7.Unconfirmed Investments
- 8.Unsupported Receivables on National Livestock Project
- 9.Failure to Remit Statutory Deductions
- 10.Non-Compliance with Law on Ethnic Diversity
- 11.Staff Exceeding Mandatory Retirement Age
- 13.Use of Outdated Soft Wares for Processing Financial Data
- 14.Failure by the Corporation to Undertake Governance Audit

5.KENYATTA UNIVERSITY

Financial year ending 30th June 2021

1. Illegal Encroachment on Land and Lack of Ownership Documents
2. Unsupported Trade and Other Payables
3. Inaccuracies in Sundry Debtors Balance
4. Unsupported Receivables from Government Agencies
5. Uncertainty Relating to Sustainability of Services (Going concern doubtful)

Financial year ending 30th June 2020

1. Going Concern
2. Encroached Land
3. Land Without Ownership Documents
6. Unsupported receivables

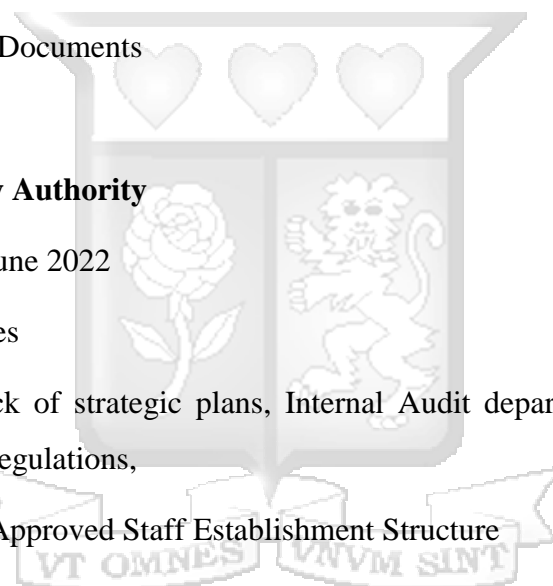
Kenya Nuclear Regulatory Authority

Financial year ending 30th June 2022

1. Undisclosed Bank Balances
2. Governance Issues on lack of strategic plans, Internal Audit department, Risk management policies, failure to develop regulations,
3. Failure to Implement the Approved Staff Establishment Structure

Financial Year ending 30th June 2021

1. Inaccurate Cash and Bank Balances
2. Governance Issues on lack of strategic plans, Internal Audit department, Risk management policies, failure to develop regulations,
3. Failure to Implement the Approved Staff Establishment Structure



Appendix II: Participants Information Sheet

PARTICIPANT INFORMATION AND CONSENT FORM INSERT HEADING FOR THE PROPOSED STUDY

Effects of Implementing Audit reports recommendations on Corporate governance practices in Kenyan Parastatals.

SECTION 1: INFORMATION SHEET

Investigator: Cyrus Kaleb Ouma Owino

Institutional affiliation: Strathmore Business School (SBS)

SECTION 2: INFORMATION SHEET–THE STUDY

2.1: Why is this study being carried out? The study is being carried out to find out whether the Audit Reports if implemented corporate governance practices in Parastatals can improve.

2.2: Do I have to take part?

No. It is optional to take part in the study. If one is to take part he/she will be issued with the questionnaire and will be required to respond to the questions correctly. Clarification to the questions will be given in case the questions are not clear to the respondent.

2.3: Who is eligible to take part in this study?

- People with knowledge on the subject matter e.g. Auditors, Managers, Accountants and Members of the Audit committees.

2.4: Who is not eligible to take part in this study?

- Anyone who has no agenda to further the objectives of this research.
- Anyone who has directly indicated unwillingness to participate in the research.

2.5: What will taking part in this study involve for me?

You will be approached and requested to take part in the study. If you are satisfied that you fully understand the goals behind this study, you will be asked to sign the informed consent form (this form) and then taken through a questionnaire to complete.

2.6: Are there any risks or dangers in taking part in this study?

There are no risks in taking part in this study. All the information you provide will be confidential and will not be used in any way without your consent.

2.7: Are there any benefits of taking part in this study?

The information will be used to improve: Yes, the study will help in improvement of service delivery by parastatals through the implementation of audit reports.

2.8: What will happen to me if I refuse to take part in this study?

Participation in this study is entirely voluntary. Even if you decide to take part at first but later change your mind, you are free to withdraw at any time without explanation.

