INTERNAL AUDIT PRACTICES AND FINANCIAL PERFORMANCE OF KENYA TEA DEVELOPMENT AUTHORITY MANAGED TEA FACTORIES WEST OF RIFT, KENYA

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ABSTRACT

This study established the relationship between internal audit practices and the financial performance of the KTDA managed tea factories West of Rift. The research aimed to address four specific objectives: (1) to determine the effect of auditor professional competence on the financial performance (2) to assess the effect of internal control on financial performance, (3) to evaluate the impact of audit standards compliance on financial performance, and (4) to determine the influence of internal audit staff independence on financial performance. This study employed a descriptive survey research design because it enabled the researcher to conduct an intensive description and holistic analysis of the entities involved. The respondent's population comprised of 93 KTDA comprising of Factory Accountant, Assistant Factory accountant and Internal Auditor. A total of 93 respondents were used as the sample size using census sampling technique. Data were analyzed using the Statistical Package for the Social Sciences (SPSS), with results presented in tables and figures. Descriptive statistics were used to determine the relationship between the variables, while regression analysis was employed to establish the extent to which the variables were related and their significance. The results revealed that auditor professional competence, internal control, audit standards compliance and internal audit staff independence have significant positive effect on financial performance of the KTDA managed tea factories West of Rift. In this regard, the study concluded that financial performance of KTDA managed tea factories West of Rift is significantly affected by internal audit practices. To enhance financial performance, KTDA-managed tea factories West of Rift should prioritize skilled auditor development, strengthen internal controls, align audit practices with international standards, and ensure internal audit staff independence. Regular training, clear roles, ethical culture, and robust follow-up mechanisms will support effective audits and informed financial decision-making.

Key Words: *Auditor Professional Competence, Internal Control, Audit Standards Compliance, Internal Audit Staff Independence*

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INTRODUCTION

Globally, there is the irresistible realization that the internal audit can offer unmatched services to management regarding how they carry out their duties. As a result, Internal Auditing allied to the Institute of Internal Auditors (the IIA) embraces this potential, which comes as a challenge (Basel Committee, 2002). Throughout European history, the practice of stewardship and control has provided justification of financial accounting for both public and private entities since the emergence of double- entry book in 1494 (Mautz, 1964). Later, at the start of the 20th century, the United States adopted bookkeeping and auditing, formal internal audit function initiation proved to be of great importance. For instance, U.S. General Accounting Office (GAO) despite the fact that there are other State-owned Auditor's offices in the country has employed many auditors to ensure independency and objectivity in financial reporting (KPMG, 2015).

In the US, the role and importance of internal audit in providing confidence to investors was strengthened by the enactment of Foreign Corrupt Practices Act 1977(FCPA), the Federal sentencing Guidelines 1991 and The Sarbanes Oxley Act (2002). The Oxley Act also known as SOX Act was enacted as a result of financial scandals in giant companies such as Enron, WorldCom, Global Crossing, Tyco and Arthur Andersen, that resulted in billions of dollars in corporate and investor losses. These huge losses negatively impacted the financial markets and general investor trust. The Sarbanes-Oxley Act mandated a wide-sweeping accounting framework for all public companies doing business in the US, (IIA 2016). A requirement by this Act the organizations must report to the internal controls that have been put in place to check financial misappropriation strengthened the role of internal audit in organization in carrying out risk evaluation and reporting to management. The Act also strengthens the roles and functions of the audit committees in organizations and this has immensely contributed to improved financial reporting in US companies, (Jared S, 2003).

In Africa and specifically South Africa, the importance of an effective internal audit function is South African firms and municipalities has been recognized in so far as internal audit functions are legally mandated to exist within municipalities and firms. The internal audit has certain mandates as provided by the Internal Auditing Framework, (2009) which must be fulfilled in order to add value to management and audit committees and ultimately, to the board of directors. Even though internal audit is sanctioned by this important legal mandate, evidence shows that internal audit does not always fulfil this mandate.

This state of affairs has prompted a detailed review of the relevant laws and internal audit staff independences governing the work of internal audit in South African municipalities in order to determine the extent to which key stakeholders find the regulatory work of internal audit useful in organizations, Ackermann, C. (2016).

In Kenya, the role played by internal auditors in helping to control misuse of public funds in Government Agencies has gained prominence in the recent years.The enactment of the Public Finance Management Act 2012 and the Public Finance Internal audit staff independences 2014 recognized internal audit as an important corporate governance tool where are all Government Agencies are required by law to have an internal audit unit.

All organizations whether in the private sector or government institutions have a set of objectives. These objectives are however subjected to risks which if not well managed affects the realization of organization's goal. The main objective of the owners of equity is to maximize return on their investments and it's for this same reason that organizations exist. In the public sector, the main objective is providing the best service to the public who are the owners of Governments, (HRMM,2016).

For organizations to be successful in risk management there is need to have an internal audit unit. Internal audit is an independent, objective assurance and consulting activity, (The professional practices Framework, 2004). The major function of Enterprise Risk Management is to create objective assurance which can result to effectiveness on uncertainty management. Research has revealed that the board of directors and any other internal auditors agree that internal auditing has a significant role providing value to their respective organizations through providing objective assurance which major business risk. This particular risk needs to be managed properly and give assurance on risk management and internal control framework.Internal auditing has both assurance and consulting roles which results to risk management in immense ways, Rammoorthi (2003). In addition to providing assurance that organizational objectives are being achieved, it supports management in reviewing financial initiatives, business operational efficiency and providing a knowledge base for corporate governance, (Cooper et al.,1996).

Good corporate governance leads to transparent procedures and control measures in which managing directors, shareholders and other officers try to align their incentive. Quite a number of organizations are working towards meeting the highest level of corporate governance. In the current century, the shareholders are focusing on working towards ensuring their organizations achieve good corporate citizens through citizenship through environmental awareness, ethical behavior and reliable corporate practices.Shareholders also need to see a good framework of rules and internal audit staff independences which the board has instituted in order to ensure accountability, fairness, accountability of resources. Internal audit therefore becomes the central pillar that provides the relevant information for the board of directors in order to make decisions that are beneficial to the organization. There are four monitoring methods in corporate governance literature and they include internal auditing, external auditing and directorship, (Anderson et al, 1993, Blue Ribbon committee, 1999). Organizations with internal audit function are more likely to detect frauds and financial misappropriation thereby reducing financial risks and improving good governance, (Coram, Paul & Ferguson, Colin, 20006).

The role of internal audit is to evaluate the operations performed in the line with the set rules and policies of the organization which leads to setting governance structures and systems with an aim of promoting efficiency and transparency, (Stoner, 1994). Internal auditors evaluate any aspects of integrity in a particular organization, measures the operations of the systems as well as information flow (Owler & Brown, 2009).

