

EFFECT OF STAFF ATTITUDE TOWARDS EXTERNAL AUDIT ON FINANCIAL PERFORMANCE OF COUNTY GOVERNMENT OF NAKURU, KENYA

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Abstract

The auditor general's findings and recommendations are aimed at improving the accountability of government institutions. The attitude of the staff is pivotal to this. The purpose of this study was to examine the effect of staff attitude towards external audit on the financial performance of the County Government of Nakuru, Kenya. The study aimed to determine whether a positive attitude towards external audit leads to improved financial performance, including improved revenue collection, effective utilization of public resources, and better management of public debts. A conceptual framework was developed to guide the study, which posited that staff attitude towards external audit influences financial performance through its effect on the adoption of external audit recommendations and the adoption of best practices. The study used a descriptive research design and a sample size of 80 respondents drawn from the finance department of the County Government of Nakuru. Structured questionnaires were used to collect data, and the data was analysed using descriptive statistics, correlational analysis and multiple linear regressions. The results of the study showed that there is a positive relationship between staff attitude towards external audit and financial performance in the County Government of Nakuru. The study also identified several factors that influence staff attitudes towards external audit, including the external audit's focus on mistakes, compliance with professional standards, objectivity, freedom from political interference, and the trustworthiness of audit reports. The study concluded that staff attitude towards external audit affects financial performance of county Government of Nakuru, Kenya. As a result the study recommends that by addressing staff attitudes towards external audit the can enhance financial performance.

Keywords: staff attitude, external audit financial performance of the County Government of Nakuru

Introduction

The staff attitude towards the external audit is a critical component on the financial performance of the devolved government units. Focusing on public sector in Saudi Arabia, Alzeban & Sawan (2013) examined the role of internal auditing in public sector. The study used a qualitative approach through conducting interviews. The study established that the management had negative attitudes towards audit activities and resulted to lack of support of auditing by management within public sector. In this regard, the study documented reasons for negative attitudes towards auditing in public sector as lack of information on the importance of the auditing, organization culture characterized by resistance to auditing and fear of lacking independence through auditing. Through the interviews, the study established that employees perceive auditors as police men only looking for mistakes. Other interviewees termed auditors as people searching for thieves. Due to the negative attitudes towards auditing, staff did not bother to implement auditing recommendations. While the study examines the influence of the

employee towards an audit process, the study was based on the internal audit within Saudi Arabia while the current study is based on external audit in county governments in Kenya.

Ariga & Gathogo (2016) sought to establish the effectiveness of internal audit in the County Government of Nakuru. The objective of the study was to identify the factors that influence the efficiency of the internal audit in the County. The study used descriptive research design and a sample size of 110 respondents drawn from finance department in the county government. To obtain its data, the study used structured questionnaires. The study used a point Likert scale whereby 1 represented strongly Disagree while 5 represented strongly agree. The study found out that there was minimal interference to auditing roles in the county by the influential politicians in the county. The study by Ariga & Gathogo (2017) examined the role of internal audit on the financial performance of county governments while the current study examines the influence of external audit on the financial performance of county governments.

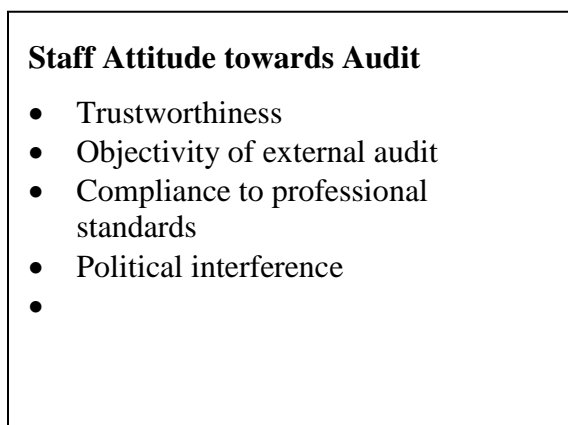
Objective of the Study

The study aimed to examine the effect of staff attitude towards external audit on the financial performance of the County Government of Nakuru, Kenya.

