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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 7, Iss. 1, pp 861– 877 March 10, 2020. www.strategicjournals.com, ©Strategic Journals

INFLUENCE OF AUDIT PRACTICES ON FINANCIAL PERFORMANCE OF KENYA PIPELINE COMPANY LIMITED

Wekesa, C. O.,[1*] & Malenya, A.[2]

[1*] MBA (Finance) Scholar, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya
[2] Ph.D, Lecturer, Jomo Kenyatta University of Agriculture & Technology [JKUAT], Kenya

Accepted: March 2, 2020

ABSTRACT

Lack of adequate empirical evidence on the significant effect of auditing management practices on financial performance in state corporations in Kenya motivated this study to investigate the influence of audit outsourcing, electronic auditing, audit reporting and audit committee composition on financial performance of Kenya Pipeline Company limited. The study was based on agency theory and transaction cost theory. The study adopted descriptive survey design. The study targeted 93 respondents where a census method was used to select all the 93 respondents to participate in the study. A total of 93 questionnaires were dispatched in the field for data collection and 87 questionnaires were returned fully filled, depicting a response rate of 93.5% which was very good for generalizability of the research findings to a wider population. From study findings, all conceptualized study variables (audit outsourcing, electronic auditing, audit reporting and audit committee composition) significantly influences financial performance of Kenya Pipeline Company limited (dependent variable). The study concluded that, one, audit outsourcing boost financial performance because they contribute to the achievement of reliable accounting information, which produces independent, accurate and reliable financial management information, two, electronic auditing positively influence financial performance of a company because electronic auditing guarantees real time detection of financial scams thus assists in sealing financial loopholes and that audit committee composition in terms of diversity boost financial performance of a company since diversity in terms of gender, age, size checks conspiracy of audit committee members in compromising audit reports and audit fraud disclosures. The study recommended that one, companies should adopt the effective use of audit outsourcing since it produces independent, accurate and reliable financial audit information, secondly, companies should embrace effective use of electronic auditing to guarantee real time detection of financial scams thus seal routine financial loopholes and three; companies should adopt audit reporting that is based on international audit reporting standards which ensure authentic financial data captured in credible audit reports.

Key Words: *Audit Outsourcing, Electronic Auditing, Audit Reporting, Audit Committee Composition*

CITATION: Wekesa, C. O., & Malenya, A. (2020). Influence of audit practices on financial performance of Kenya Pipeline Company Limited. *The Strategic Journal of Business & Change Management*, 7(1), 861 – 877.

INTRODUCTION

Financial performance of many state corporations especially in developing countries experience inconsistent performance despite the existence of internal auditors who should report financial mismanagement. In this regard, most scholars and financial practitioners assert that auditing is determined by providing service for multiple parties, who used the audited financial statements in making decisions; like firm managers, lenders, investors and government bodies (Al-Bawab, 2012).

In an effort to maintain growth and firm profitability, auditing firms have sought alternative sources of revenue by offering various types of professional services including internal audit, risk management and a variety of assurance and consulting services (Chewning, 2001). Levitt (2000) reported that audit services represent only about 30% of the largest audit firms total revenues, and regulators and critiques of the profession contend that the provision of these services threaten auditor independence and subsequent financial performance.

Outsourcing certain functions, or in some cases the whole internal audit control, organizations can benefit from a much broader range of skill sets and access to specialty services that bring best practice knowledge to the client company and achieve economies of scale and economic efficiencies. Outsourcing also allows management to stay focused on core business operations, rather than worry about managing and maintaining certain non-core business processes (Sridhar, 2013). The Institute of Internal Auditors (IIA), recognizes that many “partnering” arrangements with outside providers have been effective in helping organizations obtain internal audit services that contribute to management’s strategic objectives, but in cases where total outsourcing is selected as the method for obtaining internal audit services, The IIA believes that oversight and responsibility for the internal audit activity cannot be outsourced (Chapman & Anderson, 2014).

In Africa, it is asserted that in early 1990s, African countries began to focus on the improvement of public finance specifically, on budget and expenditure management reforms (Heidenhof, 2002). The foregoing is said to have been occasioned by donors’ concerns. African governments commenced a critical review of hitherto existing financial systems and processes. Due to the realization that the existing financial systems and processes were outdated, integrated financial management systems (IFMIs) were recommended. IFMISs are financial management tools that incorporate the use of computerized systems. According to a report by the United States Agency for International Development (USAID, 2008), the scope and scale of IFMIS can vary. It includes amongst others, auditing processes across national government, local government, and other public sector and quasi-governmental agencies and private firms that really embraced automated audit platforms.