Statement of the Problem

Ali (2017) investigated whether internal audit has an impact on financial performance of Kenyan Micro finance firms. The study clearly demonstrated that factors such as professional competence, adherence to IA standards, and maintaining IA independence had a positive influence on FP. The financial performance of Kenyan SACCOs was also subjected to scrutiny regarding the role and impact of the internal audit function, as investigated by Chepngeno (2017). The research findings highlighted a positive nexus between the qualification level of Internal Audit and the Financial performance improvement of Saccos. The impact of Internal audit on the financial performance of Kenyan public institutions was investigated by Muchiri and Jagongo (2017). Their study revealed that there was no discernible influence of the internal audit function on financial performance. A recent study by Wanyama (2021) focused on examining how the IA function affects FP from a perspective of a manufacturing company: Rift Valley Bottler’s Ltd, established that budgetary control affects financial performance. Ehaji (2019) examined internal audit practices effect from a county government context with a special interest of Vihiga County government performance. The results demonstrated that the internal audit practices "(risk management, internal environment and monitoring and control)" significantly impact financial performance. Kabue (2020) after investigating internal audit practices (internal staff expertise, internal controls and management support) effect on the performance from a perspective of Parliamentary commission of Kenya proved a significant and positive nexus linked to internal audit and performance. There are studies that are objective in establishing whether internal audit is a significant determining aspect of financial performance in Kenya but have contradicting findings. Majority of studies mentioned above used different financial performance indicators and methodology to examine this problem. In addition, the existing studies examined the variables of this study partially and in isolation in different contexts. In this regard, there exist deficiencies in nexus linking internal audit practices and financial performances of local governments thus pertinence of this study. As such, this study sought to determine the relationship of internal audit practices and financial performance of KTDA managed tea factories West of Rift.

Objectives of the study

The general objective of the study was to determine the effect of internal audit practices on financial performance of KTDA managed tea factories West of Rift, Kenya. Specific objectives include the following:

- To determine the effect of auditor professional competence on financial performance of KTDA managed tea factories West of Rift, Kenya.
- To determine the effect of internal control on financial performance of KTDA managed tea factories West of Rift, Kenya.
- To determine the effect of audit standards compliance on financial performance of KTDA managed tea factories West of Rift, Kenya.
- To determine the effect of internal audit staff independence on financial performance of KTDA managed tea factories West of Rift, Kenya.

The study was guided by the following research hypotheses

- H_{01}: There is no substantial effect of auditor professional competence on financial performance of KTDA managed tea factories West of Rift.
- H_{02}: There is no substantial effect of internal control on financial performance of KTDA managed tea factories West of Rift.
- H_{03}: There is no substantial effect of audit standards compliance on financial performance of KTDA managed tea factories West of Rift.
- H04: There is no substantial effect of internal audit staff independences on financial performance of KTDA managed tea factories West of Rift

LITERATURE REVIEW

Theoretical Review

Agency Theory

The agency theory as advanced by Stephen A Ross and Barry M. Mitinick 1972 & 1973, in their research they investigated the relationship which exists between two persons namely the principal and the agent. The relationship arises out of the need of one person (Principal) engaging another person (agent) to perform some service on their behalf. The Service may involve delegating some decision-making authority to the agent. The most recognizable principal agent relationship is between employer and employee. Other examples include the state who is the principal and the ambassador who is the agent or the constituents and elected representative.

However, Mitnick's paper, entitled Fiduciary Rationality and Public Policy, The Theory of Agency and some consequences and presented at the annual meeting American Political Science Association in 1973, laid out a much more general theory of the Agency with possible application to numerous societal contexts. Mitnick identified the problem of agency as the principal's problem, the agent's problem, policy mechanisms and incentives. The principal's problem is to motivate the agent to act in a manner that will achieve the principal's goals. Examples of motivational goals are financial incentives, prospect of sanctions, and supplying information to activate norms such as loyalty or obedience and preferences that coincide with the principal's goals.

Stewardship Theory

The stewardship Theory was initially modeled by Donaldson and advanced by Davis & Conforth (1999), the theory attempts to contrast the belief that managers are selfish to themselves and will only pursue goals which are of benefit to them but not the organization and its owners. According to stewardship theory, the board of directors and their respective managers are aligned with their intrinsically motivated act in the best interests of the organization and normally they consider to focus on intangible incentive chances for individual financial performance and underpins agency theory, on in which, in general, people are motivated to do good and to act unselfishly, as long as a number of organizational and cultural preconditions are satisfied. In this theory, managers and shareholders have a common agenda to adopt side by side which provides emphasis on the board's responsibility in formulating strategies rather than monitoring operations. Implicit in stewardship theory is the understanding that the owners (principals) are prepared to take risks on how managers will run their business and provide a return on their investment, indicating a level of trust that is absent in agency theory.

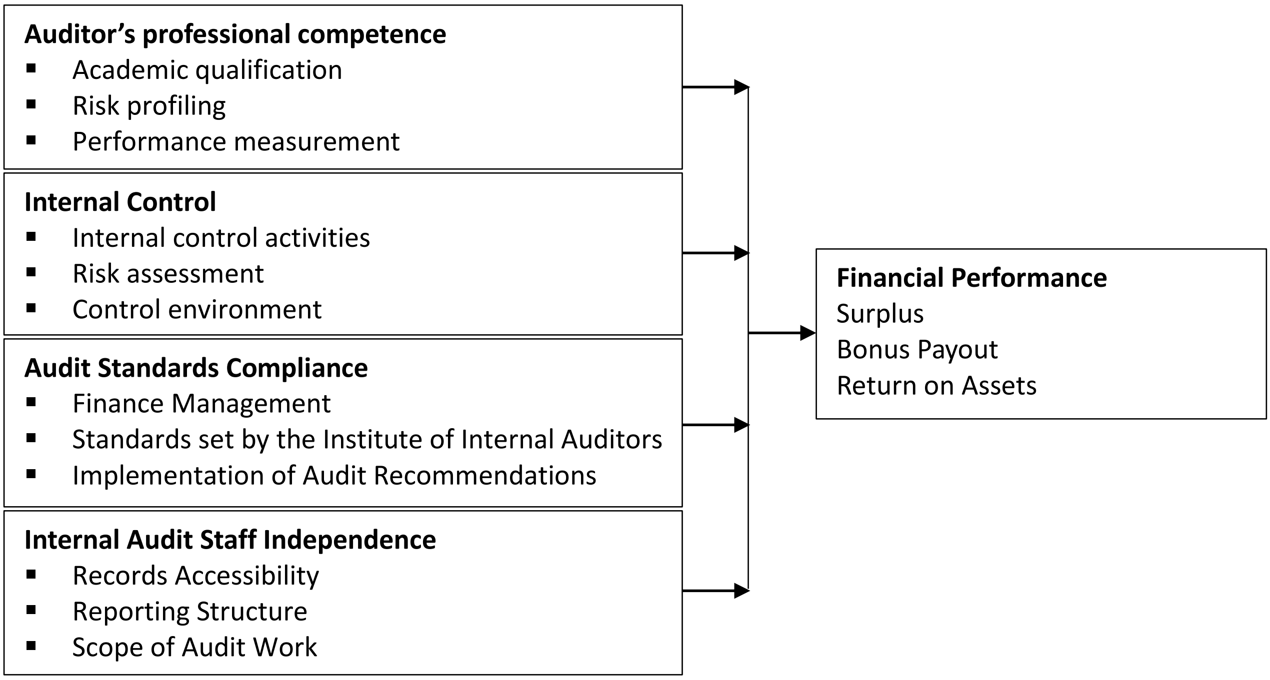
The choice of this theory is important as it underscores the role that the county executives play as stewards of the county government funds; it assumes that all decisions that will be taken by the county will be to increase the firm's financial performance and provide value for money in all the county financial engagements (Monkam, 2014).