2.9: Who will have access to my information during this research?

All research records will be stored in securely locked cabinets. That information may be transcribed into our database but this will be sufficiently encrypted and password protected. Only the people who are closely concerned with this study will have access to your information. All your information will be kept confidential.

2.10: Who can I contact in case I have further questions?

You can contact me, Cyrus Owino, at SBS, or by e-mail cyrus.owino@strathmore.edu, or by phone 0724777493). You can also contact my supervisor, Dr. David Mathuva, at the Strathmore Business School, Nairobi, or by e-mail dmathuva@strathmore.edu or by phone 0710403501

If you want to ask someone independent anything about this research please contact:

The Secretary–Strathmore University Institutional Ethics Review Board, P. O. BOX 59857, 00200, Nairobi, email ethicsreview@strathmore.edu Tel number:0703034418

I, _____, have had the study explained to me. I have understood all that I have read and have had explained to me and had my questions answered satisfactorily. I understand that I can change my mind at any stage.

Please tick the boxes that apply to you;

Participation in the research study

I AGREE to take part in this research

I DON'T AGREE to take part in this research

Appendix III: Research Letter

Ole Sangale Rd, Madaraka Estate,
P.O Box 59857 00200, Nairobi, Kenya.
Cell: +254 703 414/6/7, Twitter: @SBSKenya
Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu



6th March 2024

To Whom It May Concern,

RE: FACILITATION OF RESEARCH – OWINO, CYRUS KALEB OUMA

This is to introduce Owino, Cyrus Kaleb Ouma who is a Master of Commerce (MCOM) Student at Strathmore University Business School, admission number MCOM/124226/19. As part of our MCOM Programme, Cyrus is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MCOM course. To this effect, Cyrus would like to request appropriate data from your organization.

Cyrus is undertaking a research paper on “**Implementation of audit report recommendations in enhancing corporate governance practices in Kenyan parastatals.**” The information obtained shall be treated confidentially and shall be used for academic purposes only.

Our MCOM Programme seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Njoki Kiagiri".

Njoki Kiagiri
Manager – Graduate Programmes
Strathmore University Business School.



Appendix IV: Research Questionnaire

Instructions:

This questionnaire has been designed to gather data for a research study on “EFFECTS OF IMPLEMENTING AUDIT REPORT RECOMMENDATIONS ON CORPORATE GOVERNANCE PRACTICES IN KENYAN PARASTATALS.’ You have been considered as a key respondent who may have resourceful information regarding the topic of study. I request you to participate in this research study by providing responses to the questions presented. The information provided will be utilized for academic purposes only and will be treated with utmost confidentiality. Also, kindly note that your participation is voluntary. Welcome.

SECTION A: DEMOGRAPHIC INFORMATION

1. What is your position at this parastatal?

Senior manager Auditor Board Member Accountant

2. How long have you served in this parastatal?

5– 10 years 11 – 15 years Over 15 years

3. How often are audits done in this parastatal?

Quarterly Semi-annually Annually

4. Do you often receive/issue recommendations from the auditors?

Yes No

5. How often are these recommendations acted upon?

Often Rarely

SECTION B: QUALITY OF AUDIT REPORTS

6. The section presents statements on quality of audit reports. Using a Likert scale ranging from point 1 to 5, kindly answer them with regards the parastatals in Kenya. Tick in the appropriate boxes only once per question. Point 1 represents strongly disagree, 2 for Disagree, 3 for Not Sure, 4 for Agree and 5 for strongly Agree.

	1	2	3	4	5
The auditors are credible and qualified					
The audit committee are involved in the selection of auditors					
The audits report that we receive are always are implementable in the eyes of management.					
The audit reports that we receive are comprehensive and provide information on diverse areas within the parastatal					
The audit reports that we receive have had an impact in the parastatal's operations					
There is no sign of manipulation of the reports to fit the desires of the management					

7. Should Auditor General display annually Parastatals performance in responding and acting on auditors' recommendations? Yes or No. choose one and explain if possible

.....

.....