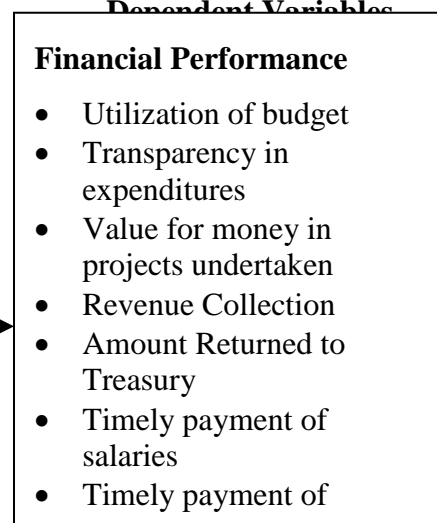
Conceptual Framework

The staff attitude towards audit were examined using different indicators including External auditors focusing on the mistakes done at the county government, external audit complies with professional standards of audit, external audit is undertaken in an objective manner, external audit outcomes being free from political interference, and external audits reports being presented to county government being trustworthy. The staff attitude towards external audit influences financial performance due its ability to influence the adoption of the external audit recommendations and the ability to adopt best practices.

Independent Variables



Dependent Variables



Research Methodology

This study adopted descriptive research design as the blueprint that guided all the methodological aspects of the study. Descriptive research design involves investigating a certain phenomenon on its natural setting without imposing control measures upon the phenomenon (Keller, 2014). In so doing, the study examined the effect of external auditing on financial performance of the county government of Nakuru. Using descriptive study, a researcher is able to obtain more information about a phenomenon under investigation and in an accurate manner (Saunders et al., 2009). This study desired to obtain more accurate information on external auditing and financial performance and hence the choice of the model. The study targeted all employees in the County Government of Nakuru who were involved in financial roles. These employees were targeted for they were knowledgeable on auditing aspects and financial performance in the county government. According to the County Government of Nakuru (2018), there are employees from finance and accounting department in the County government. Therefore the target population for this study was 80 people. This was composed of eight senior finance management staff, thirteen junior finance management staff, forty nine finance clerks and ten departmental heads from the ten departments in the county government of Nakuru. This study used the census approach where members of the entire population were used for data collection (Sekaran & Bougie, 2011).

Table 1: Target Population

Employee Category	Frequency
Senior Finance Management Staff	8
Junior Finance Management Staff	13
Finance Clerks	49
Departmental heads	10
Total	80

Data collection instruments refer to the study tools that are used to collect data for the study (Jankowicz, 2005). This study used a data collection instrument that provides privacy in responding to the study questions. It was also the interest of this study to use a research tool that could facilitate fast collection of data without necessarily having the researcher present at the time of data collection. In view of the outlined qualities, the study used structured questionnaires. Structured question provides a quick way of data collection since it contains possible answers to the closed ended questions in the questionnaire (Kombo & Tromp, 2009). A respondents can choose to respond to research questions at own time without the supervision of the researcher and this results in high response rate (Orodho & Kombo, 2002).

The filled questionnaires were checked to confirm whether or not they have been filled to completion. Only questionnaires filled to completion were used for analysis. The data from the

questionnaire was coded and entered in Statistical Package for Social Sciences (SPSS) version. The study used descriptive statistics and inferential statistics to analyse the data.

Results and Discussion

Descriptive statistics refers to the use of measures of central tendencies and dispersion to describe basic characteristics of data. For inferential statistics, the Fisher's exact test, Pearson Correlation, and a multiple linear regression were used to examine the relationship between external audits aspects and financial performance of County Government of Nakuru. A Fisher's exact test is a statistical test that assists researchers to determine whether there are non-random associations between two categorical variables (Jankowicz, 2005). The null hypothesis of the Fishers exact test states that there is no association between two classifications (Saunders et al., 2009). At a level of significance of 0.05, a p-value less than 0.05 leads to the rejection of the null hypotheses and the acceptance of the alternative hypothesis. The implication of this is that the two categorical variables in the test are not associated or related.

Staff Attitude towards External Audit and Financial Performance

The effect of staff attitude towards external audit on financial performance of County Government of Nakuru, Kenya was examined using the indicators of trustworthiness, objectivity of external audit, and compliance to professional standards. Respondents were asked to rate the extent to which they agreed with five statements based on these indicators and results displayed in Table 2.