Stakeholder Theory

This theory was founded by Edward Freeman in 1984. Edwad Freeman argued that board members make efforts to understand and represent ideas of various individuals and groups of individuals and groups of individuals who have interest in a given organization. Stakeholders comprises input is very necessary for the success of the organization and they include: -employees, managers, customers, regulators, government, pressure groups and other local communities. The idea was that the stakeholders should be included in the approach of wide spectrum of societal opinions, balancing competing priorities and avoids dominance of one group with particular interests.Among the myriads of stakeholders, stakeholder theory argues that boards have to identify the critical stakeholders like the key staff groups whose commitment is essential for long term value creation. According to stakeholder agency theory, managers are seen as agents for all the stakeholders, not just the owners.

As a result, according to Kulundu (2014), the stakeholder's theory aims to answer the question of which shareholders merit and require recognition. Internal audit, on the other hand, according to Atieno (2013), helps to raise concerns that demand management effort, from the financial position to the monetary honour of the structure. Internal audit assists in ensuring that the interests of stakeholders are protected. This is accomplished by the auditors' independent assurance, which allows them to carry out their work without being influenced by management. This theory is therefore appropriate in this research because internal auditors work independently towards ensuring that the interests of shareholders are achieved.

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Empirical Review

Internal Audit Practices

Internal auditing methods in the public sector are critical because they protect citizens' capacity to hold their elected officials responsible. Auditors' responsibilities are critical in boosting public segment administrators' trustworthiness, fairness, and suitable conduct despite the fact that it lowers the possibility of municipal dishonesty (Hutchison and Zain, 2009). Internal auditing services include assurance and advisory services, but are not restricted to them. Legislative freedom, unfettered admittance, adequate financing, effective guidance, and staff competence are among the characteristics of public sector audit activities (IIA, 2012). Internal audit procedures or activities include the competency, roles, and obligations of internal auditors, as well as their independence (Mac Rae & Gils, 2014).

Internal audit must continue to evaluate its performance and improve its services in order to maintain its credibility. Internal audit, according to Hutchison and Zain (2009), is a steering mechanism of an organization and the board of directors and audit committees are responsible for ensuring that financial reporting practices are sound and up to date (Brisch, 2019). Internal audit ensures that the company meets its revenue targets and achieves its goals and objectives. Internal audit, according to Beyanga (2011), considerably aids businesses in achieving their projected goals through the use of strategic techniques used for improving the reactions to an organizational dangers and their control mechanisms.

Financial Performance

As an indicator of financial performance, Lewis (2003) uses local government “operating surplus” with intention to measure fiscal capacity. He further defines it as an accounting concept used in national accounts statistics to measure the difference between government routine revenues and routine expenditures. Enough and constant surplus is an essential aspect because it enables government entities to keep up with the desired levels of services, not forgetting to mention its capability to ensure availability of resources for debt repayment.

As per the view of Haque et al. (2011), financial performance can be regarded as the measure of financial health of an organization measured over a period by comparing against equivalent firms in the same industry or sector (Padilla, Staplefoote & Morganti, 2012). Different ways can be applied to measure financial performance, and these measures may take either the form of subjective or objective (Mpiira et al, 2013). The objective measurement of financial performance of an organization usually includes reference to the financial statement and includes the use of the following ratios; ROE, ROA and NIM are the main ones. Organizational is tied to the organization's work process and activity. There are two main types of performance indicators: financial and non-financial indicators.

Auditor's professional competence and financial performance

Empirical research was carried out in Indonesia by Dityatama (2015) to examine auditor's competency effect along with the independency effect to the auditors as a result of professional care through financial and auditing experts and the perceived internal audit quality influence. The data was obtained by making use of questionnaires. A total of 24 teams that consisted of internal auditors from local government of Lumajang regency were sampled. SEM path analysis was used to evaluate the data. The research's findings demonstrated that the existence of professional care (competence) had a significant effect on internal auditors. Usman (2016) researched on the impact of IA competence within the regional inspectorate officers' department. The hypothesis tested in this research was that a higher level of competence among internal auditors leads to improved quality of internal audits. However, a common limitation encountered in this study was the inability of the inspectorate apparatus to detect audit findings internally, as they were only revealed by external auditors. The findings of the study confirmed that an increase in the competence levels of internal auditors directly contributes to an enhancement in the quality of internal audits within the department under investigation.

In Kenya, Njoroge (2016) emphasized on determining factors of performance by focusing on the internal audit function to shed light on the context of the public sector. The study assessed whether the technical competency is an enabler of performance of internal auditors. The study population involved internal audit committee (126) and senior staff (90) in the 18 government ministries headquartered in Nairobi. The study concluded that technical competence of internal auditors impacts on the performance is not only determined by performance measurement principles and financial analysis tools, but also determined by auditors' competence in risk profiling.

Internal Control and Financial Performance

The empirical research conducted by Ejoh and Ejom,(2014) aimed to investigate the internal control activities impact on the Financial Performance from a perspective of institutions offering postsecondary education in Nigeria. It was preferred to employ a stratified sampling procedure to select the study's sample size.

It was revealed that internal control activities and Financial Performance were insignificantly associated. This study focused on only internal control activities that affects financial performance yet there are other factors in the internal control system that affect financial performance. In Indonesia, South Sumatra, research was conducted to determine the impact of implementing the government's internal control system on the accuracy and reliability of financial reporting (Afiah & Azwari, 2015). The analysis of South Sumatra was successfully carried out using a path analysis and unit analysis. From the findings, internal control was found to influence financial reporting both significantly and positively. Similarly, in Kenya, Muhunyo and Jagongo (2018) conducted a study in public institutions by focusing on the higher learning institutions. The researchers wanted to determine whether internal control systems are likely to have an impact on performance in the County. The study investigated internal control systems, considered in relation to Financial Performance: risk assessment, control activities and monitoring. A sample of 96 employees representing the various staff categories in the institutions under study was chosen from the target population. The study found that all the indicators of internal control systems had a substantial impact on financial performance after analyzing the research data.

Internal Audit Standards Compliance on Financial Performance

The factor of compliance audits may improve financial performance. Enofe, Akani, and Oladutire (2013) investigated compliance auditing and corporate financial performance. The study's participants included 50 managers from banks with operations in Rivers State. It was demonstrated that there was correlation that the study established that was significant and positive between the use of auditing practices and profitability and ROI. The study's conclusions therefore suggest that compliance auditing is a procedure for carrying out audits in accordance with the current, established standards and guidelines, an audit process is structured in a way that facilitates the resolution of corporate governance issues while also leading to improved financial performance of organizations.

Evidence from South Africa: an empirical study aimed at examining audit committee characteristics effect on the globally recognized structure for financial disclosure namely IFRS was conducted by Sellami and Fendri (2017). Joined monetary statements from 120 non-financial companies that trade on the Johannesburg security market from 2012 to 2014 were analyzed in this study. This study revealed that related party disclosures turned out to be significantly influenced by audit committee compliance with (IFRS). The study failed to highlight how compliance with (IFRS) leads to financial performance of the firms.

Internal Audit Staff Independence and Financial Performance

Bonareri (2012) aimed at establishing nexus linking internal auditor independence and performance in Ugandan Public institutions moderated by quality of financial reporting. The quantitative study employed a cross-sectional design. Approximately 132 public entities were sample in the study which 123 of them responded. The study's findings show a significant association between internal auditor independence and performance in the context of Ugandan public institutions, with the best performance indicators being quality financial reporting.

In construction industry, Kiema (2015) empirically examined internal audit independence and how it impacts the SMEs financial performance within Mombasa County. Four components of internal audit independence were considered as enablers of financial performance. The study sampled sixty-five (65) Construction Companies. It was evident from the research results that a large portion of firms in the construction sector within Mombasa County failed to bestow the required internal auditors' independence so that it would possible for them to successfully state their opinion regarding the financial reporting in their organizations.