8. What is your level of confidence in the reporting by the parastatal auditors? Choose one
 (1-4) Low confidence level (5-7) Medium Confidence level (8-10) High Level confidence level

SECTION C: REGULAR-FOLLOW UP AUDITS

9. The section presents statements on regular-follow up audits. Using a Likert scale ranging from point 1 to 5, kindly answer them with regards the parastatals in Kenya. Tick in the appropriate boxes only once per question. Point 1 represents strongly disagree, 2 for Disagree, 3 for Not Sure, 4 for Agree and 5 for strongly Agree.

	1	2	3	4	5
The parastatal has annual audit plans for carrying out follow up audit reports					
Accountability of audit process can be attained through follow up audit reports					
The reports are always accessible to all the stakeholders for follow ups					
The follow up of audit reports provided to the stakeholders have improved parastatals operations and minimized inefficiencies					
There is action taken on follow up audit reports after presented to the audit committee					
Audit findings have reduced over the period due to carrying out follow up audits regularly					

10. How reliable is the availability of the audit reports in this parastatal? Choose one

Accessible Not Accessible



SECTION D: AUDIT ACTION PLANS

11. The section presents statements on audit action plans. Using a Likert scale ranging from point 1 to 5, kindly answer them with regards the parastatals in Kenya. Tick in the appropriate boxes only once per question. Point 1 represents strongly disagree, 2 for Disagree, 3 for Not Sure, 4 for Agree and 5 for strongly Agree.

	1	2	3	4	5
Audit report recommendations on environment, health & misappropriation of resources be made mandatory for implementation					
The board of directors of the parastatal usually act on the recommendations of the auditors					
Strict timelines of six months for implementation of audit recommendation is ideal					
A status report on implementation of audit report recommendations and action there on is necessary for parastatals					
The implementation of the previous audit report recommendations has steered the parastatal towards the position of better performance					
The Public Audit act 2015 needs amendment to incorporate audit actions plans					

12. What are the challenges of implementing audit report recommendations? Choose one

Financial Constraints

Lack of management support

Competency in staffing

Complexity of the recommendation

SECTION F: CORPORATE GOVERNANCE OF THE PARASTATALS IN KENYA

13. The section presents statements on corporate governance of the parastatals in Kenya. Using a Likert scale ranging from point 1 to 5, kindly answer them with regards the parastatals in Kenya. Tick in the appropriate boxes only once per question. Point 1 represents strongly disagree, 2 for Disagree, 3 for Not Sure, 4 for Agree and 5 for strongly Agree.

	1	2	3	4	5
The board of directors have been conducting board meetings in accordance with the state corporations act.					
The board meetings have been resourceful in enhancing the management of the parastatals.					
There has never been any conflict between the management and the board of directors relating to the operations of the parastatal.					
The board of directors have played a key role in ensuring timely and adequate implementation of audit report recommendations					
There should be adequate representations of gender and expertise in the board					
There is improved oversighting of the parastatals					
There is improved accountability of the parastatals					

14. How do you rate the performance of the Audit committee of this parastatal?

.....

.....

.....

THANK YOU

Appendix V: List of Parastatals in Kenya

1	Agricultural Development Corporation
2	Agricultural Finance Corporation
3	Agriculture and Food Authority
4	Agro-Chemical & Food Company Limited
5	Alupe University
6	Anti FGM Board
7	Anti-Counterfeit Authority
8	Anti-Doping Agency of Kenya
9	Assets Recovery Agency
10	Athi Water Works Development Agency
11	Bandari Maritime Academy
12	Biosafety Appeals Board
13	Bukura Agricultural College
14	Kenya BIOVAX Institute Limited
15	Bomas of Kenya Limited
16	Business Registration Service
17	Capital Markets Authority
18	Central Rift Valley Water Works Development Agency
19	Centre for Mathematics, Science and Technology In Africa
20	Chemelil Sugar (CSC) Ltd.
21	Chuka University
22	Coast Development Authority
23	Coast Water Works Development Agency
24	Commission for University Education
25	Commodities Fund
26	Communications Authority of Kenya
27	Competition Authority of Kenya
28	Co-operative University of Kenya
29	Council for Legal Education
30	Dedan Kimathi University Of Technology
31	East African Portland Cement Company Limited
32	Egerton University
33	Energy and Petroleum Regulatory Authority
34	Engineers Board of Kenya
35	Ewaso Ng'iro North River Basin Development Authority
36	Ewaso Ng'iro South Development Authority
37	Export Processing Zones Authority
38	Fish Levy Trust Fund
39	Garissa University