Table 2: Frequencies, chi-square and p-value for Staff Attitude towards External Audit

	NE	SE	ME	LE	VLE	Chi-Square Value	P
	%	%	%	%	%		
External auditors do not only focus on the mistakes done at the county government.	1.4	14.1	23.9	50.7	9.9	25.193	0.000
The external audit complies with professional standards of audit.	4.2	11.3	19.7	62.0	2.8	26.882	0.000
The external audit in the county government is done in an objective manner.	0.0	15.5	32.4	45.1	7.0	24.470	0.000
The external audit outcomes are free from political interference.	5.6	7.0	36.6	49.3	1.4	24.617	0.000
The external audit reports presented to the county government are trustworthy.	2.8	9.9	29.6	52.1	5.6	28.189	0.000

About half of the respondents (50.7%) tended to agree to a large extent that external auditors focus on more than just the mistakes done at the county government. Other respondents who tended to agree to some extent on the same were 23.9% (Moderate Extent), 14.1% (Small Extent), and 9.9% (Very Large Extent). A few respondents however disagreed and indicated that external auditors only focus on the mistakes done at the county government (No Extent=1.4%). The study used the chi-square to establish whether each item used to measure the influence of the independent variables on the dependent variable was related to financial performance of the County Government of Nakuru, Kenya.

A majority of respondents (62.0%) tended to agree to a large extent that the external audit complies with professional standards of audit. In addition, 19.7% of the respondents tended to agree to a moderate extent, 11.3% to a small extent and 2.8% to a very large extent that the external audit complies with professional standards of audit. On the contrary, 4.2% of the respondents perceived that there was no extent of compliance with professional standards of audit by the external audit. Chi-square of 26.882 and a p-value of 0.000 ($p < 0.05$) revealed that there exists a relationship between external audit compliance with professional standards of audit and financial performance of the County Government of Nakuru, Kenya.

All respondents of the study tended to agree some extent that the external audit in the county government is done in an objective manner since there was no respondent who chose the “No Extent” prompt. A majority of respondents (45.1%) tended to agree to a large extent that the external audit in the county government is done in an objective manner followed by those who agreed to a moderate extent (32.4%), small extent (15.5%) and very large extent (7.0%). The results of the chi-square (Value of 24.470; $p < 0.05$) revealed that a relationship exists between the objectivity in conduct of the external audit and financial performance of the County Government of Nakuru, Kenya.

About half of the respondents (49.3%) tended to agree to a large extent that the external audit outcomes are free from political interference. Other respondents who indicated some extent of agreement on the same were 36.6% (Moderate Extent), 7.0% (Small Extent), and 1.4% (very Large Extent). However, 5.6% of the respondents tended to disagree and indicated that the external audit outcomes are not free from political interference. Similar findings were made by Ariga & Gathogo (2017) in an examination of the role of internal audit on the financial performance of county governments. The study found out that there was minimal interference to auditing roles in the county by the influential politicians in the county. Chi-square of 24.617 and p-value of 0.000 ($p < 0.05$) resulted in the finding that a relationship exists between political interference in external audit outcomes and financial performance of the County Government of Nakuru, Kenya.

In the context of trustworthiness, slightly more than half of the respondents (52.1%) tended to agree that the external audit reports presented to the county government are trustworthy. Other respondents tended to agree to a moderate extent (29.6%, small extent (9.9%), and very large extent (5.6%) that the external audit reports presented to the county government are trustworthy. On the other hand, 2.8% of the respondents tended to disagree (chose No Extent prompt) and

indicated that external audit reports presented to the county government are not trustworthy. The study found that exists a relationship between trustworthiness of external audit reports presented to the county government and financial performance of the County Government of Nakuru, Kenya (chi-square=28.189; p-value<0.05).

Correlation Analysis

To establish whether there was a significant relationship between the study variables, the study used Pearson Correlation. Pearson Correction measures the direction and strength of the relationship between two measured variables (Orodho & Kombo, 2002). In terms of direction, Pearson correction can either be positive or negative. A positive correction implies that the two variables are directly proportional and an increase in one of the variable would result into an increase of the second variable and vice versa. A negative relationship implies that the two variables are inversely proportional and that an increase in one of the study variables results into a decrease of the second variable and vice versa. In terms of strength of relationship, Pearson correction values ranges from -1 to +1 through zero. A Pearson correction value of -1 implies a perfect negative relationship while a Pearson correlation of +1 implies a perfect positive relationship. Correlation of zero implies that there is no relationship between the two variables. Correlation values in the range of $|0.1| \leq \rho < |4.0|$ implies a weak correction, values in the range of $|0.4| \leq \rho < |0.7|$ implies a moderate relationship and correction of values in the range of $|0.7| \leq \rho < |1.0|$ implies a strong correlation (Sekaran & Bougie, 2011). The associated p-value indicates the probability of rejecting the null hypothesis. A p-value of less than 0.05 (the set significance level) implies a violation of the null hypothesis while a p value of 0.05 and above indicates support to the null hypothesis. The Pearson Correlation null hypothesis states that there is no significant relationship between two measured variables (Jankowicz, 2005). Table 3 shows the correlation analysis of the study variables.