Empirical work by Nyaga and colleagues (2018) aimed to investigate the relationship between internal audit independence and the IA effectiveness. A total of 46 staffs in the Kirinyaga County Government was drawn from the IA department in the county to represent the survey population. The study results showed that audit function did not match up with independent in evidence analyzed. Auditor's independence positively impacted internal audit effectiveness. It was concluded that internal audit independence proved to be a key predictor of audit function success, which is perceived to enhance financial performance in the County government.

METHODOLOGY

This study employed a descriptive survey research design because it enabled the researcher to conduct an intensive description and holistic analysis of the entities involved. The respondent's population comprised of 93 KTDA comprising of Factory Accountant, Assistant Factory accountant and Internal Auditor. A total of 93 respondents were used as the sample size using census sampling technique. The use of census sampling was due to small number of target population and according to Mugenda and Mugenda (2008), for a population of 1-100 a sample of 100% shall be used as a sample size.

Primary data was collected using a structured questionnaire. Quantitative data was analyzed using SPSS. Both the descriptive statistics (frequencies, percentages and means) and inferential statistics (correlation and regressions) were used to analyze the data collected with significance level of 0.05. The findings were presented in form of tables and models

Prior to conducting inferential statistics, diagnostic analyses were performed to test the assumption of Pearson correlation and multiple regression analyses. This is as follows.

Normality tests: Statistical errors are common in literature; many parametric procedures in correlation, regression, analysis of variance, and t-test are based on assumption of Gaussian or normal distribution. The study used Shapiro Wilk test to establish normality of the dataset

Multicollinearity: Multi-collinearity refers to the relationship among the independent variables. Multi-collinearity exists when the independent variables are highly correlated (r= 0.9 and above). Multiple regressions are very sensitive on this. Tabachnick and Fidell (2001) suggest that you 'think carefully before including two variables with a bi-variate correlation of, say, 0.7 or more in the same analysis. To check for multi-collinearity Variance Inflation Factor and Tolerance level was used. A VIF of less than 10 or a tolerance level of greater than 0.1 is acceptable

Test of Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent. That is the independent and dependent variables must have a linear relationship because regression tests linear relationships. In this study all predictor variables were examined to confirm if they had significant correlation with the dependent variable using Scatter plot.

FINDINGS AND DISCUSSION

Response Rate

A total of 93 respondents from 31 KTDA managed factories were given questionnaires with 71 being completed and returned while 11 questionnaires were not returned. A total of 93 surveys were completed and sent back. According to Table 1, the overall response rate was 76.3%. Thus, 76.3% was the overall response rate, indicating a successful response rate. A rate more than 60%, according to Holtom, Baruch, Aguinis and Ballinger (2022), is a good response for the study.

Descriptive Results

A descriptive analysis was conducted for both dependent and independent variables.

Auditor professional competence

The findings regarding auditor professional competence in KTDA managed tea factories West of Rift highlight several important observations, as illustrated in Table 1.

Table 1: Auditor professional competence

Statement	SD	D	FA	A	SA	Mean	SD
The auditors engaged by our factory possess relevant academic qualifications in accounting, finance, or auditing.	16.9%	14.1%	2.8%	28.2%	38%	3.56	1.528
Auditors with higher academic credentials contribute to more accurate and reliable financial reports.	9.9%	18.3%	9.9%	23.9%	38%	3.62	1.408
Our auditors are proficient in identifying and assessing financial risks in the factory.	14.1%	15.5%	19.7%	16.9%	33.8%	3.41	1.450
Proper risk profiling by auditors helps prevent potential financial losses.	19.7%	15.5%	18.3%	21.1%	25.4%	3.17	1.473
Our auditors are skilled in evaluating financial performance against set benchmarks.	15.5%	14.1%	14.1%	33.8%	22.5%	3.34	1.383
Auditor-driven performance evaluations help management take corrective financial actions.	31%	15.5%	2.8%	28.2%	22.5%	2.96	1.616
Overall						**3.34**	

The statement "The auditors engaged by our factory possess relevant academic qualifications in accounting, finance, or auditing" received a mean of 3.56 and a standard deviation of 1.528, with 38% of respondents strongly agreeing and 28.2% agreeing. Only 16.9% strongly disagreed, suggesting that the majority of respondents recognize the importance of formal academic qualifications in ensuring auditors' competence. This is consistent with previous studies, which emphasize the correlation between auditors' educational background and their ability to deliver accurate financial reports (Al-Thuneibat et al., 2011). Higher academic qualifications are associated with more rigorous understanding and application of auditing standards, which enhances the reliability of audit findings and financial reporting.

For the statement "Auditors with higher academic credentials contribute to more accurate and reliable financial reports", the mean was 3.62, with a standard deviation of 1.408. 38% of respondents strongly agreed and 23.9% agreed, reflecting a high level of confidence in the relationship between academic qualifications and audit outcomes. This finding aligns with research by Arena and Azzone (2009), who found that the competence derived from advanced academic credentials significantly enhances the accuracy and credibility of audit outcomes, particularly in financial performance assessments.

When asked if "Our auditors are proficient in identifying and assessing financial risks in the factory," the mean score was 3.41, with a standard deviation of 1.450, and 33.8% strongly agreed. However, the spread of responses shows a lack of consensus, with 14.1% strongly disagreeing. This indicates that while there is some acknowledgment of auditors' ability to assess financial risks, there remains a perception that this competency may be underdeveloped or inconsistently applied. This reflects a gap noted by Mihret and Yismaw (2007), who suggest that while auditors may be knowledgeable, translating this knowledge into effective risk management strategies often requires more specialized training and practical experience.

The statement "Proper risk profiling by auditors helps prevent potential financial losses" had a mean score of 3.17, with a standard deviation of 1.473.

Here, 25.4% strongly agreed, while 19.7% strongly disagreed. The responses suggest a moderate recognition of the value of risk profiling but with significant variation in perception. This finding is consistent with the work of Krishnan (2003), who argues that while risk profiling is an essential tool in preventing financial losses, its effectiveness depends largely on auditors' experience, training, and the specific tools they use to assess financial risks.

In evaluating the statement “Our auditors are skilled in evaluating financial performance against set benchmarks,” the mean score was 3.34 and the standard deviation was 1.383. This result shows that 33.8% agreed and 22.5% strongly agreed, indicating a reasonable level of confidence in auditors' skills in financial performance evaluation. However, the slightly lower mean and the spread of responses highlight potential areas for improvement. This finding is corroborated by the literature of Knechel et al. (2013), who assert that financial performance evaluations by auditors are pivotal in ensuring the financial health of an organization. Their study further suggests that auditors’ ability to measure performance against established benchmarks can greatly enhance decision-making and financial oversight.

Finally, the statement “Auditor-driven performance evaluations help management take corrective financial actions” had a mean score of 2.96, with a standard deviation of 1.616. A significant portion of respondents, 31%, strongly disagreed, and only 22.5% strongly agreed. This suggests that while auditors may provide performance evaluations, these assessments may not always translate into actionable corrective measures. This finding supports the view of Beasley et al. (2000), who note that although auditors play a role in identifying issues in financial performance, the actual implementation of corrective actions often depends on the willingness of management to act on audit findings, which can be influenced by organizational culture and the quality of internal controls.