40	Geothermal Development Company Limited
41	Higher Education Loans Board
42	Human Resource Management Professionals Examination Board
43	Hydrologists Registration Board
44	Information and Communications Technology Authority
45	Insurance Regulatory Authority
46	Jaramogi Oginga Odinga University of Science and Technology
47	Jomo Kenyatta Foundation
48	Jomo Kenyatta University of Agriculture and Technology
49	Kaimosi Friends University
50	Kenya Academy of Sports
51	Kenya Accountants Secretaries National Examinations Board
52	Kenya Agricultural and Livestock Research Organization
53	Kenya Airports Authority
54	Kenya Animal Genetic Resource Centre
55	Kenya Broadcasting Corporation
56	Kenya Bureau of Standards
57	Kenya Civil Aviation Authority
58	Kenya Copyright Board
59	Kenya Cultural Centre
60	Kenya Dairy Board
61	Kenya Deposit Insurance Corporation
62	Kenya Development Corporation
63	Kenya Education Management Institute
64	Kenya Electricity Generating Company Ltd
65	Kenya Electricity Transmission Company
66	Kenya Export Promotion and Branding Agency
67	Kenya Film Classification Board
68	Kenya Film Commission
69	Kenya Fish Marketing Authority
70	Kenya Fisheries Service
71	Kenya Fishing Industries Corporation
72	Kenya Forest Service
73	Kenya Forestry Research Institute
74	Kenya Industrial Estates Limited
75	Kenya Industrial Property Institute
76	Kenya Industrial Research and Development Institute
77	Kenya Institute for the Blind
78	Kenya Institute of Curriculum Development
79	Kenya Institute of Mass Communication
80	Kenya Institute of Public Policy Research and Analysis

81	Kenya Institute of Special Education
82	Kenya Investment Authority
83	Kenya Law Reform Commission
84	Kenya Leather Development Council
85	Kenya Literature Bureau
86	Kenya Marine & Fisheries Research Institute
87	Kenya Maritime Authority
88	Kenya Medical Practitioners and Dentists Council
89	Kenya Medical Research Institute
90	Kenya Medical Supplies Authority
91	Kenya Medical Training College
92	Kenya National Accreditation Service
93	Kenya National Bureau of Statistics
94	Kenya National Commission for UNESCO
95	Kenya National Examinations Council
96	Kenya National Highways Authority
97	Kenya National Innovation Agency
98	Kenya National Library Services
99	Kenya National Qualifications Authority (KNQA)
100	Kenya National Shipping Line
101	Kenya National Trading Corporation
102	Kenya Ordinance Factories Corporation
103	Kenya Pipeline Company Ltd
104	Kenya Plant Health Inspectorate Service
105	Kenya Ports Authority
106	Kenya Post Office Savings Bank
107	Kenya Power and Lighting Company Ltd
108	Kenya Railways Corporation
109	Kenya Revenue Authority
110	Kenya Roads Board
111	Kenya Rural Roads Authority
112	Kenya School of Government
113	Kenya School of Law
114	Kenya Seed Company
115	Kenya Tourism Board
116	Kenya Trade Network Agency
117	Kenya Trade Remedies Agency
118	Kenya Tsetse and Trypanosomiasis Eradication Council
119	Kenya Universities and Colleges Central Placement Service
120	Kenya Urban Roads Authority
121	Kenya Utalii College

122	Kenya Veterinary Board
123	Kenya Veterinary Vaccines Production Institute
124	Kenya Water Institute
125	Kenya Water Towers Agency
126	Kenya Wildlife Service
127	Kenya Yearbook Editorial Board
128	Kenyatta International Convention Center
129	Kenyatta National Hospital
130	Kenyatta University
131	Kenyatta University Teaching, Referral and Research Hospital (KUTRRH)
132	Kerio Valley Development Authority
133	Kibabii University
134	Kirinyaga University
135	Kisii University
136	Koitalel Samoei University College
137	KONZA Technopolis Development Authority
138	Laikipia University
139	Lake Basin Development Authority
140	Lake Victoria North Water Works Development Agency
141	Lake Victoria South Water Works Development Agency
142	LAPSSET Corridor Development Authority
143	Machakos University
144	Mama Ngina University College
145	Maasai Mara University
146	Maseno University
147	Masinde Muliro University of Science & Technology
148	Media Council of Kenya
149	Meru University of Science and Technology
150	Micro and Small Enterprises Authority
151	Moi Teaching and Referral Hospital
152	Moi University
153	Multi-Media University
154	Murang'a University of Technology
155	Nairobi Centre for International Arbitration
156	National Aids Control Council (National Syndemic Diseases Control Council)
157	National Authority for the Campaign Against Alcohol and Drug Abuse – NACADA
158	National Biosafety Authority
159	National Cancer Institute
160	National Cereals and Produce Board
161	National Commission for Science, Technology and Innovation
162	National Construction Authority

