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Effectiveness of Internal Audits in Public Educational Institutions in Kenya: Rethinking Value

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ABSTRACT: *Internal auditing has become a factor of the new accountability and control era. The manner in which public sector entities maintain internal control and how they are held accountable has evolved to require more transparency and more accountability from these organizations that spend investor or taxpayer funds. This trend has significantly impacted how management implements, monitors, and reports on internal control. Although internal auditors can be a valuable advisory resource on internal control, the internal auditor should not be a substitute for a strong internal control system. A system of internal control is the primary response to risks. The role of internal auditing has evolved from an administrative procedure with a focus on compliance, to an important element of good governance. In many cases the existence of internal auditing is mandatory (intosaigov 9140).*

Governments have continued reducing the cost of education to households through the provision of teachers, teaching and learning materials and grants to schools to cover operational and maintenance expenses under the Free Primary education (FPE) and Free Day Secondary Education (FDSE) policy; capitation grants be allocated to learners in ECDE, primary, secondary, special needs education, adult education and not-for-profit non-formal schools that meet set criteria; that technical education be brought into mainstream education so that the students can benefit from mainstream financing and enhanced skills development. There is need for the diversification and institutionalization of university education funding sources to include government (grants, education bond and loans), private sector, development partners, scholarships, bursaries, financial institutions, income generating activities and philanthropy; encouragement of local, regional and international public private partnerships in financing education and for investment in teacher professional development.

As part of the strategy to modernize internal audit methodologies, the Internal Audit Department has been undertaking reforms within the context of Public Financial Management Reform (PFMR) programme. These reform initiatives aim at moving away from regularity and compliance audits and adapting more value adding audit techniques and include; shift from pre-auditing/transactions audit to systems audit, adoption of risk based audit approach and spearheading development of institutional risk management policy framework in the public sector, adoption of internal audit standards and best practices as promulgated by the Institute of Internal Auditors (IIA), enhancement of governance through establishment of audit & risk management committees, introduction of IT supported audits and roll out of audit management system, adoption of value for money audits.

The aim of the study was to investigate whether internal audits as currently carried out in public educational institutions added value to the institutions with the objectives being to understand the internal audit function as carried out in public financial institutions, analyze effectiveness of internal audit function, and finally determine whether the internal audit function is adding any value to public educational institutions.

The study adopted a hypothetico-deductive approach with triangulation of a survey and a case study as a research. Management, accountants and auditors of public primary schools, public secondary schools, public tertiary and vocational institutions and public universities in Kenya were sampled.

The study found that the majority of auditors were still using the traditional approach probably caused by their lack of full accountancy qualification and absence of membership in professional associations.

The study therefore concluded that the internal audit function as it is currently carried out in public educational institutions did not add value to the said institutions.

It was therefore recommended among others to institute a more formal and systemic training of internal auditors in order to enhance their proficiency and skills, have the relevant professional bodies compelled to regulate and institute quality measures in audit work of public educational institutions, management training courses to involve the function of internal audit and boardroom diversity enhanced not only to improve on the management function but also on the audit function.

Key words: *Internal Audit, Public Educational Institutions, Public Financial Management Reform, Value for Money Audit.*

I. Definition of Operating Terms

Access: The opportunity availed for one to attain education and training

Equity: Being fair and impartial in providing access to education and training to all

Free Primary Education: Refers to the waiver of all forms of contributions to education by the parents in the primary school level. The government shoulders the financing of education. This applies to the public schools only.

Free Secondary Education: Refers to the waiver of tuition fees by the government for secondary school level. The parents are expected to meet other requirements like lunch, transport and boarding fees for those in boarding schools, besides development projects.

II. Background of the Study

An educational institution is classified as public if it is controlled and managed directly by a public education authority or agency or it is controlled and managed either by a government agency directly or by a governing body, most whose members are appointed or elected by public franchise (OECD 2001). Public educational institutions normally receive funding from various sources like school fees paid by parents and other grants, either from the government or other donors. Such funds are aimed at improving educational standards in educational institutions; therefore their proper utilization is paramount. Public education expenditure includes government spending on educational institutions, educational administration and subsidies for private entities i.e. students, households, and other private entities.

III. Problem Statement

Kenya spends about 6.5 % of GDP or 20 percent of total central government spending on the education sector; which sums to Kes136.89 billion in 2008/9. Adding in education spending financed by development partners, CDF and LATF funds, and the total amount of spending was Kes 142.22 billion in 2008/9. Of this 4.1 % is financed by development partners (largely flowing through government systems) and 3.7 % is financed by devolved funds, the remainder is from central government sources. Half of central government education spending is on primary schooling, and a further 25 % is on secondary. About 12 % is transferred from the central budget to tertiary education to supplement the fee income raised at university level. The biggest rise in education spending in recent years has been at the secondary level. Public spending on education is predominantly on teachers and administrative staff salaries (66 % of all spending). Only 3.4 % of central government spending is on goods and services and 2.6 % on capital from 2006/7 to 2008/9. CDF and LATF funds supplement the resources for capital and operations and maintenance expenditures

In line these funding in public schools some government officials are corrupt and hence they mismanage or misallocation of funds that are allocated to them, (UNESCO, 2005). For instance, the sponsor's funds; this makes some children who are poor miss the opportune moments of schooling. Senior officials in the Ministry of Education, in Kenya have been accused of protecting corrupt headmasters and members of PTA (Parents Teacher Association) suspected of embezzling funds because they are also indirectly benefiting from incentives that are being paid by parents, disgruntled senior education officials have revealed, (UNESCO, 2005).