Kenya Pipeline Company Limited (KPC) is a state corporation wholly owned by the Government of Kenya (GoK) with 99.9% shareholding by the National Treasury and less than 0.1% by the Ministry of Energy and Petroleum. KPC was incorporated in 1973 under the Companies Act, Cap 486 of the laws of Kenya and commenced commercial operations in February 1978.

The main objective of KPC is to provide efficient, reliable, safe and cost-effective means of transporting petroleum products from Mombasa to the hinterland. In pursuit of this objective, the Company has constructed a pipeline network, storage and loading facilities for transportation, storage and distribution of petroleum products. Current installed system consists of 1,344.8km of pipeline with current capacity to handle about 6.9billion litres of petroleum products.

Further, to this end, KPC has developed a Corporate Strategic Plan dubbed *KPC vision 2025* with the aim of transforming the Company into *Africa’s Premier Oil and Gas hub* and the mission of the Company is to transform lives through safe and efficient delivery of quality oil and gas from source to customer.

Audit reports from the Office of the Auditor General, for year ended 30th June 2017, indicated financial mismanagement. For instance, the Office of the Auditor General report indicated that procurement of hydrant pit valves, C/W isolation valves plus two year operation of spare parts worth US dollars 6,409,492 was awarded to an American firm through direct procurement contrary to the requirements of Public Procurement and Asset Disposal Act, 2015, and no documentary evidence was availed to support the justification of the ward. Further, although the purported spare parts were purportedly delivered, on 4th July, 2015, they were not formerly inspected and received for use, attracting the interrogation by the EACC to investigate on the use of amount totaling to US dollars 6,409,492 (Kshs.655,880,009).

More so, the purported company's financial statements for year ended 30th June 2017 were not consistent with actual material statements required by the International Financial Reporting Standards, thus raising audit queries over internal audit quality. Further, company profit after taxation dropped from Ksh.8, 446,512,571/= in the year 2016 to Kshs.7, 961,526,828/= in the year 2017; earnings per share also dropped from Kshs.465/= (year 2016) to Kshs.438 (year 2017). The company reported the shortfall as a result of unrealized income target from Morendat Institute of Oil and Gas of Kshs.863million.

Statement of the Problem

There has been public outcry over financial performance of KPC, and to support this assertion, audit reports from the Office of the Auditor General, for year ended 30th June 2017, indicated massive financial mismanagement in KPC making the company record dismal financial performance. That is, from reports of the Office of the Auditor General in 2008, the purported company's financial statements for year ended 30th June 2017 were not consistent with actual material statements required by the International Financial Reporting Standards, thus audit queries highlighted poor financial performance issues of the company.

To further qualify poor financial performance of KPC, company profit after taxation dropped from Ksh.8, 446,512,571/= in the year 2016 to Kshs.7, 961,526,828/= in the year 2017; earnings per share also dropped from Kshs.465/= (year 2016) to Kshs.438 (year 2017). The company reported the shortfall as a result of unrealized income target from Morendat Institute of Oil and Gas of Kshs.863million; thus showing pitfalls in financial performance of KPC, a replica of many state corporations in Kenya that attract public outcry due to poor financial performance.

In this regard, some researchers have reported dismal financial performance in State Corporation in Kenya yet these firms have internal audit committees that are supposed to offer oversight role. For instance, Odoyo et al.'s (2014) studied on the role of internal audit in risk management implementation in Kenya's state corporation and alleged that, in spite of the Kenya Railways operating in the lucrative transport sector and being a key player in Kenya's economic development, it was facing internal financial challenges. The foregoing problems, arguably, were occasioned by poor financial management of the state corporation. The study further found that, despite receiving financial assistance from the National Treasury, most State Corporation in Kenya have been reporting financial deficits at the end of every financial year, thus recommended use of credible audit controls to check financial performance of state corporations.

There is also scanty empirical literature on audit outsourcing, electronic auditing (Zabri, Ahmad & Wah, 2016) since outsourced audit is considered as one of the most important processes contributing to the achievement of reliable accounting information, which produces accurate and reliable information through using electronic audit controls tools for financial activities in an organization.

Therefore, lack of sufficient empirical evidence on what really drives state corporations in Kenya into meagre financial performance motivated this study to investigate influence of audit outsourcing, electronic auditing, audit reporting and audit committee composition on financial performance of Kenya Pipeline Company limited.

Objectives of the Study

The general objective of the study was to investigate influence of audit management practices on financial performance of Kenya Pipeline Company limited. The specific objectives were;

- To examine influence of audit outsourcing on financial performance of Kenya Pipeline Company limited.
- To determine influence of electronic auditing on financial performance of Kenya Pipeline Company limited.
- To assess the influence of audit reporting on financial performance of Kenya Pipeline Company limited.
- To evaluate the influence of audit committee composition on financial performance of Kenya Pipeline Company limited.

