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RISK BASED AUDITING AND CORPORATE GOVERNANCE COMPLIANCE AMONG COMMERCIAL STATE CORPORATIONS IN KENYA

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ABSTRACT

This study investigated the consequence of risk-based reviewing on corporate governance compliance among commercial state companies in Kenya. This study used a descriptive cross-sectional method of analysis. The target population was Kenya's 33 commercial state businesses. The unit of observation was 492 Commercial State Corporation management employees and Chief Internal Auditors. Purposive sampling selected 112 interviewees. Self-administered surveys captured primary data. SPSS 27.0 analyzed data. Tables displayed data. Content analysis presented open-ended question qualitative data in prose. The study found that all personnel of the corporations were responsible for identifying and managing risks, and risk identification was a constitutive part of audit risk management practice with the objective to identify risk exposures inherent to the organizations' processes. The study further found that the risk committee and sub-committee were not mandated by the board. The study also found that it was uncertain whether the management was devoted to upholding moral principles in the way the corporations were run. The study found that it was uncertain whether the problem of planning based on risks was being actively discussed by the auditing panel, and the firms implemented strategies agreed upon yearly goal to minimize risk variables following leadership conversation. It was determined through this study that audit quality, followed by audit risk management and internal control, had the greatest impact on the degree to which commercial state corporations in Kenya complied with best practices in corporate governance, while audit planning had the smallest impact. It is strongly recommended that organizations embrace a thorough and systematic approach when it comes to the assessment and evaluation of possible dangers to their operations. It is important that this procedure not only identify dangers but also evaluate and appraise them thoroughly. Research findings suggested that Kenya's commercial state enterprises improve audit quality by paying more attention to assigned tasks. The report also suggested that Kenya's commercial state enterprises give priority to developing a culture based on high ethical standards and honest dealings with customers.

Key Words: *Risk Management, Audit Quality, Internal Control, Audit Planning, Risk Based Auditing*

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INTRODUCTION

Most countries like using company models to run their businesses (Daidj, 2022). Corporate strengths and weaknesses are both strengths and flaws, proper corporate governance has been regarded as the solution for agency conflicts, bringing management and shareholder interests closer together (Gerged, Mahamat & Elmghaamez, 2020). Given the need to improve corporate governance, many global efforts have been proposed to establish power ideologies for appropriate administration and control. Most efforts are in wealthy nations including the UK, US, Canada, France, and Germany show that emerging countries are not far behind (Nurkhin & Rohman, 2020).

While achieving goals, organizations confront challenges. Undefined financial situations and increased commercial risks emerge from Market difficulty, fraud, financial scandals, business governance mistakes, poor global economic recovery, and a credit crisis (Al Matari & Mgammal, 2019). Risk management is essential for organizational success and financial sustainability. These circumstances cause the function and responsibilities of several business governance components and a focus on risk-based audits. The risk-based audit function (RBA) has been closely monitored by regulators, investors, rating agencies, and company administrators to increase returns. This is needed to steer uncertain conditions (Alawattegama2018).

Corporate financial scandals worldwide have raised governance concerns. Poor corporate governance caused entire economies to fail in Asia, Brazil, and Russia during the late 1990s financial crisis, which hurt the global economy (Crucean & Hategan, 2019). Other US financial scandals led to the insolvency of significant firms like Enron, which lost billions of shareholder value. In response to problems with corporate oversight on US stock exchanges, Congress created the Sarbanes-Oxley Act in 2002. The 2008 financial crisis harmed many countries' economies and destroyed many families' fortunes due to banking industry corporate governance problems (Tumber & Waisbord, 2019).

Corruption and corporate governance issues have disrupted business in Uganda. These included banks and big companies. Organizational and business transparency was sought by the society. The Central Bank of Uganda required banks to declare their key corporate governance frameworks annually (Audax, 2018). Tanzania has seen corporate governance failures and the bankruptcy of several firms. Such organizations commit fraud and lack social responsibility. The exploratory study on corporate governance in Tanzania identified audit committee breaches and biased board constitution as important issues (Mzenzi & Mori, 2020).

Kenya creates state corporations for economic and social purposes. They exist to repair despite social and democratic aimed, market failure, offer training, health, income redistribution, or grow marginal parts. Following independence in 1963, sessional document no. 10 of 1965 reformed parastatals with the aim of indigenizing the economy. Kenyan state firms confront politics and weak corporate governance since parastatal boards and CEOs are selected by political parties, making many operational decisions politicized. Poor oversight the state business advisory board only gives advice, but it could do a better job of keeping an eye on and judging success. Chief executives are rarely prosecuted for office abuse and misappropriation (Mulwa & Opuodho, 2022). Euro bond scams, Eveready, Charterhouse Bank scandal, Uchumi, National Bank, Kenya Airways, Nakumatt Supermarket, and Mumias sugar company questioned internal audit methods (Machuki & Rasowo, 2018). The changing needs of stakeholders and a new risk management approach shifted the function of IA in many businesses. In the Fourth Industrial Revolution, regulators and leaders want internal audits to go beyond traditional methods.

The risk-based auditing technique has been widely implemented in public sector internal control systems, but scandals keep returning every year. Unknown if approach is ineffective or execution is

inadequate. Although the high cost and large amount of unfinished work associated with the risk-based audit approach should raise red flags, some of the difficulty in the plan's execution may lay with the employees themselves. RBA must adopt the Global auditing norms which control internal audit ethics and professional auditing standards for sound governance in Kenyan public organizations. The internal audit should identify corporate governance controls such risk management, audit quality, internal control, and audit planning. They should also identify internal control constraints and circumstances that override control (Al-Qudah, 2021). The study examined how risk-based auditing affects corporate governance compliance in Kenyan commercial state firms.

Statement of the Problem

The intensification of pressure on boards to achieve desired outcomes has been seen in response to instances of corporate governance breaches and the global financial crisis that have transpired in the last decade on a worldwide scale. Most nations, even emerging markets, had to assess their performance (Ahsan, Mirza, Al-Gamrh & Bin-Feng, 2020). State firms are hesitant to offer encouragements for business compliance plans. Hired pricey auditors utilize a heuristic technique to identify and study audit imprints to prove obedience. Besides affecting the organization's budget, this approach to compliance checking takes a long time (Enobakhare, 2010). State corporations are crucial to Kenya's economy, providing 10% of GDP (ERS 2002-2007), hence stakeholders are concerned.