Internal Control

The findings regarding internal control in KTDA managed tea factories West of Rift provide valuable insights into the current state of internal control systems and their effectiveness. The results are detailed in Table 2.

Table 2: Internal control

Statement	SD	D	FA	A	SA	Mean	SD
Our factory has clearly defined and consistently implemented internal control procedures.	19.7%	35.2%	11.3%	14.1%	19.7%	2.79	1.433
Internal control measures are effective in detecting and preventing financial irregularities.	14.1%	32.4%	8.5%	16.9%	28.2%	3.13	1.483
The factory's internal control system is responsive to risks identified during assessments.	21.1%	29.6%	9.9%	15.5%	23.9%	2.92	1.509
Financial risks are effectively prioritized and mitigated through structured risk assessment.	15.5%	26.8%	19.7%	15.5%	22.5%	3.03	1.404
Ethical values and integrity are emphasized within the factory’s control environment.	14.1%	39.4%	8.5%	18.3%	19.7%	2.90	1.395
There is clear delegation of responsibilities and accountability within the factory’s control framework.	11.3%	36.6%	9.9%	22.5%	19.7%	3.03	1.362
Overall						**2.97**	**1.39**

The statement “Our factory has clearly defined and consistently implemented internal control procedures” received a mean of 2.79 with a standard deviation of 1.433. 35.2% of respondents disagreed, and 19.7% strongly disagreed. This indicates that a significant portion of respondents feel that the internal control procedures in their factories are either poorly defined or inconsistently implemented. The results align with earlier studies, which suggest that the absence of well-structured internal control systems is a common issue in many organizations, hindering their ability to manage risks effectively (Lapsley & Pallot, 2000). Weak internal control procedures expose factories to financial mismanagement, making it essential to revisit and strengthen these systems.

The statement “Internal control measures are effective in detecting and preventing financial irregularities” had a mean score of 3.13 and a standard deviation of 1.483, with 28.2% of respondents strongly agreeing and 16.9% agreeing. This indicates that while internal control measures are somewhat effective, there is still room for improvement. Previous research by Cohen & Sayag (2010) supports this view, emphasizing that effective internal control measures should be proactive in detecting and preventing financial irregularities. However, the variation in responses suggests that the implementation and monitoring of these controls may be inconsistent across different departments or factories.

When respondents were asked if “The factory's internal control system is responsive to risks identified during assessments”, the mean was 2.92 with a standard deviation of 1.509. The response pattern shows that 29.6% disagreed and 21.1% strongly disagreed, highlighting that many respondents believe that internal control systems are not adequately responsive to identified risks. This finding resonates with the work of Agboola (2010), who argues that a failure to adapt internal control systems to evolving risks can leave organizations vulnerable to financial irregularities. Effective risk management requires an internal control system that is both dynamic and responsive.

For the statement “Financial risks are effectively prioritized and mitigated through structured risk assessment,” the mean score was 3.03 and the standard deviation was 1.404, indicating moderate agreement. 22.5% of respondents strongly agreed, while 26.8% disagreed. This suggests that while some financial risks are appropriately prioritized and mitigated, there is still a lack of consistency in how risks are assessed and addressed. This is consistent with the findings of COSO (2013), which highlight the importance of structured and ongoing risk assessments in maintaining a robust internal control environment. Without consistent prioritization of financial risks, organizations may fail to effectively manage potential threats to their financial stability.

The statement “Ethical values and integrity are emphasized within the factory’s control environment” had a mean of 2.90 and a standard deviation of 1.395, with 39.4% of respondents disagreeing. This suggests that there may be concerns about the extent to which ethical values and integrity are embedded within the internal control environment. Ethical issues in internal control are a critical factor in ensuring accountability and transparency, as noted by Messier et al. (2011). A strong ethical framework is necessary for fostering a culture of compliance and for ensuring that financial operations are conducted with integrity.

Lastly, the statement “There is clear delegation of responsibilities and accountability within the factory’s control framework” received a mean of 3.03 and a standard deviation of 1.362, indicating moderate agreement. While 22.5% of respondents agreed, 36.6% disagreed. This suggests that there may be confusion or a lack of clarity regarding roles and responsibilities within the internal control system. Research by Klein & Levenburg (2015) indicates that clear delegation of responsibilities is crucial for effective internal control and accountability. When roles and responsibilities are not clearly defined, the system's effectiveness can be compromised, leading to potential gaps in financial oversight.

Audit standards compliance

The findings related to audit standards compliance in KTDA managed tea factories West of Rift reveal several aspects of adherence to established financial management and auditing practices. The results are presented in Table 3.

Table 3: Audit standards compliance

Statement	SD	D	FA	A	SA	Mean	SD
Our factory adheres to financial management practices that are consistent with established audit standards.	5.6%	21.1%	21.1%	21.1%	31%	3.51	1.286
Proper financial documentation and reporting are maintained in compliance with audit requirements.	12.7%	15.5%	18.3%	26.8%	26.8%	3.39	1.368
Our internal audit practices align with the International Professional Practices Framework (IPPF) issued by the IIA.	23.9%	15.5%	18.3%	21.1%	21.1%	3.00	1.483
Adherence to IIA standards has enhanced the quality and reliability of internal audits in the factory.	21.1%	14.1%	28.2%	22.5%	14.1%	2.94	1.340
The factory promptly implements audit recommendations to improve financial operations.	14.1%	12.7%	19.7%	26.8%	26.8%	3.39	1.378
Follow-up mechanisms are in place to monitor the effectiveness of implemented audit recommendations.	15.5%	14.1%	18.3%	21.1%	31%	3.38	1.448
Overall						**3.27**	

The statement "Our factory adheres to financial management practices that are consistent with established audit standards" yielded a mean of 3.51 and a standard deviation of 1.286, with 31% of respondents strongly agreeing and 21.1% agreeing. This indicates that a significant portion of respondents believes that the factory generally adheres to established financial management practices in line with audit standards. However, the variation in responses suggests that there may be differences in how audit standards are perceived or applied across different tea factories. The importance of aligning financial management practices with audit standards has been emphasized by numerous studies, including those by CIMA (2012), who argue that consistent adherence to these practices ensures accountability and transparency in financial reporting.

For the statement "Proper financial documentation and reporting are maintained in compliance with audit requirements", the mean score was 3.39 with a standard deviation of 1.368. 26.8% of respondents agreed, and 26.8% strongly agreed, indicating that while financial documentation and reporting are generally maintained, there is still room for improvement. This finding supports the assertion by Messier et al. (2011), who state that maintaining accurate and compliant financial documentation is crucial for the reliability and transparency of financial statements. The relatively high percentage of neutral responses suggests that some respondents may not have a clear view of the documentation practices within their factories, possibly due to inconsistencies in implementation.

Regarding “Our internal audit practices align with the International Professional Practices Framework (IPPF) issued by the IIA”, the mean score was 3.00 with a standard deviation of 1.483, indicating a more neutral response from the respondents. 23.9% of respondents strongly disagreed, and 18.3% were neutral. This suggests that internal audit practices in some factories may not fully align with the IPPF standards. The IPPF provides a comprehensive framework for internal auditing, and its proper implementation is crucial for improving audit effectiveness (IIA, 2017). The lower level of agreement indicates the need for tea factories to invest in aligning their internal audit practices more closely with globally recognized auditing standards.