The research hypotheses were;

- **H_{01}:** Audit outsourcing does not significantly influence financial performance of Kenya Pipeline Company limited.
- **H_{02}:** Electronic auditing does not significantly influence financial performance of Kenya Pipeline Company limited.
- **H_{03}:** Audit reporting does not significantly influence financial performance of Kenya Pipeline Company limited.
- **H_{04}:** Audit committee composition does not significantly influence financial performance of Kenya Pipeline Company limited.

LITERATURE REVIEW

Transaction Cost Theory (TCT)

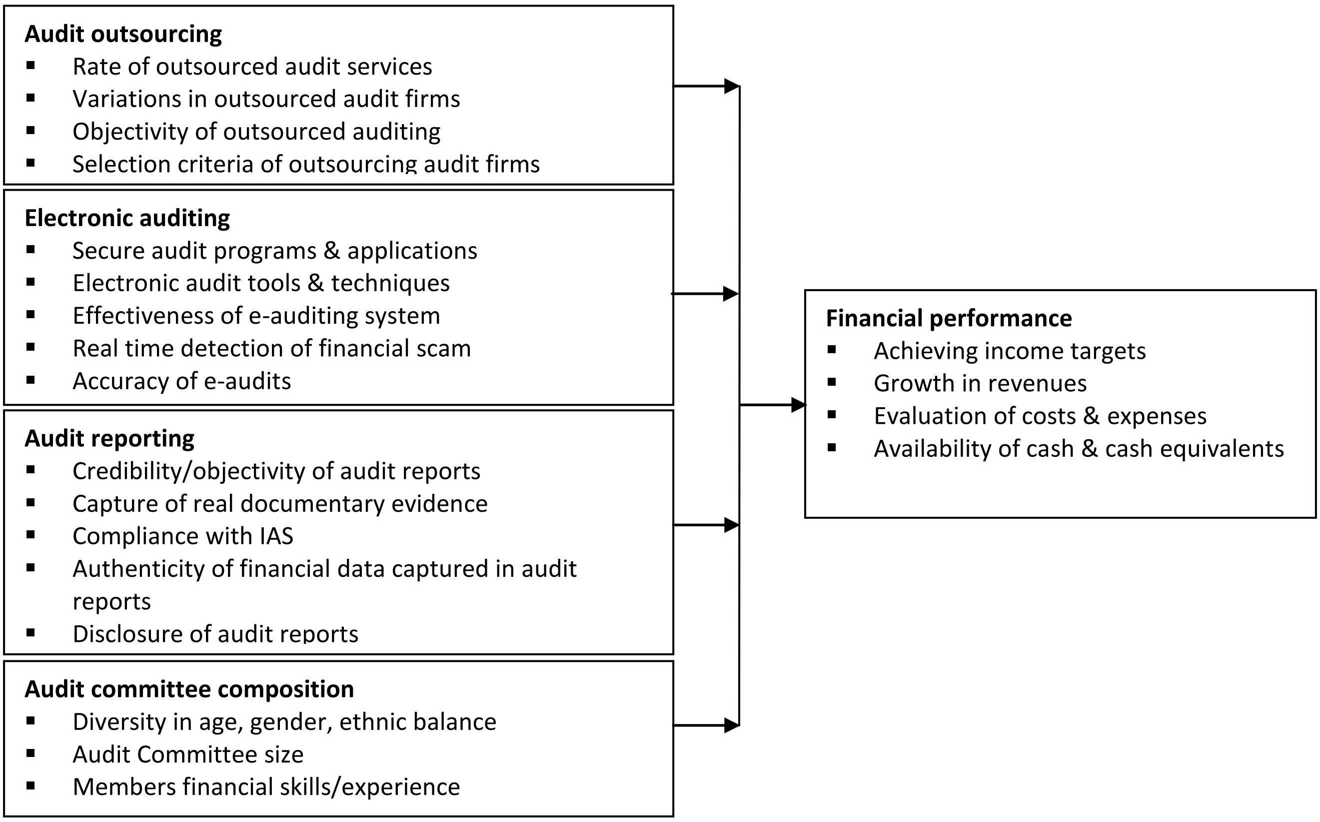
As proposed by Williamson (1985) TCT asserts firms internalize or externalize their financial activities based on transaction costs and argued that transaction cost is the cost of acquiring and managing the information about the inputs‘quality, the related prices, and the reputation of the supplier of products or services. Williamson (1985) made two assumptions in TCT. The first assumption is bounded rationality. Bounded rationality indicates that people have limited cognitive processing power and limited memories. The second assumption is opportunism. Opportunism assumption refers to the inspiration of human actions This assumption indicates people act are not only acting in their self-interest way, they are also acting with craftiness, thus lack some level of honesty (Williamson, 1985).