A recent financial analysis of 181 key state enterprises found dismal financial performance and excessive indebtedness, arrears, and contingent liabilities. The SCs included for this analysis were large and crucial to the economy and society, therefore many are too big to fail and pose a high implicit risk to government. In the absence of reform, their expected five-year financial shortfall or liquidity gap is KSh. 382 Bn., highlighting the SC sector's financial issues. The liquidity gap analysis was based on conservative assumptions that entities' operations will be impacted by the COVID-19 epidemic in FY2021-22 to the same extent as FY2020-21 and that their financial health will be fully restored during the five-year evaluation period. The fiscal risk analysis evaluates the Government's exposure at a "worst case" scenario where SCs cannot meet their Government-guaranteed obligations. The fiscal risk parameters of the 18 major state businesses mostly relate to liquidity issues caused by poor revenue and economic performance. The investigation showed that 11 SCs are loss-making and 11 have high risk for liquidity, showing that they cannot encounter short-term responsibilities. After that, 14 SCs owe KShs. 211 Bn. (2.2 percent of GDP) (KNBS, 2021).

Effective risk management by state firms and risk-based supervision by regulators depend on good corporate governance and risk-based audits (Nyerere, 2022). Financial reports have been late, responsibility for monetary assets are still lacking, fraud and misuse of official commodities have occurred, and certain decisions have failed. The requirement for an efficient public sector audit methodology develops as government activities become more decentralized and voters demand more accountability. Internal audit departments' ability to broaden their audits is limited by tighter finances (Waweru & Prot, 2018). Without long-term RBA mediation initiatives, firms won't perform well financially and business risk costs will rise. This study examined how risk-based auditing affects corporate governance compliance in Kenyan commercial state firms.

Various studies have examined risk-based auditing. They include Muraguri (2020), who examined how risk-based audits affect state-owned corporations in Kenya. The investigation absorbed on insurance firm performance. According to Mulwa and Opuodho (2022), audit quality affects the monetary performance of listed fruit processer enterprises in Thika Town, Kenya. The investigation focuses on a sector unrelated to commercial state corporations. Abdi and Minja (2018) investigated how internal audit and controls affect African state firm

performance. The investigation was not done in Kenya, henceforth its results can't be generalized. Kabare (2018) investigated how risk-based audits affect Kenyan commercial state firms' financial performance. It employed a different research design than the current study. These studies do not examine how risk-based auditing affects corporate governance compliance in Kenyan commercial state firms, hence the research fills this gap.

Research Objectives

The general objective of the investigation was to determine the consequence of risk-based auditing on corporate governance compliance among commercial state corporations in Kenya. The study sought to determine the following specific objectives:

- To regulate the outcome of audit risk management on corporate governance compliance among commercial state businesses in Kenya.
- To find the consequence of audit quality on business governance obedience among commercial state corporations in Kenya.
- To assess the outcome of the internal regulator on corporate governance compliance among commercial state corporations in Kenya.
- To assess the effect of the audit planning on corporate governance compliance among profitable state businesses in Kenya.

The study was guided by the following research hypotheses:

- **H_{01}:** Audit risk management does not affect corporate governance compliance among commercial state corporations in Kenya.
- **H_{02}:** Audit quality does not affect corporate governance compliance among commercial state corporations in Kenya.
- **H_{03}:** Internal control does not affect corporate governance compliance among commercial state corporations in Kenya.
- **H_{04}:** Audit planning does not affect corporate governance compliance among commercial state corporations in Kenya?

LITERATURE REVIEW

Theoretical Review

Agency Theory

Jensen and Mecklin presented the hypothesis for the first time in 1976. According to Jensen and Meckling (1976), agency theory holds that a business may be thought of as a series of contractual agreements between the owners of economic resources and the managers charged with managing their administration and governance. By far the most popular theoretical framework used to argue the significance of both internal and external auditing is the agency thesis. Principals (the owners of the firm's economic resources) enter into agreements with managers (the agents) to allow them to utilize and direct those resources (Jensen, 1986). Agency theory grasps that managers are more informative than leaders, which hinders principals' ability to oversee agents' interests. Agency theory also implies rational principals and agents maximize wealth. This assumption may cause "moral hazard"

The agency model assumes principal-agent aim incongruence. The interactions concealed by the basic structure of the principal and agents, who work together but have different aimed and risk attitudes (Adams, 1994). The agency theory was applied in the context of risk governance as one of the study variables such that in order to mitigate the risks and ensure financial presentation by the manager, the principal owner would have to incur expenditure on ensuring ethical philosophy, board risk error, and sovereign disclosure of risks programs. Hence, it is in the agent's interest to demand sufficient allocation of money to reduce the risk of principle-making losses. The agency model is essential to business governance subsequently it models all corporations. Corporate governance principles represent the agency connection in numerous relationships across the firm, such as Directors and shareholders (Shankman, 1999). According to the idea of agency, managers should be supervised and governance systems ought to offer mechanisms for balance to prevent power abuse in company operations (Shleifer & Vishny, 1997). The agency thesis states

that management and directors represent stakeholders in day-to-day operations and must work in their best interests as principals (Okeahalam & Akinboade, 2003).

Stewardship Theory

In order to better guide organizations, Donaldson and Davis (1991, 1993) created the Stewardship Model. According to Donaldson and Davis (1991), the goal of governance is to establish systems and procedures that allow the owner (the Principal) and the managed entity (the Agent) to work together effectively and efficiently. This scheme also grasps lack of no intrinsic problem of director's control and that organizational directors have a propensity in their efforts. Fundamental assumptions are the underlying directions of managerial behaviors aligned with principals' interests. The productive benefit for the executives in a principal versus steward association results from fewer transaction costs that are associated with the fewer need for economic monitoring and incentives. Shareholders' wealth is maximized when the stewards' utility function is maximized and vice versa (Wei et al., 2020)

The advantages of stewardship theory are that it helps in minimizing controlling and monitoring costs while also increasing the fast track of decision-making and the autonomy of executives and managers (Torfing & Bentzen, 2020). Criticisms of Stewardship Theory are that there is a discrepancy among managing ideology of the firm and the intellectual features of the supervisor that's still unfamiliar under the model. There is no evidence that provides mechanisms that make a person opt for-agent or executive- position and situational factors influence the person to cut across his own self-interest and resolve internal motivational conflicts (Wei et al., 2020). This study contributed to the explanation of how to expound on the dilemma of conflicting factors within the stewardship's theory where independent IA in the context of audit quality will act as executives to ensure quality audit strategy, processes, and quality audit structure mechanism are utilized to maximize shareholder wealth and ensure risk appetite.