Table 3: Pearson Correlation

		Staff Attitude
Financial	Pearson Correlation	0.883*
Performance	Sig. (2-tailed)	.000
	N	71

The study established that staff attitude towards external audit had a strong positive correlation with financial performance of County Government of Nakuru due to a Pearson correlation coefficient of 0.883 which was significant at 5% significance level ($p < 0.05$). external audit outcomes was found to a strong positive relationship with financial performance of County Government of Nakuru ($r = 0.883$) and this relationship was found to be significant at 5% significance level ($p < 0.05$).

Regression Analysis

The study used multiple linear regression to establish the effect of staff attitude towards external audit, external Audit Outcomes, Audit Queries Closure and Enforcement Capacity external audit recommendations on the financial performance of County Government of Nakuru. Table 4 shows the model summary of the regression model.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.916 ^a	0.839	0.829	0.22250

a. Predictor: (Constant), Staff Attitude,

The model summary gives an R value of 0.916 and R-square value of 0.839. An adjusted R Square value of 0.829 and standard error of estimate of 0.22250 were also obtained. The R is the correction coefficient between the observed and predicted values of the dependent variable and it indicates the goodness of fit of the regression model to the data (Saunders, Lewis, & Thornhill, 2009). Therefore, there was a strong relationship between the observed and predicted values of the financial performance of County Government of Nakuru. This implies that the model provides a good fit for the data. R-Square is called the coefficient of determination and shows the proportion of variation in dependent variable that is attributable to the independent variables in the study (Keller, 2014). This therefore implies that 83.9% of the variation in the financial performance of County Government of Nakuru is cumulatively attributable to staff attitude towards external audit, external Audit Outcomes, Audit Queries Closure and Enforcement Capacity external audit recommendations. In this regard, 16.1% of the variation in the financial performance of County Government of Nakuru is attributable to other factors that were not studied by the current study.

Adjusted R-Squared shows the effect of adding more predictor variable into the regression equation. It gives the portion of variability in the dependent variable as explained by significant predictors only (Jankowicz, 2005). In this regression model, 82.9% of the variability in financial performance of County Government of Nakuru is attributable to staff attitude towards external audit, external Audit Outcomes, Audit Queries Closure and Enforcement Capacity external audit recommendations without the constant value which was found to be statistically insignificant ($p > 0.05$). Standard error of estimate shows the accuracy of the prediction model (Sekaran & Bougie, 2011). A low standard estimate of error of 0.22250 obtained in this regression model indicates that the multiple regression model is accurate in its prediction of financial performance of County Government of Nakuru. The study further sought to establish whether the regression model is significant predictor of the dependent variable as shown in Table 5.

Table 5: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.168	0.202		0.830	0.409
Staff Attitude	0.253	0.063	0.262	3.994	0.000

a. Dependent Variable: Financial Performance

The unstandardized beta coefficients show the extent in which the independent variables affect the dependent variable in the study (Saunders et al., 2009). Unstandardized beta coefficient of 0.253 was obtained in regard to Staff Attitude towards external audit, . This implies that a unit increase in positive staff attitudes towards external audit, financial performance of County Government of Nakuru increases by 0.253 units .

The study further established that a unit increase in audit queries closure would result into an increase in financial performance of County Government of Nakuru by 0.361 units with other factors held constant. A unit increase in enforcement capacity of external audit recommendations was found to cause 0.252 increase in financial performance of County Government of Nakuru when other factors were held constant. This influence was found to be statistically significant due to t-statistic values greater than the critical value and p-values less than the significance level of 0.05 chosen for this study. This was the basis for hypothesis testing.

Conclusion

The hypothesis of the study stated that there was no significant influence of staff attitude towards external audit on financial performance of County Government of Nakuru, Kenya. This hypothesis was rejected due to t-statistic value (3.994) being greater than the critical value and p-value less than 0.05. It was therefore concluded that there was a significant influence of staff attitude towards external audit on financial performance of County Government of Nakuru, Kenya.

The study therefore recommends that the county address the staff attitude by configuring; trustworthiness, Objectivity of external audit, Compliance to professional standards and Political interference

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