TCT consists of four concepts. The first concept is uncertainty. The level of uncertainty facing by a firm depends on the environment in which a firm operates (Sharma et al., 2005). An unpredictable firm‘s activity will tend to be operated in-house as external contracts will be influenced by ‘spot‘pricing which is usually higher than long-term, negotiated prices. When a firm is facing a high level of uncertainty, the transaction costs will increase and this will lead to lower financial benefits when the amount of outsourcing increases (Sharman et al., 2005).

Agency Theory

The agency theory was proposed by Stephen Ross and Barry Mitnick in 1970s and states that the principal-agent problem occurs when one person or entity (the agent) is able to make decisions and or take actions on behalf of or that impact, another person or entity (the principal), (Millichamp & Taylor, 2008). Therefore, agency theory outlines the relationship or the dependency between an agent and a principal. The principal delegates responsibilities to the agent most often for a fee. It can also be postulated to mean the practice by which productive resources owned by one person or group are managed by another person or group of persons (Millichamp & Taylor, 2008).

The agency theory is said to be one on the internal auditing theories. In the context of an organization, the agency theory agents (directors, managers) should act in the interest of their employers (shareholders or stakeholders). However, the aforementioned agents have been alleged to act in their own interest rather than on the behalf of the shareholders. The foregoing is argued to beget mistrust between the two parties, particularly from the shareholders (employers). Consequently, the mistrust increases the inclination of enhanced monitoring of the agents' (directors and managers) activities. Upon the foregoing principle lies the foundation of auditing profession (Millichamp & Taylor, 2008). The theory further expounds on the principle agent problem, that is, agency dilemma. The dilemma is said to be occasioned by the inclination of the agent's inclination to act in his own best interest rather than those of the principal.



Independent Variables **Dependent Variable**

Figure 1: Conceptual framework

Empirical Review

First, Simunic (1980) developed a model of the demand for audit and non-audit services based on the concept of economic bonding and found out that audit fees charged to large Management Advisory Services (MAS) clients were larger than that charged to small MAS clients and it follows that the increased fees associated with both the internal and external audits increase the economic bond between auditor and client. Also, anecdotal evidence reveals that due to keen competition for audit and non-audit services, audit firms are more likely to offer discount in audit fees for initial engagements when they will also provide non-audit service in which case the fees will be much more. Simunic and Stein (2006), using proprietary data of one Big 5 firm, report that audit firm increase its audit effort in response to higher litigation risk (which is associated with internal audit) and therefore charges higher audit fees. It is believed that this economic bonding may cause the auditor to disagree with the client on accounting and auditing matters.

According to Bar and Chang (2003), audit outsourcing is the simplest form of external assistance and could also be referred to as supplementation. The U.S SEC believes that partial outsourcing creates less of an economic bond than full outsourcing. Recent rules enacted by the SEC in 2000 limit the outsourcing of internal auditing to a maximum of 40% of the total hours devoted to the internal audit function at the client company (SEC, 2000).

Tawfeq and Jabali (2014) studied the relationship between the information systems of accounting, auditing, and how to provide reliable information to characterize the service auditor. The researchers reviewed the previous studies and discussing the concept of accounting information systems and their components, the importance of the review in light of computerized information systems, in addition to discussing the auditor function in light of accounting information systems. The results illustrated that there is a relationship between the information systems of accounting and auditing. It was found also that most of the accountants and auditors do not know enough about computer operations, and do not have enough understanding about the automatic accounting and auditing systems and how the automated systems can boost financial performance by helping identify and seal fraudulent financial transactions.

Salem (2012) examined the auditor's responsibility to detect fraud on financial statements. To achieve the aim of the study, it depends on the theoretical methodology by reviewing the previous related researches. The study found that the amount of fraud that is detected appears to have declined because of the use of more advanced technology. Also, the result found that auditors have limited legal and technological expertise and they need special training in IT based accounting and auditing that identifies all illegal financial transactions.

Alarbeed et al. (2014) investigated the role of governance rules in improving the auditor's ability to detect and report fraud in the financial statements in Syria and report diligently. The research sample consists of the total auditors who are accredited by the Syrian Exchange and Securities Commission, and their number was 31 auditors in 2013. A questionnaire has been distributed to the sample of the study, and the number of returned questionnaires was 22, which represents 70.97% of the total distributed questionnaires. The results showed a positive significant role of governance rules in improving the auditor's ability to detect and diligently report fraud in the financial statements and objectively report according to international reporting standards really influence financial management.