Transaction Cost Economics Theory

Williamson's (1975) Transaction Cost Economy (TCE) theory is often connected with the agency model. The model sees the corporation as a leadership structure, while agency model sees it as a contract nexus. A firm has more administrative control over transactions than a market. Incomplete contract problems are resolved internally in a firm, but in the market they must be litigated. An internal monitor has more freedom of act, a broader scope, comprehends the firm's language, and can use less formal evidence than an external monitor (Williamson, 1975). That TCE implies an internal auditor advantage over an external auditor.

Transaction cost economics describes contractual or transactional relationships where one side anticipates benefits from another (Speklé, 2001). This is an association within and between organizations. The method is chosen by comparing transaction charges such as resource specificity, indecision, and occurrence. Opportunity losses from alternative investments are the major characteristic asset. Assets might be tangible, human beings, local committed, investments, or brand name capital. Risk or uncertainty shows the environment's predictability and potential disruptions to transactions. Potential non-disclosure and information manipulation are additional behavioral effects of uncertainty. Frequency indicates transaction repetition. TCE analyzes the best financial, worth-preserving leadership system to inject command, alleviate conflict then maximize joint advantage. A firm has more managerial control over transactions than a marketplace. Incomplete contract issues are first resolved within a firm, while market disagreements must be litigated. Williamon (1975) claimed that internal monitors have more latitude, a wider scope, understand the firm's vernacular, and can use less formal evidence than external monitors. That TCE implies an internal auditor advantage over an external auditor.

Stakeholder Theory

Invented by R. Edward Freeman in 1984, the Stakeholder Theory provides a guideline for doing ethically sound company. Lewis (2011) describes stakeholders as people who care about an organization's procedures and results, while Suter et al. (2013) describe shareholders as assemblies or persons that can affect or be affected by its aimed. Stakeholder theory recognizes that companies can affect investors, clients, and suppliers (Fowler et al., 2015). Stakeholder theory considers more constituents than agency theory, which focuses on owners (principals) and agents (managers) (Mallin, 2010). Stakeholder model supporters argue that organizations need society's support and a benign business/political climate to survive. Financial, economic, social, electronic, and ecological aspects of a corporation can be influenced by its lenders, customers, employees, investors, auditing firms, administration, and society. In taking choices, managers should take into account the perspectives of all stakeholders (Stovall et al., 2004). Stakeholder theorists argue that businesses may improve their bottom line by prioritizing the interests of all affected parties and meeting their ethical responsibilities (Ayuso & Argandoa, 2009).

The theory applied to state company governance owing to transparency and disclosure. State company stakeholders have the right to know how the corporation affects them, such as employment, community sponsorship, safety initiatives, public reporting, etc. The relationships between stakeholders promote state business transparency and performance, attaining its aimed and increasing profits. State businesses are incentivized to reveal program information to stakeholders to meet their expectations. Thus, stakeholder activities help state businesses build and maintain good relationships with members, creditors, employees, and customers. Management must disclose critical reports to state corporation stakeholders to improve owner-manager relations.

Institutional Theory

The institutional theory has been widely studied, it was developed by sociologists and organizational theorists, including Meyer, Rowan, and DiMaggio, among others. The theory gained prominence in the late 1970s and 1980s. The idea postulates that, over time, institutions exert pressure on businesses, causing them to become more homogeneous (DiMaggio & Powell, 1983). They adopt similar structures, practices, and norms to gain legitimacy and fit into their institutional environment. Organizations are embedded in an institutional environment that includes societal norms, regulations, cultural values, and expectations. This environment exerts pressure on organizations to conform to prevailing institutional norms and practices.

Empirical Literature Review

Audit Risk Management and Corporate Governance Compliance

Corporate compliance of state-owned firms in Kenya was shown to be negatively affected by risk-created audits, as indicated by Muraguri (2020). Descriptive research methods were used. The sample population consisted of 160 people who worked for state-owned corporations. Development Agency, and the Ministry of Labor convened to discuss strategies for improving employment outcomes. The meeting brought together key stakeholders including directors, managers, and administrators from the National Employment Bureau, the National Skills Development Agency, and the Ministry of Labor. The primary objective of the gathering was to deliberate on various strategies aimed at enhancing employment outcomes. Several organizations participated in the event, including the National Information Technology Authority, the Among them are the National Development Fund, the Productivity Centre for Kenya, the Registrar of Trade Unions, the National Council for Children, and the National Council for Persons with Disabilities. A census was conducted for this research to account for the very small sample size. Primary data was collected by the administration of questionnaires, and then analyzed

statistically with the use of SPSS. SPSS was used to analyze the data and determine things like frequency distributions, mean values, and confidence intervals. We relied primarily on bivariate inductive statistics like regression and correlation. Risk assessment may have both positive and negative effects on the compliance of state-owned businesses, as shown by the results of this research. Regulation compliance in corporate governance was left out of the study.

Fraud risk assessment and effective corporate governance of Muscat Stock Market businesses in Oman were linked by Rehman and Hashim (2020). PLS-SEM was used to examine data gathered using a descriptive cross-sectional quantitative method. Effective corporate governance is directly impacted by the execution of scam risk assessment and its implementation. It was done in another country than the current one.

In their research, Alhammadi, Archer, and Asutay (2020) sought to better understand how risk management (RM) and corporate governance (CG) interact in the context of Islamic financial institutions. Using a case study methodology yielded the highest levels of efficiency and effectiveness, as determined by a thorough evaluation of the research at hand. The primary method used for information gathering was document analysis. The corporation's official websites, yearly reports, and press releases are considered reliable sources of information. The study used ORBIS Bank Focus data for the examination of monetary factors. To mitigate the possible decline of a seemingly successful company strategy, this case study highlights the benefits of doing comprehensive risk analysis, such as stress testing, before formulating a business model. Furthermore, it is advisable to conduct regular assessments of the business model. The article provides a comprehensive analysis of the sequential procedures involved in achieving computer graphics (CG) of high quality, and delineates a well-defined strategic path for implementation. The study adopted a different technique as compared to the already applied approach.

Audit Quality and Corporate Governance Compliance

Nyerere (2022) analyzed DT-SACCO in Nairobi's commercial core to learn how risk-based internal audit impacts the organization's corporate governance. The approach used was purely descriptive. One audit manager from each of Nairobi, Kenya's 43 DT-SACCOs took part in the research. Information about the company's compliance with good corporate governance was checked via secondary sources. Regression models were employed to explore hypotheses that risk audit quality affected DT-SACCO corporate governance quantitatively. The analysis excluded commercial state corporations.