The statement “Adherence to IIA standards has enhanced the quality and reliability of internal audits in the factory” received a mean of 2.94 with a standard deviation of 1.340, with 22.5% agreeing and 21.1% strongly disagreeing. This result indicates that while some respondents perceive an improvement in audit quality due to adherence to IIA standards, a significant proportion feels that adherence to these standards has not led to a noticeable enhancement in audit reliability. This finding aligns with the research by Moorthy (2013), who suggests that while adherence to professional standards is beneficial, the real impact on audit quality depends on the depth of implementation and commitment to continuous improvement in auditing practices.

For the statement “The factory promptly implements audit recommendations to improve financial operations”, the mean was 3.39 with a standard deviation of 1.378, with 26.8% agreeing and 26.8% strongly agreeing. This suggests that while some factories promptly implement audit recommendations, others may face challenges in ensuring timely execution. The timely implementation of audit recommendations is crucial for improving financial operations and enhancing overall performance (Cohen & Sayag, 2010). The responses indicate that delays in implementing audit recommendations may still be a concern.

The statement “Follow-up mechanisms are in place to monitor the effectiveness of implemented audit recommendations” had a mean of 3.38 and a standard deviation of 1.448, with 31% strongly agreeing and 21.1% agreeing. This result shows that follow-up mechanisms are present in some factories, but the effectiveness of these mechanisms may vary. Follow-up is an essential component of the audit process, as it ensures that the recommendations are not only implemented but also evaluated for their impact (Brown, 2014). The varying responses suggest that some factories may lack effective follow-up systems to ensure the sustainability of improvements suggested by audits.

Internal audit staff independences

The findings related to internal audit staff independence in KTDA managed tea factories West of Rift are detailed in Table 4.

Table 4: Internal audit staff independences

Statement	SD	D	FA	A	SA	Mean	SD
Internal audit staff have unrestricted access to all financial and operational records during audits.	25.4%	18.3%	4.2%	11.3%	40.8%	3.24	1.711
The availability of accurate records enhances the auditors' ability to conduct objective reviews.	14.1%	12.7%	18.3%	19.7%	35.2%	3.49	1.443
Internal auditors report functionally to an independent audit committee or board, not to management.	14.1%	12.7%	26.8%	16.9%	29.6%	3.35	1.395
The current reporting structure promotes auditor objectivity and minimizes management interference.	18.3%	8.5%	15.5%	22.5%	35.2%	3.48	1.501
Internal auditors have the autonomy to determine the scope of their audit work without external interference.	12.7%	16.9%	11.3%	28.2%	31%	3.48	1.413
Management does not limit or influence the scope of internal audit assignments.	16.9%	9.9%	14.1%	18.3%	40.8%	3.56	1.519
Overall						**3.43**	**1.39**

The statement "Internal audit staff have unrestricted access to all financial and operational records during audits" recorded a mean score of 3.24 and a standard deviation of 1.711, with 40.8% of respondents strongly agreeing and 25.4% strongly disagreeing. This suggests that while a significant portion of respondents perceives unrestricted access to records as essential for audit independence, a notable proportion believes that such access is restricted or limited, potentially impacting the objectivity of the audits. The lack of unrestricted access can hinder the thoroughness of internal audits, as noted by Rittenberg et al. (2012), who argue that access to all relevant information is crucial for auditors to perform their duties effectively.

For the statement "The availability of accurate records enhances the auditors' ability to conduct objective reviews", the mean score was 3.49 with a standard deviation of 1.443, with 35.2% strongly agreeing and 14.1% strongly disagreeing. This finding supports the notion that the availability of accurate and complete records is essential for auditors to perform objective and reliable evaluations. Accurate records enable auditors to base their reviews on solid evidence, which in turn improves the quality of financial reporting (Beasley et al., 2000). However, the variation in responses suggests that some factories may face challenges in maintaining accurate or complete records.

Regarding the statement "Internal auditors report functionally to an independent audit committee or board, not to management", the mean score was 3.35 with a standard deviation of 1.395, with 29.6% strongly agreeing and 14.1% strongly disagreeing. This suggests that while a significant number of respondents believe that auditors report to an independent committee or board, some factories may still have reporting structures that involve management, which could compromise auditors' independence. The independence of the audit committee is critical in ensuring that auditors can perform their duties free from undue influence, as emphasized by the Institute of Internal Auditors (IIA, 2013).

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The statement “The current reporting structure promotes auditor objectivity and minimizes management interference” had a mean score of 3.48 with a standard deviation of 1.501, with 35.2% strongly agreeing and 18.3% strongly disagreeing. This indicates that the reporting structure in some factories is perceived as promoting auditor objectivity, but the significant number of respondents disagreeing suggests that management interference still occurs in certain instances. Auditor objectivity is essential for unbiased reporting, and any interference from management can undermine the audit process (KPMG, 2013).

For the statement “Internal auditors have the autonomy to determine the scope of their audit work without external interference”, the mean was 3.48 with a standard deviation of 1.413, with 31% strongly agreeing and 12.7% strongly disagreeing. This suggests that while many respondents feel that auditors have the necessary autonomy to determine the scope of their audits, there is still some disagreement. Autonomy in determining the scope of audits ensures that internal auditors can address the most relevant areas of risk and financial management (Sweeney & Pierce, 2004). However, the variation in responses suggests that some factories may not fully empower auditors in this regard.

The statement “Management does not limit or influence the scope of internal audit assignments” recorded a mean score of 3.56 with a standard deviation of 1.519, with 40.8% strongly agreeing and 16.9% strongly disagreeing. This indicates that a significant number of respondents believe that management does not restrict or influence the audit scope, which is crucial for maintaining audit independence. When auditors are free to set their own scope, they are better positioned to identify potential financial irregularities and issues that require attention (Sweeney & Pierce, 2004).

Financial performance

The financial performance of tea factories managed by the Kenya Tea Development Agency (KTDA) is detailed in Table 5.

Table 5: Financial performance of tea factories managed by KTDA

	SD	D	FA	A	SA	Mean	SD
The tea factory has consistently generated surplus over the past three years.	14.1%	14.1%	22.5%	28.2%	21.1%	3.28	1.333
The current surplus levels are adequate to support factory operations and development projects.	14.1%	16.9%	19.7%	32.4%	16.9%	3.21	1.308
The factory has maintained timely and competitive bonus payouts to farmers.	14.1%	23.9%	42.3%	2.8%	16.9%	2.85	1.226
Bonus payouts have increased as a result of improved financial performance.	14.1%	5.6%	25.4%	35.2%	19.7%	3.41	1.271
The factory effectively utilizes its assets to generate favorable returns.	23.9%	4.2%	22.5%	5.6%	43.7%	3.41	1.635
ROA has improved steadily due to strategic asset management and investment.	14.1%	14.1%	22.5%	5.6%	43.7%	3.51	1.511
Overall						**3.28**	

The statement "The tea factory has consistently generated surplus over the past three years" recorded a mean score of 3.28 and a standard deviation of 1.333, with 28.2% agreeing and 21.1% strongly agreeing. This indicates that, for the most part, respondents feel that the tea factories have generated consistent surpluses in recent years. However, there is still some variation, with a combined 28.2% disagreeing and strongly disagreeing. This suggests that, while the factories are generally performing well financially, some may have faced challenges in maintaining surplus levels, which is consistent with findings from studies like those of Ngugi (2017), who noted that many tea factories face fluctuating financial conditions due to market volatility and operational inefficiencies.