Kadilli (2015) examined the relationship between economic power and the state auditor in 46 countries. They showed that whatever the quality of government is politically and economically powerful, then choosing four large auditing institutions is plausible. They also confirmed the affluent countries that have accepted international financial audit reporting standards, choosing four large auditing institutions is plausible. The results of their research confirmed that whatever the government of a country is stronger the demand is more for higher-quality audit services and diligent reporting (Kadilli, 2015).

Empirically, Carter et al. (2003) reported that a significant relationship exists between the proportion of women on a board and the firm's performance. Erhardt et al. (2003) examined the relationship between gender diversity on the board and a company's financial performance among US companies. Their results indicate that the percentage of women on the audit boards of directors is positively associated with the firm's financial performance. Likewise, Campbell and Mínguez-Vera (2008) investigating the effect of gender diversity on the audit boards of directors on firm financial performance. The findings of the study found that gender diversity in audit board committee has a positive effect on company's financial performance.

Bijalwan and Madan Pankaj (2013) analyzed the relationship between board composition and firm performance for 121 firms listed on BSE for the year 2010-2011. Financial performance of the firm is measured with the financial ratios viz. Return on Capital employed, Return on the equity, Profit after tax and Return on assets. The study found that there exist a significant positive relationship between board composition and firm performance. Also board size and firm Performance are significantly related but the strength of relationship is not strong. Larger boards are less effective than smaller boards except in case of PSUs in India. Also the standard board sizes vary according to the nature of the industry.

METHODOLOGY

This study adopted descriptive research design. The target population for this study was those cases that contained the desired information which consisted of general managers, section managers and section head, recorded from Kenya Pipeline Company Limited HRM office, 2018. Since the target population was less than 100 respondents, a census method was adopted to select all the 93 respondents. The researcher formulated structured questionnaires (close ended questions) as per the conceptualized study variables then used them to collect primary data from respondents. Both descriptive and inferential statistics were computed using SPSS version 23.

FINDINGS AND DISCUSSIONS

Audit outsourcing and financial performance

This assessed whether outsourcing of external auditors can give a true reflection of company finances and thus give valid financial information and advice that can guide financial performance of the company. The responses were summarized in table 1.

Table 1: Descriptive statistics: Audit outsourcing

Statement	5	4	3	2	1	mean	Std.dev
1 The company engages in frequent outsourcing of auditors to check financial performance of the company	11 (12.6)	49(56.5)	7(8.0)	15(17.2)	5(5.7)	3.53	0.998
2 There are variations in outsourcing of audit firms to assess financial performance of the company	13(14.9)	48(55.2)	10(11.5)	14(16.1)	2(2.3)	3.64	0.808
3 Outsourced audit firms are quite independent in assessing financial performance of the company	15(17.2)	47(54.1)	6(6.9)	15(17.2)	4(4.6)	3.62	0.902
4 Outsourced auditors are quite objective in assessing financial performance of the company	14(16.1)	49(56.4)	5(5.7)	16(18.4)	3(3.4)	3.63	0.869
5 Outsourced auditors have core audit competencies and audit integrity	11(12.6)	47(54.2)	9(10.3)	13(14.9)	7(8.0)	3.48	0.840
6 Generally audit outsourcing improves financial management in the company	12(13.8)	45(51.8)	7(8.0)	17(19.5)	6(6.9)	3.46	0.857
Valid listwise 87							
Grand mean = 3.56							

From table 1, most respondents agreed (56.5%) and strongly agreed (12.6%) that the company engages in frequent outsourcing of auditors to check financial performance of the company, implying that the management team engages external auditors to give an independent audit view of the

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company performance. Secondly, most respondents also agreed (55.2%) that there are variations in outsourcing of audit firms to assess financial performance of the company, implying that varied audit firms should give an independence overview of the company's audit status than relying on one company that can easily be compromised by the outsourcing department.

Independence of outsourced audit firms was reinforced by 54.1% of respondents who agreed that outsourced audit firms are quite independent in assessing financial performance of the company. This was further supported by most respondents who agreed (56.4%) that outsourced auditors are quite objective in assessing financial performance of the company, thus can be compromise audit reports as can be done by internal auditors.

Further, most respondents agreed (12.6%) and strongly agreed (54.2%) that outsourced auditors have core audit competencies and audit integrity and in summary, most respondents agreed (51.8%) and strongly agreed (13.8%) that generally audit outsourcing improves financial management in the company. This is supported by Youssef (2013) assertion that externally sourced audit is considered as one of the most important processes contributing to the achievement of reliable accounting information, which produces accurate and reliable information through using controls tools for different activities in the organization.