To establish the extent to which audit quality affect corporate compliance, Mulwa and Opuodho (2022) conducted a study focusing on publicly-reported fruit processing companies located in Thika Town. The research conducted was only focused on providing a detailed account or portrayal of the subject matter, without any attempt to explain causal relationships or make predictions. The target audience consisted of 130 managers employed at fruit processing enterprises located in Thika, Kenya. Census was employed as a research tool in this investigation. There was a mix of primary and secondary research. Questions were asked to compile a report. Questionnaires were tested for validity and reliability. Field data was sorted, analyzed, and categorized by questionnaire items. The study found that registered fruit-processing enterprises in Thika Municipality, Kenya, change their corporate governance compliance by 2.277 per unit change in audit quality. The study focused on a sector unrelated to commercial state corporations.

Kaawaase, Nairuba, Akankunda and Bananuka (2021) purposed employing Uganda's financial institutions to determine the association amid corporate leadership traits, internal auditing excellence, and monetary reporting value. This study is cross-sectional and correlational. Financial institution Main Finance Officers, Executive Accountants, and Inside Audit Directors in Uganda

were surveyed by questionnaire. Statistical Package for Social Sciences analyzed data. Financial reporting quality is closely correlated with internal audit quality. The research procedure was different from the current study.

Internal Control and Corporate Governance Compliance

Nyarombe, Musau and Kavai (2021) attempted the consequence of Risk-based auditing of Uasin Gishu County government department internal control systems. This study established Uasin Gishu County's administrative agencies' implementation of internal control activities are guided by the Risk Based Audit Approach techniques examined the extent to which RBAA has influenced these strategies, and identified the challenges RBAA faced. Case study research was used. Bank reconciliation statements are current and asset and liability statements represent the true situation thanks to RBAA, which impacts internal control systems in government entities. Imprests are relinquished quickly, departmental assets are protected, and government financial standards are followed. Internal auditors use simple procedures to detect and assess departmental risks. The primary difficulties in implementing an internal control system audit that emphasizes risk lie in the lack of relevant information, expertise, tools for hazard identification, and essential concepts or methods. The subject of whether or not the company complied with corporate governance standards was not explored in the research.

Ogega (2021) examined how risk-based internal audit affects non-governmental organization financial viability. The study examined how Internal Audit Transparency, Competency, Individuality, and Administration Support affect NGOs' monetary sustainability in Nakuru County. The ideas of accounting, stakeholders, and economic planning served as the bedrock for this study. Taking a descriptive method for this investigation. Seventy-nine non-governmental organizations were included in the research. The researcher targeted program managers, grants managers, and accountants from each NGO. The targeted population was 237 officials. A sampling method picked 115 officials. Likert scale questionnaires were used to compile the data. Examinations of surveys' validity and dependability were conducted. Based on the findings, numerous factors, such as audit transparency, competence, independence, and management support, significantly affect the long-term financial stability of NGOs in Nakuru County. Conformity with standards of corporate governance was not investigated in this research.

Chang, Chen, Cheng, and Chi (2021) studied Taiwanese operations and compliance internal control inadequacies and internal audit function (IAF) quality. A larger internal audit team can improve operations and compliance performance; however internal auditing understanding is positively associated with compliance control effectiveness but not operations. The study used a different method from the present one.

Audit Planning and Corporate Governance Compliance

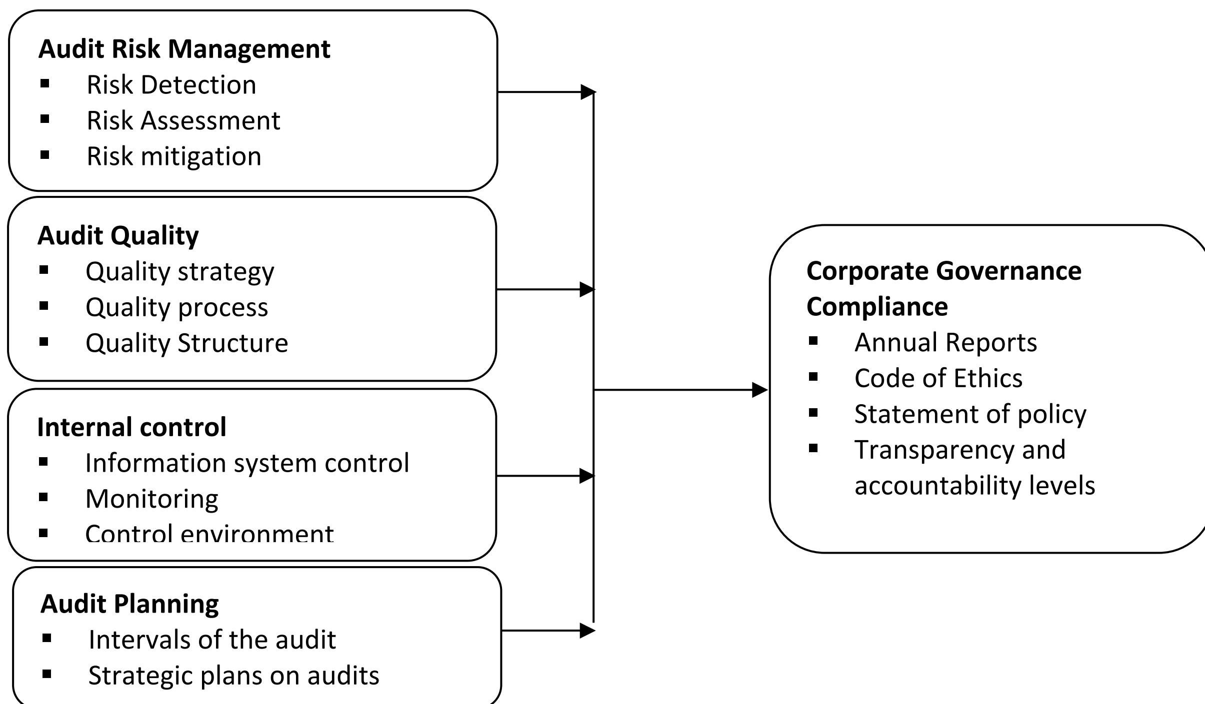
To better understand how risk-based audit planning influences the degree to which DT-SACCOs adhere to corporate governance requirements, Nyerere, Njeru, and Mugo (2021) conducted study in the Nairobi Metropolis area of Kenya. The investigation included descriptive and informative tactics. As part of the enumeration survey conducted in Nairobi, Kenya, one audit manager was counted from each of the 43 DT-SACCOs that contributed to the study. Risk-based audit planning positively affected DT-SACCO corporate governance compliance using regression models. The study looked at DT-SACCOs such that the findings cannot be generalized in commercial state corporations.