Regarding the statement "The current surplus levels are adequate to support factory operations and development projects," the mean score was 3.21 with a standard deviation of 1.308, and 32.4% agreed, while 16.9% strongly agreed. This suggests that, while the majority of respondents feel the surplus is adequate, a significant portion remains uncertain or dissatisfied with the current surplus levels. The adequacy of surplus is critical for sustaining operations and investing in future growth. This finding aligns with Okello and Mugisha (2020), who emphasize that a healthy surplus is vital for the long-term sustainability of agricultural processing factories.

The statement "The factory has maintained timely and competitive bonus payouts to farmers" had a mean score of 2.85 with a standard deviation of 1.226, with 42.3% neutral and 14.1% disagreeing. This indicates that while there is a perception that bonus payouts have been made, the timeliness and competitiveness of these payouts may not always meet expectations. It suggests room for improvement in aligning bonus payouts with financial performance and enhancing farmer satisfaction. This observation resonates with findings by Rukundo et al. (2018), who found that the alignment of factory profitability with bonus payouts is essential for ensuring the motivation and commitment of farmers.

For the statement "Bonus payouts have increased as a result of improved financial performance," the mean score was 3.41 with a standard deviation of 1.271, with 35.2% agreeing and 19.7% strongly agreeing. This indicates that many respondents believe bonus payouts have increased due to better financial performance. This finding reflects the link between financial success and the ability to reward stakeholders, as noted by Verhoef and Du Preez (2019), who argue that financial performance often directly impacts stakeholder benefits, including bonus payouts.

The statement "The factory effectively utilizes its assets to generate favorable returns" recorded a mean score of 3.41 with a standard deviation of 1.635, and 43.7% strongly agreed. This shows that the majority of respondents feel that asset utilization is being effectively managed. Efficient use of assets is crucial for generating returns and maintaining profitability, aligning with findings from the Institute of Management Accountants (2018), which emphasize the importance of optimizing asset use to achieve better financial outcomes.

Finally, the statement "ROA has improved steadily due to strategic asset management and investment" recorded a mean score of 3.51 with a standard deviation of 1.511, with 43.7% strongly agreeing. This indicates a high level of agreement that the strategic management of assets has contributed to an improvement in ROA, supporting the notion that sound investment decisions and asset management practices are integral to improving financial performance. The improvement in ROA due to strategic management aligns with the findings of Muriithi and Ngugi (2018), who observed that careful investment in both physical and financial assets plays a significant role in improving financial returns in agricultural factories.

Diagnostic Test

Correlation Results

Correlation results are presented in Table 6.

Table 6: Correlation Results

		APC	IC	ASC	IASI
APC: Auditor Professional competence	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	71			
IC: Internal Control	Pearson Correlation	.472**	1		
	Sig. (2-tailed)	.000			
	N	71	71		
ASC: Audit Standards Compliance	Pearson Correlation	.648**	.631**	1	
	Sig. (2-tailed)	.000	.000		
	N	71	71	71	
IASI: Internal Audit Staff Independence	Pearson Correlation	.620**	.505**	.673**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	71	71	71	71
Financial Performance	Pearson Correlation	.668**	.643**	.748**	.701**
	Sig. (2-tailed)	.000	.000	.000	.000
	N	71	71	71	71

Regression Analysis

The four hypotheses of this study were analyzed using regression analysis and a 95% level of the confidence interval was also employed to draw inferences. Composite findings for every variable were generated and these findings were utilized in regression analysis. Four hypotheses, which included auditor professional competence, internal control, audit standards compliance and internal audit staff independence were regressed on the financial performance of KTDA managed tea factories West of Rift.

Table 7: Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.830[a]	.688	.669	.74330	.688	36.410	4	66	.000

The model summary from the regression analysis is presented in Table 7. The model fit statistics reveal that the model has a strong explanatory power, with an R-value of 0.830, indicating a high level of correlation between the independent variables and the financial performance of tea factories. The R-square value of 0.688 suggests that approximately 68.8% of the variation in financial performance can be explained by the combined effect of auditor professional competence, internal control, audit standards compliance, and internal audit staff independence. This is a significant proportion of the variance, indicating that the model is well-suited for predicting financial performance in this context. The adjusted R-square value of 0.669 accounts for the degrees of freedom and confirms that the model still explains a large portion of the variability in financial performance after adjusting for the number of predictors used. This adjusted value suggests that the model remains robust, even when considering the complexity of the included variables.

The Analysis of Variance (ANOVA) table provides a deeper understanding of how well the regression model explains the variation in the financial performance of KTDA-managed tea factories. Table 8 presents the ANOVA results, which are used to test the overall significance of the regression model.

Table 8: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	80.465	4	20.116	36.410	.000[b]
Residual	36.464	66	.552		
Total	116.930	70			

The ANOVA results confirm the findings of the regression analysis, showing that the model explains a substantial portion of the variation in financial performance. The F-value of 36.410 and the Sig. value of 0.000 provide strong evidence that the independent variables—auditor professional competence, internal control, audit standards compliance, and internal audit staff independence—are significant predictors of financial performance. Therefore, these factors should be prioritized in efforts to enhance the financial outcomes of KTDA-managed tea factories in the West of Rift region.

These findings are consistent with prior research by Otieno et al. (2020), which highlighted the critical role of internal controls and audit practices in improving the financial health of agricultural processing enterprises. Similarly, Karanja (2019) emphasized that competent auditors and adherence to audit standards significantly contribute to the financial stability and growth of agricultural businesses.

Table 9: Regression Coefficients

	Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
(Constant)	1.038	.607		1.710	.092
Auditor professional competence	.250	.114	.210	2.192	.032
Internal control	.242	.095	.228	2.537	.014
Audit standards compliance	.340	.128	.296	2.666	.010
Internal audit staff independence	.277	.106	.258	2.604	.011

The regression model for the direct association that was estimated in Table 4.14 is shown below

$Y = 1.038+ 0.250X_1-0.242X_2 +.340X_3+.277X_4$

Test of Hypothesis One

H_{01}: There is no substantial effect of auditor professional competence on financial performance of KTDA managed tea factories West of Rift. The unstandardized coefficient for auditor professional competence is 0.250, meaning that for every unit increase in the professional competence of auditors, there is an expected 0.250 unit increase in the financial performance of tea factories. The standardized beta for this variable is 0.210, indicating that it has a moderate positive effect on financial performance, relative to the other variables in the model. The positive effect of auditor competence suggests that skilled and qualified auditors play a crucial role in enhancing the financial management practices of tea factories. Their ability to identify financial risks, evaluate performance against benchmarks, and ensure accurate reporting directly impacts the profitability and operational efficiency of the factory.

Previous studies have highlighted the importance of professional competence in audit practices. For instance, Omondi (2020) found that auditor competence significantly improves the quality of financial reporting and reduces the likelihood of financial mismanagement in organizations. Similarly, Mwaura (2021) showed that professional competence in auditors enhances the credibility of financial reports, which in turn boosts investor confidence and financial performance. However, Njiru (2019) noted that competence alone does not guarantee improved financial outcomes unless it is coupled with effective audit systems and strong management practices.

Test of Hypothesis Two

H_{02}: There is no substantial effect of internal control on financial performance of KTDA managed tea factories West of Rift. The unstandardized coefficient for internal control is 0.242, meaning that a one-unit increase in the effectiveness of internal control systems leads to a 0.242 unit increase in financial performance. The standardized beta of 0.228 indicates that internal control has a relatively moderate impact on financial performance. This finding indicates that effective internal control systems, which include clear procedures for detecting and preventing financial irregularities, directly influence the financial health of tea factories. Strong internal controls ensure that resources are used efficiently, reducing waste and enhancing profitability.