Electronic auditing and financial performance

This assessed whether electronic auditing as the recommended latest auditing system can identify financial loopholes not highlighted by the manual audit system thus affecting financial performance of the company. The responses are summarized in table 2.

Table 2: Descriptive statistics: Electronic auditing

Statement	5	4	3	2	1	mean	Std.dev
1 The company has secure electronic audit programs & applications to check financial performance of the company	13(14.9)	44(50.7)	10(11.5)	15(17.2)	5(5.7)	3.42	0.819
2 There are effective electronic audit tools & techniques to check financial performance of the company	11(12.6)	49(56.4)	8(9.2)	13(14.9)	6(6.9)	3.44	0.809
3 The electronic auditing system is user friendly and efficient	14(16.1)	46(52.9)	8(9.2)	16(18.4)	3(3.4)	3.46	0.972
4 Electronic auditing ensures real time detection of financial scam	17(19.5)	43(49.5)	5(5.7)	18(20.7)	4(4.6)	3.49	0.957
5 Electronic audits reports are quite accurate	16(18.4)	47(54.1)	9(10.3)	10(11.5)	5(5.7)	3.47	0.784
6 Generally electronic auditing improves financial management	11(12.6)	50(57.6)	4(4.6)	19(21.8)	3(3.4)	3.58	0.976
Valid listwise 87							
Grand mean = 3.48							

From table 3, most respondents agreed (50.7%) and strongly agreed (14.9%) that the company had secure electronic audit programs and applications to check financial performance of the company, however, 17.2% disagreed, implying that there could instances where electronic audit programs are not secure thus allowing audit system compromise.

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Secondly, most respondents agreed (56.4%) and strongly agreed (12.6%) that there are effective electronic audit tools and techniques to check financial performance of the company; which was further reinforced by 52.9% of respondents who agreed that the electronic auditing system is user friendly and efficient in possibly in both use and serving the purpose for which it was innovated.

More so, 49.5% of respondents agreed that electronic auditing ensures real time detection of financial scam while 20.7% disagreed to the statement implying that there are cases where there is no real time detection of financial scam, possibly because of system failure or system manipulation by audit or ICT personnel.

Lastly, 54.1% agreed that electronic audits reports are quite accurate and in summary, most respondents (57.6%) agreed and 12.6% strongly agreed that generally electronic auditing improves financial management. This is supported by Zghoot, (2016) assertion that as a result of widespread the use of electronic technologies and computerized applications and the great development in most economic sectors, the auditors have high responsibility to provide their services at the highest level of quality according to the technology development, and this creates challenges in auditing profession due to the level of keeping pace with technological developments which they must overcome to boost firms' prudent financial management

Audit reporting and financial performance

This assessed whether authentic audit reporting influences financial performance of the company. The responses were summarized in table 3.

Table 3: Descriptive statistics: Audit reporting

Statement	5	4	3	2	1	mean	Std.dev
1 Most audit reports are credible and objective and truly reflect financial performance of the company	15(17.2)	45(51.8)	9(10.3)	14(16.1)	4(4.6)	3.42	0.993
2 All audit reports capture real , forged or lost financial documents	17(19.5)	48(55.3)	7(8.0)	10(11.5)	5(5.7)	3.51	0.988
3 All audit reports are in compliance with IAS	13(14.9)	43(49.6)	9(10.3)	15(17.2)	7(8.0)	3.33	0.879
4 Audit reports capture authentic financial data and sham transactions	11(12.6)	47(54.1)	6(6.9)	19(21.8)	4(4.6)	3.47	0.909
5 There is public disclosure of audit reports to reveal financial performance of the company	16(18.4)	44(50.6)	8(9.2)	13(14.9)	6(6.9)	3.39	0.856
6 Generally, credible audit reporting improves financial management	12(13.8)	49(56.3)	4(4.6)	20(23.0)	2(2.3)	3.56	0.964
Valid listwise 87							
Grand mean = 3.45							

From table 3, most respondents (51.8%) agreed that most audit reports are credible and objective and truly reflect financial performance of the company; however, 16.1% of respondents disagreed to the statement implying there could be cases where audit reports are manipulated, thus, do not give a true financial picture of the company.

More so, 55.3% and 19.5% of respondents agreed and strongly agreed respectively that all audit reports capture real, forged or lost financial documents; which was reinforced by 49.6% of respondents who agreed that all audit reports are in compliance with IAS. This definitely gives true financial position of the company and all audit queries can be corrected before negatively affecting financial performance of the company.