Geke (2021) looked into how publicly traded Kenyan sugar companies' corporate governance practices were affected by using different risk-based auditing approaches. Internal audits, yearly risk-based planning, and risk management were all examined in order to determine how successful corporate governance outcomes were. The investigation's theoretical underpinning was agency theory. The correlation research methodology was adopted here

because it permits the three phases of description, correlation, and regression that are warranted by the hypothesized relationships. Fifty chief accountants, internal auditors, and deputy chief accountants from Kenya's state-owned sugar companies were surveyed. It was discovered that corporate governance and risk management were closely related. Following corporate governance principles was shown to have a favorable effect on annual risk-based planning. Because of the study's limitations, its results cannot be extrapolated to the business world or state-owned enterprises.

Dzomira (2020) examined business leadership and audit team and internal auditing effectiveness in developing economies public area. Corporate governance requires these two roles, and compliance improves public sector service delivery. The study is based on stakeholder theory, which dominates public sector discourse. The study uses qualitative content analysis to inspect company leadership and audit committee and interior audit unit effectiveness in South Africa's civil sector. The findings indicate robust commercial power in the municipal with audit committees and internal audit activities. The results imply that South Africa's public sector audit committees and internal audit units are ineffective. The study was conducted in a different country.

Conceptual framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2023)

METHODOLOGY

Designing a study involves setting up parameters for data gathering and examination in a way that maximizes their use for answering the research question at hand (Blumberg, Cooper, & Schindler, 2018). Descriptive cross-sectional approach was adopted. The target population was the thirty-three commercial state-owned enterprises that are located in Kenya. The unit of observation therefore comprised of 492 including management employees and Chief Internal Auditors of the Profitable Government Businesses. The information was collected via self-reported questionnaires. The survey included both broad, open-ended questions and narrower, more targeted ones. Creswell and Creswell (2021) state that the validity of a study is

judged by how well it can draw conclusions from its findings. It's how well the phenomenon being studied is reflected in the data analysis's findings. The instrument's content validity was created via interaction with academic members and university officials. SPSS Version 27.0, the latest version, analyzed facts.

FINDINGS

Audit Risk Management

Finding out whether commercial state enterprises in Kenya are more likely to comply with corporate governance rules after implementing audit risk management was the focus of this study. Respondents were asked how much they agreed with statements concerning the relationship between audit risk management and corporate governance compliance at commercial state businesses in Kenya. Table 1 displays the compiled results.

Table 1: Audit Risk Management and Corporate Governance Compliance among Commercial State Corporations

	Mean	SD
Risk identification is a constitutive part of audit risk management practice with the objective to identify risk exposures inherent to the organization's processes.	4.583	0.495
The identified risks are documented and included in a risk register.	4.479	0.525
Risks are assessed and evaluated to determine risk mitigation measures.	3.252	0.283
All employees form an integral part of risk assessment.	3.074	0.215
The risk control measures are admissible and associated with the primary business objective.	3.160	0.138
In the organization, risk valuation is a nonstop and lasting process.	4.577	0.496
All personnel of the company are responsible for identifying and managing risks.	4.589	0.494
So as to decrease the possibility to an acceptable low level, control is concentrated on avoiding the unacceptable performance hazards.	3.055	0.218
When identifying errors, risk estimation is taken into account.	4.571	0.497
To find accounting records problems, risk surveillance is done.	2.930	0.879

The results showed that all workers agree that risk detection and management are everyone's job in the firm. The purpose of this study is to determine the risk exposures that are inherent to the organization's activities, and the mean score of 4.583 indicates that risk identification is an essential aspect of audit risk management process. The obtained mean value of 4.577 suggests that risk valuation is a persistent and uninterrupted procedure inside the company. Moreover, the consideration of risk estimate is evident in the identification of mistakes, as shown by a mean value of 4.571. Rehman and Hashim (2020) concurred that the execution of scam risk evaluation together with its implementation will help achieve effective corporate governance because it directly affects it.

Moreover, the respondents agreed that the identified risks are documented and included in a risk register as shown by a mean of 4.479. Further, they were neutral on whether risks are assessed and evaluated to determine risk mitigation measures as shown by a mean of 3.252, the risk control measures are admissible and associated with the primary business objective as shown by a mean of 3.160, all employees form an integral part of risk assessment as shown by a mean of 3.074, so as to decrease the possibility to an acceptable low level, control is concentrated on avoiding the unacceptable performance hazards as shown by a mean of 3.055, and to find accounting records problems, risk surveillance is done as shown by a mean of 2.930. According to Alhammadi, Archer, and Asutay (2020), a business model that appears to be successful may actually fail because of an underlying instability that could have been identified during a thorough risk analysis, which included stress testing, when selecting the business model and ongoing model evaluation.

Audit Quality

The primary purpose of this research was to examine the relationship between audit quality and the degree to which commercial state firms in Kenya adhere to strong corporate governance principles. The people who took part were told to rate comments about how much they agreed with them about how audit quality affects corporate governance compliance in Kenyan state firms that make money. Check out Table 2 for the answer.