163	National Council for Children's Services
164	National Council for Law Reporting
165	National Council for Nomadic Education in Kenya
166	National Council for Persons With Disabilities
167	National Council for Population and Development
168	National Crime Research Centre
169	National Drought Management Authority
170	National Employment Authority
171	National Environment Trust Fund
172	National Environmental Management Authority
173	National Government Affirmative Action Fund
174	National Government Constituency Development Fund
175	National Hospital Insurance Fund
176	National Housing Corporation
177	National Industrial Training Authority
178	National Irrigation Authority
179	National Museums of Kenya
180	National Oil Corporation of Kenya
181	National Research Fund
182	National Social Security Fund
183	National Transport and Safety Authority
184	National Water Harvesting & Storage Authority
185	National Youth Council
186	National Youth Service
187	New Kenya Co-operative Creameries Limited
188	New Kenya Planters Corporative Union
189	Non-Governmental Organizations Co-ordination Board
190	North Rift Valley Water Works Development Agency
191	Northern Water Works Development Agency
192	Nuclear Power and Energy Agency
193	Numerical Machining Complex
194	Nursing Council of Kenya
195	Nyayo Tea Zones Development Corporation
196	Nzoia Sugar Company
197	Pest Control Products Board
198	Policy holders Compensation Fund
199	Postal Corporation of Kenya
200	Private Security Regulatory Authority
201	Privatization Commission of Kenya
202	Public Procurement Regulatory Authority
203	Pwani University

204	Pyrethrum Processing Company of Kenya
205	Regional Centre on Groundwater Resources Education Training and Research in Eastern Africa
206	Retirement Benefits Authority
207	Rongo University
208	Rural Electrification and Renewable Energy Corporation
209	Sacco Societies Regulatory Authority
210	School Equipment Production Unit
211	Scrape Metal Council
212	South Eastern Kenya University
213	South Nyanza Sugar Company
214	Special Economic Zone Authority
215	Sports Kenya
216	Sports, Arts and Social Development Fund
217	Taita Taveta University
218	Tana and Athi Rivers Development Authority
219	Tana Water Works Development Agency
220	Tanathi Water Works Development Agency
221	Tea Board of Kenya
222	Technical and Vocational Education and Training Authority
223	Technical University of Kenya
224	Technical University of Mombasa
225	Tharaka University College
226	The Kenya Space Agency
227	The Universities Fund
228	Tom Mboya University College
229	Tourism Fund
230	Tourism Regulatory Authority
231	Unclaimed Financial Assets Authority
232	University of Eldoret
233	University of Embu
234	University of Kabianga
235	University of Nairobi
236	University of Nairobi Enterprise Services Limited
237	Uwezo Fund
238	Veterinary Medicines Directorate
239	Vision 2030 Delivery Board
240	Warehouse Receipts System Council
241	Water Resources Authority
242	Water Sector Trust Fund
243	Water Services Regulatory Board

244	Witness Protection Agency
245	Women Enterprise Fund
246	Youth Enterprise Development Fund

Source: National Treasury & Planning 2019



Appendix VI: Ethics Clearance Form



3rd April 2024

Mr Owino Cyrus,
cyrus.owino@strathmore.edu

Dear Mr Owino,

RE: Implementation of Audit Reports Recommendation in Enhancing Corporate Governance Practices in Kenyan Parastatals

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** research proposal. Your application reference number is **SU-ISERC2145/24**. The approval period is from 3rd April 2024 to 2nd April 2025.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC



THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)
Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
 - i. Endanger national security
 - ii. Adversely affect the lives of Kenyans
 - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
 - iv. Result in exploitation of intellectual property rights of communities in Kenya
 - v. Adversely affect the environment
 - vi. Adversely affect the rights of communities
 - vii. Endanger public safety and national cohesion
 - viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

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