Further, most respondents agreed (54.1%) and strongly agreed (12.6%) that audit reports capture authentic financial data and sham transactions, which was reinforced by 50.6% of respondents who agreed that there is public disclosure of audit reports to reveal financial performance of the company. This implies that capture of authentic financial data meant to be exposed to public scrutiny serves as a red alert for any financial mismanagement issues.

Lastly, most respondent agreed (56.3%) and strongly agreed (13.8%) that generally, credible audit reporting improves financial management. This is supported by Callen and Khan (2013) who in in their research surveyed the quality of audit information reporting and delay information affecting this information on the stock price and its relationship with the future stock returns. They stated that whatever the quality of audit and accounting reporting is reduced, the relevance and reliability of it will be reduced and consequently, prediction accuracy of cash flows and returns will be reduced for investors.

Audit committee composition and financial performance

This assessed whether audit committee composition influences financial performance of the company. The responses were summarized in table 4.

Table 4: Descriptive statistics: Audit committee composition

Statement	5	4	3	2	1	mean	Std.dev
1 Gender balanced audit committees ensure quality audit reports that reflect a true picture of financial performance of the company	11(12.6)	45(51.8)	10(11.5)	18(20.7)	3(3.4)	3.43	0.966
2 Ethically balanced audit committees ensure independent internal auditing of the financial performance of the company	13(14.9)	43(49.5)	8(9.2)	17(19.5)	6(6.9)	3.38	0.969
3 The size of the audit committees influences credibility of internal audit function in the company	12(13.8)	47(54.1)	7 (8.0)	16(18.4)	5(5.7)	3.45	0.919
4 Internal audit committee members' auditing skills and experience influence credibility of internal audit function in the company	15(17.2)	49(56.4)	9(10.3)	10(11.5)	4(4.6)	3.32	0.936
5 A good blend of old and youthful audit members ensures quality & credibility of internal auditing in the	16(18.4)	44(50.7)	5(5.7)	17(19.5)	5(5.7)	3.46	0.868

company							
6 Generally, a well-balanced audit committee composition really checks financial management in the company	12(13.8)	50(57.5)	7(8.0)	14(16.1)	4(4.6)	3.50	0.962
Valid listwise 87							
Grand mean = 3.42							

From table 4, most respondents agreed (51.8%) and strongly agreed (12.6%) that gender balanced audit committees ensured quality audit reports that reflect a true picture of financial performance of the company, implying that gender balanced committees ensure no collusion in compromising audit reports.

Secondly, most respondents agreed (49.5%) and strongly agreed (14.9%) that ethically balanced audit committees ensure independent internal auditing of the financial performance of the company, implying that ethical members of audit committees cannot compromise internal auditing standards thus safeguard company's finances.

In terms of size of audit committee, most respondents agreed (54.1%) that the size of the audit committees influences credibility of internal audit function in the company, implying that possibly a large audit committee size can attract diverse committee members who cannot easily conspire in audit reporting compared to possibly a lean size which could possibly by compromised by the management.

In terms of audit skills, most respondents agreed (56.4%) that internal audit committee members' auditing skills and experience influence credibility of internal audit function in the company. That is skillful audit committee members can possibly identify all audit loopholes and also give authentic audit reports as compared to unskillful and inexperienced audit committee members who may ignorantly approve misguided audit reports of the company.

More so, 50.7% and 18.4% of respondents agreed and strongly agreed respectively that a good blend of old and youthful audit members ensures quality and credibility of internal auditing in the company. That is, possibly, youthful audit members could be utilized in innovative audit skills while old audit committee members can bring in their invaluable audit experience, thus such blend of young and old audit committee members can possibly boost credibility of internal auditing system in the company.

Lastly, most respondents agreed (57.5%) and strongly agreed (13.8%) that generally, a well-balanced audit committee composition really checks financial management in the company. This is supported by Heenehgala and Armstrong (2011) who asserted that the characteristics and composition of the audit committee are an essential part of governance, as a guarantee that the management is accountable to the shareholders and presents a true and fair image of the company. Thus, the role of the audit committee is central to discussions between policymakers, supporters, investors and academics, which include holding regular meetings with external and internal auditors to identify any irregularities in financial reports, assessing risks and evaluating the company's internal control system. This reduces the gap between managers and shareholders by preventing monopoly over information in the administration and ensuring all audit reports are presented in a credible and timely manner.