Table 2: Audit Quality and Corporate Governance Compliance among Commercial State Corporations

	Mean	SD
The audit quality strategy of the business gives attention to the risk-based audit process at a strategic level to identify the high level of risk exposure.	4.583	0.495
The audit quality tolerance and risk appetite are formulated and approved during the strategic business process	3.712	0.115
The degree of involvement of audit engagement during audit planning, processes, and performance impact the value of the review process.	2.976	0.116
The inspection quality structure and policy are effective with clearly defined roles and responsibilities among the business stakeholders.	3.055	0.223
The risk committee and sub-committee are mandated by the board	2.215	0.713
Internal auditors observe professional ethics & standards.	4.337	0.728
The association use International Auditing standards (IAS) to direct the interior reviews ethics	4.233	0.813
There is obedience with acknowledged audit values	3.902	0.920
There is an active and independent Audit Committee	3.982	0.942
Presence of full discoveries about obedience risk and hazard supervision	3.651	0.826

According to the results, it's clear that the participants strongly agreed that the company's audit quality plan did a good job of handling the risk-based audit process to find a significant amount of risk exposure. This is shown by the fact that the mean number is 4.583. A mean score of 4.233 shows that the group follows international accounting standards (IAS). This shows that these standards are good at giving ethical direction for internal reviews. Based on the mean score of 3.982, we can assume that there is a responsible and impartial audit group. At 3.902, the mean number shows that there was a high level of following set audit standards. Participants in the research also agreed that it is critical for internal inspectors to adhere to established norms of conduct. Additionally, an average score of 3.712 shows that the setting and approval of audit quality tolerance and risk appetite happen throughout the strategic business process. An average number of 3.651 also shows that there is strong proof of a full understanding of legal risk and danger management. According to research conducted by Kaawaase, Nairuba, Akankunda, and Bananuka (2021), there is a correlation between the accuracy of financial reporting and the thoroughness of internal audits.

The participants displayed varying viewpoints about the efficacy of the inspection quality structure and policy in delineating distinct roles and duties among the stakeholders in the organization. This is evident from the average score of 3.055. In a similar vein, the participants exhibited a notable absence of agreement about the influence of the level of audit involvement on the worth of the examination procedure throughout the stages of audit planning, execution, and outcomes, as indicated by an average score of 2.976. With a mean score of 2.215, participants are skeptical about the board's formation of a risk committee and sub-committee. Firms have a strategy plan for their future success, but internal and external forces can make it hard to follow it (Daidj, 2022). To avoid such issues, an audit ensures that the company meets standards and detects potential hazards, allowing for easy mitigation.

Internal Control

The study's goal was to look at how state-owned companies in Kenya handle internal control and corporate governance. Internal control's effect on corporate governance compliance in Kenyan state-owned enterprises was evaluated by surveying respondents' levels of agreement with several statements making that claim. Results are in Table 3.

Table 3: Internal Control and Corporate Governance Compliance among Commercial State Corporations

	Mean	SD
The current business environment demonstrates total commitment to information system integrity and required ethical values	3.785	0.930
Segregation of duties and responsibilities is clearly defined and documented.	4.006	0.591
The risk monitoring process ensures that the risk treatment and control are effective.	4.092	0.909
Risk monitoring guarantees the timely implementation of risk responses and opportunities.	4.221	0.819
The organization through internal audit develops, selects, and evaluates whether the constituents of the control environment are functioning and present	3.718	0.550
The management is devoted to upholding moral principles in the way the Ministry is run.	3.098	0.601
Each employee has received thorough training in assessing risks.	4.061	0.680
The leadership team has established channels of communication to inform personnel of modifications to operational procedures that may influence the manner or nature of the transaction's recording process.	4.558	0.998
frequent modifications to passwords are made for IFMIS and other internet-based data systems.	4.552	0.999

According to the data, a large majority of respondents (average rating of 4.558) strongly agree that the leadership team has established channels of communication to inform personnel of modifications to operational procedures that may influence the manner or nature of the transaction's recording process, and that passwords for ifmis and other internet-based data systems are frequently modified (average rating of 4.552). The respondents, on average, gave the idea of monitoring risks a 4.221 out of 5, with 5 being the highest possible score, the risk monitoring process ensures that the risk treatment and control are effective as illustrated by an average of 4.092, each employee has received thorough training in assessing risks as illustrated by an average of 4.061, segregation of duties and responsibilities is clearly defined and documented as illustrated by an average of 4.006, the current business environment demonstrates total commitment to information system integrity and required ethical values as illustrated by an average of 3.785, and the organization through internal audit develops, selects, and evaluates whether the constituents of the control environment are functioning and present as illustrated by an average of 3.718. Nyarombe, Musau and Kavai (2021) stated that internal auditors use simple procedures to detect and assess departmental risks. Absence of appropriate information, knowledge, gears to identify hazards, and important principles or strategies are the main challenges in applying Auditing Internal Controls with a Focus on Risk.

Audit Planning

This study set out to examine the connection between audit planning and the degree to which successful government agencies in Kenya abide by best practices in corporate governance. The results are shown in Table 4.

Table 4: Audit Planning and Corporate Governance Compliance among Commercial State Corporations

	Mean	SD
Yearly risk-based strategies are created by the company with management's input.	3.528	0.844
The firm carries out of annual assessment of risks	4.614	0.988
The firm does yearly staffing schedule for the department of revenue and auditing, in cooperation with the human assets division	4.515	0.525
The firm implements strategies agreed upon yearly goal to minimize risk variables following leadership conversation	2.945	0.744
The problem of planning based on risks is being actively discussed by the auditing panel.	2.963	0.659
The firm has intervals of its audits	4.791	0.814
Strategy inspections for the company are planned by the company itself.	3.791	0.735
Strategy inspections for the company are planned by the company itself.	3.834	0.853
The audit committee is active concerning the issue of risk-based planning	4.546	0.524

The findings indicate a high level of agreement among respondents regarding various aspects of the company's audit practices. Specifically, the mean score for the presence of audit intervals was 4.791, indicating a strong likelihood of agreement. Similarly, respondents expressed a strong likelihood of agreement (mean = 4.614) regarding the company's annual assessment of risks. Additionally, there was considerable input from the audit committee on the topic of risk-based planning, as indicated by a mean score of 4.546. Lastly, the company's collaboration with the human assets division to develop an annual staffing schedule for the department of revenue and auditing was also acknowledged by respondents. In a recent study conducted by Geke (2021), a robust association was identified between risk management and adherence to corporate governance best practices. The findings of the study indicate a significant positive correlation between yearly risk-based planning and corporate governance compliance.

Further, the respondents agreed that strategy inspections for the company are planned by the company itself as depicted by a mean of 3.834, strategy inspections for the company are planned by the company itself as depicted by a mean of 3.791, and yearly risk-based strategies are created by the company with management's input mean = 3.528, so that's how it looks. There was no consensus among responders as to whether or not this of planning based on risks is being actively discussed by the auditing panel as depicted by a mean of 2.963, and the firm implements strategies agreed upon yearly goal to minimize risk variables following leadership conversation as depicted by a mean of 2.945. Dzomira (2020) found strong business influence in the public sector via audit committees and internal auditing. The findings suggest that South Africa's government audit committees and internal audit units are inefficient.