Studies have consistently supported the positive relationship between internal controls and financial performance. Karanja (2019) found that organizations with robust internal control systems are better positioned to mitigate financial risks, leading to improved performance. Similarly, Otieno (2020) emphasized that strong internal controls are essential in preventing fraud and financial mismanagement, both of which can undermine an organization's profitability. On the other hand, Wachira (2021) argued that while internal controls are necessary, their direct impact on financial performance may be limited if not supported by a strong organizational culture and leadership

Test of Hypothesis Three

H_{03}: There is no substantial effect of audit standards compliance on financial performance of KTDA managed tea factories West of Rift. The unstandardized coefficient for audit standards compliance is 0.340, suggesting that a one-unit increase in the adherence to audit standards results in a 0.340 unit increase in financial performance. The standardized beta is 0.296, indicating that compliance with audit standards has the most substantial positive effect on financial performance among the variables tested. The significant positive impact of audit standards compliance on financial performance suggests that factories that rigorously follow established audit standards—such as those set by the Institute of Internal Auditors (IIA)—tend to have better financial outcomes. Adherence to these standards ensures that audits are thorough, accurate, and reliable, which improves financial management and decision-making.

: Several studies have found a positive relationship between compliance with audit standards and financial performance. For example, Ochieng (2021) argued that strict adherence to international audit standards enhances the reliability of financial reports and reduces the risk of financial mismanagement. Similarly, Ngugi (2020) demonstrated that organizations that comply with audit standards experience higher levels of financial transparency, which fosters investor trust and long-term sustainability. However, Kibet (2019) cautioned that compliance with standards alone does not guarantee financial success unless it is accompanied by effective management practices and internal controls.

Test of Hypothesis Four

H04: There is no substantial effect of internal audit staff independences on financial performance of KTDA managed tea factories West of Rift. The unstandardized coefficient for internal audit staff independence is 0.277, meaning that for every unit increase in internal audit staff independence, financial performance increases by 0.277 units. The standardized beta is 0.258, indicating that internal audit staff independence has a significant positive effect on financial performance. This result indicates that internal auditors who are independent and free from management interference are more likely to perform objective and effective audits. Their autonomy allows them to identify issues and risks without bias, leading to better decision-making and improved financial performance.

Studies have shown that internal audit independence is crucial for ensuring the objectivity and effectiveness of audits. Ngugi and Otiende (2020) found that when internal auditors operate independently, they are more likely to identify inefficiencies and recommend corrective actions that enhance financial performance. Wambui (2020) also demonstrated that organizations with independent audit functions are more likely to maintain financial integrity and make decisions that positively impact profitability. However, Wambui and Kamau (2021) noted that while internal audit independence is essential, the actual impact on financial performance is contingent upon how well the organization implements the auditors' recommendations.

CONCLUSION AND RECOMMENDATIONS

The analysis revealed that auditor professional competence significantly contributes to the financial performance of KTDA managed tea factories West of Rift. Respondents generally agreed that auditors possess the necessary qualifications, and their ability to assess financial risks was recognized. However, there were some concerns about the implementation of auditor-driven recommendations. Despite this, the Pearson correlation and regression analysis confirmed a positive relationship between auditor professional competence and financial performance. This highlights the importance of skilled auditors in enhancing financial management practices, improving operational efficiency, and ultimately boosting the financial outcomes of the tea factories.

The internal control system in KTDA managed tea factories West of Rift was found to be inconsistent, with respondents expressing concerns about the clarity and implementation of control procedures. Despite these challenges, the analysis revealed a moderate positive relationship between internal control and financial performance. Pearson correlation and regression analysis confirmed that effective internal controls lead to improved financial outcomes. This suggests that strengthening internal control mechanisms will help minimize financial risks, enhance resource efficiency, and ultimately improve the financial performance of the tea factories.

Audit standards compliance was viewed positively, although there were some gaps in full adherence, particularly with regard to the International Professional Practices Framework. Pearson correlation and regression analysis confirmed a strong positive relationship between compliance with audit standards and financial performance. This indicates that factories that rigorously follow established audit standards tend to have better financial outcomes. The results emphasize that adherence to high-quality audit standards, which ensures accuracy in financial reporting and decision-making, is essential for improving the financial health of tea factories.

Internal audit staff in tea factories generally enjoyed a reasonable degree of independence, though concerns about management influence remained. The analysis indicated a strong positive relationship between internal audit staff independence and financial performance. Pearson correlation and regression analysis further supported the idea that the autonomy of internal auditors contributes to better financial decision-making and improved financial outcomes. The findings highlight the significance of allowing internal auditors the independence needed to conduct objective audits, which are crucial for maintaining financial integrity and enhancing the profitability of tea factories.

To enhance the financial performance of KTDA managed tea factories West of Rift, it is recommended that the management prioritize the recruitment and continuous professional development of skilled auditors. This can be achieved by providing training programs that focus on enhancing their ability to identify financial risks, assess financial performance effectively, and implement recommendations. Furthermore, tea factories should establish a robust performance evaluation system to ensure that auditors' assessments lead to actionable corrective measures. Regular audits, coupled with management's commitment to implementing recommendations, will further enhance the financial health of the factories.

To improve the financial performance of tea factories, it is essential that management strengthens internal control systems by clearly defining and consistently implementing control procedures. Establishing clear roles and responsibilities for all employees within the control framework will ensure that risks are detected and managed efficiently. Additionally, management should foster a culture of ethical values to enhance the effectiveness of internal controls. Regular training on internal controls for staff members, combined with periodic audits of the control systems, will ensure continuous improvement and greater financial stability for the factories.

To further improve financial performance, it is recommended that KTDA managed tea factories West of Rift fully align their internal audit practices with international standards, particularly the International Professional Practices Framework (IPPF). Management should prioritize ensuring that auditors receive training on these standards and that there is a clear policy in place for the full implementation of audit recommendations. Regular internal reviews of the audit processes can also help identify gaps in compliance, ensuring continuous improvement. Moreover, follow-up mechanisms should be established to ensure that recommendations are not only implemented but are also effectively contributing to improved financial outcomes.

To enhance the financial performance of tea factories, it is crucial that management maintains the independence of internal audit staff. This can be achieved by ensuring that internal auditors have unrestricted access to financial records and operate free from undue influence by management. Establishing a formal reporting structure that allows auditors to report directly to a board or an independent audit committee can also enhance their autonomy. Regular assessments of the independence of the audit function, along with the establishment of safeguards against potential conflicts of interest, will ensure that audits remain objective and contribute to better financial decision-making and outcomes.

Recommendations for Further Research

The research aimed to determine the effect of internal audit practices on financial performance of KTDA managed tea factories West of Rift, Kenya. Further studies should consider expanding the research scope to include KTDA-managed tea factories in the eastern region of the Rift Valley, Kenya. A comparison of internal audit practices and financial performance between the eastern and western regions could provide valuable insights into regional differences and best practices that can be applied across the entire KTDA network.

Future research could examine the role of corporate governance practices as a moderating variable in the relationship between internal audit practices and financial performance. Further studies should also explore other internal audit practices that may impact the financial performance of tea factories. These practices could include risk management procedures, fraud detection mechanisms, audit follow-up systems, and the use of technology in auditing processes. Additionally, future research could investigate the impact of external audits and external audit firms' involvement in financial performance.

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