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

Inferential statistics

Table 5: Correlations

		Audit Outsourcing	Electronic Auditing	Audit Reporting	Audit Committee Composition	Financial Performance
Audit Outsourcing	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	87				
Electronic Auditing	Pearson Correlation	.622**	1			
	Sig. (2-tailed)	.000				
	N	87	87			
Audit Reporting	Pearson Correlation	.531**	.568**	1		
	Sig. (2-tailed)	.000	.000			
	N	87	87	87		
Audit Committee Composition	Pearson Correlation	.537**	.571**	.522**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	87	87	87	87	
Financial Performance	Pearson Correlation	.821**	.887**	.785**	.767**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	87	87	87	87	87

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

Multiple regression analysis

Analysis of multiple regressions was done after compulsory assumptions of multiple regression analyses were checked and met. The results in table 6 showed an R square of 0.915, thus we inferred that the study model explained 91.5% of the variations in the financial performance of Kenya Pipeline Company Limited, while other factors not in this study model accounted for 8.5%, thus, it is a very good model.

Further, ANOVA results also showed that the F-statistical value is significant (F=221.541, *significant* at *p<.001*), thus confirming the fitness of the analytical model.

That is, from the study model, the significant F value inferred that the four study independent variables (audit outsourcing, audit reporting, electronic auditing, and audit committee composition) are indeed different from each other and that they influence the dependent variable (financial performance of Kenya Pipeline Company Limited) in varied ways.

Table 6: Multiple regression results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.957[a]	.915	.911	.32146	.915	221.541	4	82	.000

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	91.575	4	22.894	221.541	.000[a]
	Residual	8.474	82	.103		
	Total	100.049	86			

a. Predictors: (Constant), Audit Committee Composition, Audit Reporting, Audit Outsourcing, Electronic Auditing

b. Dependent Variable: Financial Performance

More so, from the values of unstandardized regression coefficients with standard errors in parenthesis in table 7, all the independent variables (audit outsourcing; β = 0.233 (0.060) at $p<0.05$; electronic outsourcing; β = 0.413 (0.077) at $p<0.05$; audit reporting; β = 0.184 (0.051) at $p<0.05$, audit committee composition; *β = 0.303 (0.0352) at* $p<0.05$; were significant predictors of financial performance of Kenya Pipeline Company Limited (dependent variable).

Table 7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.156	.041		3.782	.000
	Audit Outsourcing	.233	.060	.219	3.852	.000
	Electronic Auditing	.413	.077	.369	5.343	.000
	Audit Reporting	.184	.051	.183	3.608	.001
	Audit Committee Composition	.303	.035	.344	8.611	.000

a. Dependent Variable: Financial Performance of KPC

Therefore, the final multiple regression equation for overall significant multiple influence of the study's four independent variables (audit outsourcing, audit reporting, electronic auditing, and audit committee composition) on financial performance of Kenya Pipeline Company Limited, (dependent variable) was;

(v) $Y= 0.156 +0.\,233X_1+0.413X_2+ 0.184X_3 + 0.303X_4$

Where;

Y= financial performance of Kenya Pipeline Company Limited

X_1= audit outsourcing

X_2= electronic auditing

X_3= audit reporting

X_4= audit committee composition

CONCLUSIONS AND RECOMMENDATIONS

First the study concluded that audit outsourcing boost financial performance because they contribute to the achievement of reliable accounting information, which produces independent, accurate and reliable financial management information. Secondly, electronic auditing positively influence financial performance of a company because electronic auditing guarantees real time detection of financial scams thus assists in sealing financial loopholes.

Thirdly, audit reporting positively influences financial performance by ensuring that all audit reports are based on international reporting standards which ensures authenticity of financial data captured in audit reports and lawful disclosure of credible audit reports.

Lastly, the study concluded that audit committee composition in terms of diversity boost financial performance of a company since diversity in terms of gender, age, size checks conspiracy of audit committee members in compromising audit reports and audit fraud disclosures.

First, companies should adopt the effective use of audit outsourcing since it produces independent, accurate and reliable financial audit information. Secondly, Companies should embrace effective use of electronic auditing to guarantee real time detection of financial scams thus seal routine financial loopholes.

Thirdly, companies should adopt audit reporting that is based on international audit reporting standards which ensure authentic financial data captured in credible audit reports. Lastly, companies should ensure there is diversity in audit committee composition in terms of gender, age, size so as to avoid conspiracy of audit committee members in compromising audit reports.

Areas for further research

First, another study should be done using forensic audit tools so as to examine the efficacy of forensic auditing in analyzing company financial statements so as to detect all financial loopholes that compromise a company's financial performance.

Secondly another study should be done but targeting customers or external stakeholders of Kenya Pipeline Company so as to capture financial performance of the company in the lens of non-employees.

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