Corporate Governance Compliance among Commercial State Corporations in Kenya

The people who took part were asked to rate how much they agreed with claims about how well corporate governance standards are followed in Kenya's business state enterprises. The results that the person who gave the answer got are shown in Table 5.

Table 5: Corporate Governance Compliance among Commercial State Corporations in Kenya

	Mean	SD
The company's yearly report includes all necessary disclosures.	3.951	0.928
The firm website contains information on the Executive Committee chartering, the Whistleblowing Policies, the Rules of Morality, and director resignation procedures.	4.143	0.663
The yearly report of the business includes an overview of its fiscal responsibility principles and information about the status regarding the Code's implementation.	3.712	0.570
The firm complies with the CMA Integrity and Open Code	3.988	0.681

Findings showed that most respondents felt the corporate website describes the Executive Committee's charter in depth, the Whistleblowing Policies, the Rules of Morality, and director resignation procedures as shown by a mean of 4.143, the firm complies with the CMA Integrity and Open Code There are sufficient disclosures in the annual report (mean: 3.988), an overview of the company's principles of fiscal responsibility and an update on the progress of implementing the Code (mean: 3.951), and an overall positive impression (mean: 3.712). According to Nalukenge, Nkundabanyanga, and Ntayi (2018), which are corroborated by these results, codes of best practice allow corporations to self-regulate, settle principal–agent conflict, improve management oversight, and limit corporate officials' influence. Corporate governance principles empower shareholders, eliminate information asymmetry, and lower agency costs (Waweru & Prot, 2018). Code provisions are comparable across corporate governance regimes despite institutional variances.

Tests for Regression Assumptions

Multicollinearity

When several predictor factors are in play, complications may arise. Heteroscedasticity poses a challenge to the statistical assumption of constant variance in error terms, since it is caused by the impact of preceding error terms on succeeding ones. Although the prediction stays the same, Greene (2013) argues that the magnitude of the regression coefficients, their standard errors, and the accompanying z-tests may be deceptive due to the potential confounding impact of multicollinearity. According to Mason and Perreault (2011), the presence of multicollinearity may lead to unpredictable fluctuations in coefficient estimates, even with slight modifications to the model or data. A second step before choosing whether to delete an item from the list is to use the variance inflation factor (VIF), as suggested by Greene (2013). The variance inflation factor (VIF) is a statistical method for identifying multicollinearity. Baum (2006) suggests that a VIF larger than 10 indicates deleterious multicollinearity.

Table 6: Multicollinearity Coefficients

Model	Collinearity Statistics	
	Tolerance	VIF
Audit risk management	.955	1.047
Audit quality	.963	1.038
Internal control	.954	1.049
Audit planning	.876	1.142

All analyses show that the Variance Inflation Factor (VIF) is less than 10, as reported by Baum (2006). Therefore, you shouldn't worry about it. The premise is that there is no connection between the error terms of separate observations. The findings indicate that the Variance Inflation Factor (VIF) for audit risk management was 1.047, the VIF for audit quality was 1.038, the VIF for internal control was 1.049, and the VIF for audit planning was 1.142. Results show that all independent variables may be included in a regression analysis without any loss of predictive ability due to collinearity.

Heteroscedasticity Test

The homoscedasticity theory, a cornerstone of the traditional linear regression model, states that the probability distribution of the disturbance component is constant. Even if the underlying variable changes, the unity of differences for each Ui stays the same. By Bedru and Seid's definition, heteroscedasticity means that the variation of the disturbance terms is neither constant nor uniform. According to Table 7, the Glesjer Test was used to come to this result.

Table 7: Heteroscedasticity Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	75.939	6.689		11.352	0.000
Audit risk management	0.735	.027	.345	5.057	0.120
Audit quality	0.596	.080	-.335	1.561	0.267
Internal control	0.824	.054	.070	1.114	0.323
Audit planning	0.725	.062	-.099	0.992	0.130

With respective significant levels of 0.120, 0.267, 0.323, and 0.130 for the output coefficients of audit risk management, audit quality, internal control, and audit planning, we may conclude that these factors all play a role in ensuring a successful audit, respectively, it can be concluded that there is no presence of heteroscedasticity, as all values above the threshold of 0.05.

The study also looked at the zero covariance of error components over time, which is what the autocorrelation conditions mean. There is no link between mistakes in one observation and mistakes in other observations. India's Gujarati (2004) says that the Durbin-Watson test is the best way to find repeated association. That is why, if the application's estimate of d is close to 2, it is thought that there isn't an autocorrelation problem.

Autocorrelation Test

Table 8: Autocorrelation Test

Model	Durbin-Watson
1	1.875

Table 8 shows that the model's Durbin-Watson value is 1.875, which is between 1.5 and 2.5. Autocorrelation is an issue since the model's null hypothesis was rejected.

Multiple Regression

All aspects of auditing, including risk management, quality, internal control, and planning, were tested multiple regression analysis to ascertain their impact on corporate governance compliance among Kenya's commercial state firms.

Table 9: Model Summary

Model	R	R Square	Adj. R Square	Std. Error of the Estimate
1	0.867	0.751	0.738	1.927

a. Predictors: (Constant), Audit planning, Internal control, Audit risk management, Audit quality

The degree of corporate governance compliance among Kenyan commercial state firms is the dependent variable, and Table 9 revealed that audit risk management, audit quality, internal control, and audit planning account for 73.8% of the observed variance in this metric.

Table 10: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	884.022	4	221.006	57.285	3.39E-22
Residual	293.209	76	3.858		
Total	**1177.231**	**80**			

a. Dependent Variable: Corporate governance compliance among commercial state corporations

b. Predictors: (Constant), Audit planning, Internal control, Audit risk management, Audit quality

Table 10 displays the outcomes, showing that the model was judged to be significant due to its predictive value. The p-value at a 5% significance level was 3.39E-22, and the estimated F-value was 57.285, which was much higher than the necessary F-value of 2.4920.

The model gives you both normalized and unstandardized results to help you understand the overall direction of the regression model and figure out how important the independent factors are. The results are summed up in Table 11.

Table 11: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	21.502	6.880		3.125	0.002
Audit risk management	0.689	0.314	0.674	2.194	0.030
Audit quality	0.711	0.213	0.682	3.338	0.001
Internal control	0.633	0.095	0.533	6.663	0.000
Audit planning	0.618	0.230	0.512	2.687	0.008

a. Dependent Variable: Corporate governance compliance among commercial state corporations

Table above computed by SPSS shows that the equation (Y = 0 + 1X1 + 2X2 + 3X3 + 4X4+) simplifies to:

$Y= 21.502+ 0.689X_1+ 0.711X_2+ 0.633 X_3 + 0.618X_4$

The research revealed that if all indicators (audit risk management, audit quality, internal control, and audit planning) were maintained constant at zero, Kenya's commercial state businesses' corporate governance compliance would be 21.502. According to the study's authors, every unit improvement in audit risk management ratings enhances corporate governance compliance by 0.689 percentage points among Kenya's for-profit state firms. Audit risk management significantly affects corporate governance compliance among Kenya's commercial state businesses (p=0.030), thereby rejecting the null hypothesis that it does not. Muraguri (2020) discovered that risk assessment affects corporate governance compliance in state-owned firms in both positive and negative ways.

The research also reveals that commercial state firms in Kenya would benefit from a 0.711-point improvement in their ratings of corporate governance compliance for every unit increase in audit quality scores. This variable was statistically significant (p0.001), therefore we may conclude that commercial state businesses in Kenya are not uniform in their adherence to good corporate governance practices. These findings are consistent with those of Mulwa and Opuodho (2022), who found that registered fruit-processing firms in Kenya's Thika Municipality modified their compliance with corporate governance standards by a factor of 2.277% for every 1% improvement in audit quality.

According to the results, commercial state firms in Kenya had a 0.633-point improvement in their corporate governance compliance ratings for every unit rise in their internal control scores. Because this variable was significant at the 0.0000.05 level among Kenya's commercial state firms, the null hypothesis, which posits that there is no relationship between internal control and corporate governance compliance, is rejected. According to Chang, Chen, Cheng, and Chi (2021), there exists a favorable correlation between the understanding of internal auditing and the effectiveness of compliance controls, whereas no such relationship is seen with respect to operations.

The results also show that commercial state firms in Kenya will have a 0.618-point rise in corporate governance compliance for every unit increase in audit planning scores. Since 0.008>0.05, it is clear that audit planning does have an effect on corporate

governance compliance among commercial state businesses in Kenya, hence the null hypothesis that it does not is therefore rejected. Using regression models, Nyerere, Njeru, and Mugo (2021) confirmed that risk-based audit planning contributed to DT-SACCO corporate governance compliance.

All of the variables were statistically significant at the 95% confidence level, since their p-values were all less than 0.05. According to a study of Kenya's commercial state businesses, compliance with corporate governance requirements was shown to have the largest impact on audit quality, followed by audit risk management and internal control.

CONCLUSIONS AND RECOMMENDATIONS

It was concluded that in Kenyan state-owned businesses, Compliance with corporate governance standards is greatly aided by effective audit risk management. The research concluded that these businesses had a culture of risk identification and management, as well as a systematic approach to tracking and monitoring hazards. The research found that risk management strategies that are in line with company goals tend to also have strong risk assessment and evaluation methods. According to the findings, commercial state firms in Kenya are more likely to comply with best practices in corporate governance if their audits are of higher quality. A risk-based audit methodology, professional ethics, and adherence to international auditing standards were all highlighted as crucial in the study's final analysis. Additionally, the study highlighted the significance of having an active and independent audit committee. However, it pointed out that clarifying roles and responsibilities within the audit quality structure and policy and increasing board involvement in risk committees could further strengthen governance compliance.

The research made a conclusion that commercial state businesses in Kenya adhere to best standards in corporate governance thanks in large part to internal control. The survey also showed that regular security inspections and open lines of communication are essential for maintaining order. The study also emphasized the significance of risk monitoring, employee training, and defined roles and responsibilities as indicators of a strong commitment to internal control. However, the study raised concerns about the management's commitment to ethical principles within the Ministry, which need to be addressed to further enhance governance compliance.

The research found that audit planning significantly affects corporate governance compliance in successful Kenyan government enterprises. The research deduced that the significance of periodic audits, annual risk assessments, and active audit committee involvement in risk-based planning. The study concluded that the importance of aligning planning strategies with business objectives and encouraged more active discussions about planning based on risks within the audit panel. The study also concluded improved planning strategies, including leadership conversations, can minimize risk variables and enhance overall governance compliance.

It was recommended that Kenyan commercial state firms strengthen audit risk management by instituting an organized and systematic risk assessment and evaluation approach. This process should not only focus on risk identification but also on assessing and evaluating risks comprehensively. Clear criteria for risk mitigation measures should be established, and a continuous monitoring system for risk exposures should be put in place. Moreover, commercial state corporations in Kenya should prioritize risk documentation and reporting, ensuring transparency and accountability in managing identified risks. It is crucial to develop a culture that encourages all personnel to actively participate in risk management and compliance efforts.

The research recommended that Kenya's commercial state enterprises should pay more attention to their audit quality structure and policy by allocating roles and duties more carefully. The efficiency and efficacy of an audit may be greatly improved by establishing clear responsibilities and supporting them with strong channels of

communication and training. Additionally, there should be increased board involvement in risk committees, as this ensures that governance compliance remains a top priority. The adoption of more robust technology and data analytics tools for auditing can also enhance audit quality, allowing auditors to identify risks and issues more accurately and efficiently.

The report further recommended that Kenya's commercial state firms prioritize developing a culture based on high ethical standards and honesty. This must be modeled by upper management and followed by all staff members. According to the findings, it's important to provide personnel with ongoing training in areas like risk assessment, separation of roles, and ethical decision making. It is important to develop and keep tabs on channels of communication for notifying staff of changes to operating procedures and other crucial updates. Businesses should evaluate and document their internal control processes to further promote transparency and accountability.

Kenya's commercial state enterprises might do more to encourage diversity and teamwork during the planning stage. Active discussions about planning based on risks within the audit panel should be encouraged, allowing diverse perspectives to be considered when formulating audit strategies. This reduces the potential for oversight and ensures that audit plans are more robust. Moreover, organizations should align their planning strategies more closely with their business objectives. This alignment should be complemented by regular leadership conversations to minimize risk variables. The creation of a clear, documented, and systematic audit planning process can help corporations ensure that audits are conducted in a manner that supports their business supremacy agreements.

Recommendations for Future Research

The study recommends that future research broaden its focus to include other types of enterprises so that results may be compared. It's important to investigate these issues from many perspectives if we're going to keep talking about them. Future researchers are urged to conduct longitudinal studies like this one to determine whether or not risk-based auditing has a lasting impact on corporate governance compliance at Kenya's commercial state businesses.

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