They allege that several internal audit reports as well as complaints by parents and teachers to the ministry against certain school heads and PTAs have been swept under the carpet. Many officials say the payment of incentives to teachers had resulted in an upsurge of fraud by school heads who are now exposed to huge amounts of money which they were not used to handling

Given the prevailing unfavorable economic conditions in developing countries, governments are unable to adequately finance the provision of education services (Riech, 2012). It is as a result of these that most arguments point at unethical auditors who end up not giving value to finances channeled to the education sector. In Kenya, public spending on education and training increased from Kes 92.6 billion in 2005/6 to Kes 160 billion in 2009/10 accounting for 28% of aggregate public expenditure in 2005/06 and 26% in 2009/10. These costs exclude off-budget expectations such as household spending on education and off budget financing by development parties and Non-Governmental Organizations.

(Odongo 1998) in his study realized that accounting control systems in education institutions was generally very weak implying poor financial management in schools. (Oduor, A 2012) in the East African Standard informed of a major audit of free education cash in all the public schools as it emerged that some head teachers could be involved in a syndicate to siphon funds meant for textbooks.

Finance and resource mobilization of education should be guided by the principles of affordability, needs-based resource allocation including capitation grants, efficiency in resource utilization, partnerships, strong decentralized financing and accountability systems and effective coordination.
The Minister of Education and Finance both confirmed fears that the Government may be funding ghost learners in public schools.

Omanga B, in The East African Standard of Wednesday August 2012 reported that auditing of government financial institutions in some parts of the country had been halted and a couple of senior auditors suspended.

It is against this backdrop that the study aims to investigate whether the internal audit function is performing its work well as well as adding any value to the educational institutions.

IV. AIM of the Study

The aim of the study was to investigate whether internal audit function as currently carried out in public educational institutions add value to these institutions.

V. Objectives of the Study

The objectives of the study was to

- understand the internal audit function as carried out in public educational institutions in Kenya
- analyze effectiveness of internal audit function and
- determine whether the internal audit function is adding any value to the public educational institutions

VI. Hypothesis of the Study

Internal Audit Function as currently practiced in public educational institutions in Kenya is not effective

VII. Justification of the Study

Several CEO's of educational institutions have been caught in the snare of embezzlement of funds. Periodic audits have been done on the schools' financial status, but this has not stopped the ever increasing cases of embezzlement. Funds coming into the schools as fee payment and grants are expected to be properly utilized for the intended purpose of improving standards in the educational institutions.

VIII. Literature Review

Funding In the Kenyan Education Sector

This presents an analysis on the funding of education in Kenya, covering early childhood development (ECD), primary, secondary, technical and vocational schooling and university education and adult education.

The provision of widely spread education and training opportunities has been a long-standing objective of the Government of Kenya (GoK). Since Independence, the Government has sought to address the challenges facing the education sector through a range of policy initiatives. A major focus has been the attainment of Universal Primary Education (UPE) and the key concerns of achieving greater access, participation, equity, quality and relevance. Over the last 30 years, the education sector has undergone major transformations with more than ten reviews by special commissions and working parties established by the Government. The increased public demand for education and training has stretched the Government budget, and in response partnerships have been intensified with parents and communities, individual investors, civil society and donors.
Financing of education has been a partnership between the government, parents, communities and the international community. The government has always been responsible for financing teacher salaries and offering limited development finance for specific projects in public schools. However, at university level government has continued to fund both the recurrent and development budgets of the public universities. Donors have been instrumental in funding capital projects. An analysis of government funding reveals that the education sector has over the years taken the largest proportion of the government budget.

Kenya spends about 6.5 % of GDP or 20 percent of total central government spending on the education sector; which sums to Ksh. 136.89 billion in 2008/9. Adding in education spending financed by development partners, CDF and LATF funds, and thetotal amount of spending was Kes 142.22 billion in 2008/9. Of this 4.1 % is financed by development partners (largely flowing through government systems) and 3.7 %t is financed by devolved funds, the remainder is from central government sources. Half of central government education spending is on primary schooling, and a further 25 % is on secondary. About 12 % is transferred from the central budget to tertiary education to supplement the fee income raised at university level. The biggest rise in education spending in recent years has been at the secondary level. Public spending on education is predominantly on teachers and administrative staff salaries (66 % of all spending). Only 3.4 % of central government spending is on goods and services and 2.6 % on capital from 2006/7 to 2008/9. CDF and LATF funds supplement the resources for capital and operations and maintenance expenditures.

The share of total government expenditure taken up by education for the years since 1990 has averaged 17.0 percent, although with considerable growth to more than one quarter during the present decade. Moreover, since the turn of the century, recurrent expenditure on education has accounted for about 35 percent of the overall annual government recurrent budget. This partly reflects the fact that Kenya's spending on education, both as a proportion of GDP and of total public spending, is well above both the global average and those of her immediate neighbors.

Focusing on the post 2003-period reveals the changing pattern of government expenditure on education associated with the recent changes in policy in the sector. Over these years, the SWAp's was established, the FPE policy was adopted in 2003, basic education was redefined as the first 12 years of schooling and tuition fee-waivers were introduced at secondary level. Higher education expanded significantly, and a dual track system of admission to public universities was adopted.

The share of education development funds in the total government development budget has varied, though not significantly. A notable aspect is the high proportion of the MoE development vote in the years 2000/01 to 2005/06. This followed from the introduction of FPE and spending to meet the MDGs by increasing system capacity. The FPE programme resulted in the highest development spending on education over the 16-year period, through the introduction of school improvement grants (SIGs). These entailed direct transfers to schools of a sum of Kes 200,000 for improving school buildings, furniture, and water and sanitation services.

The distribution of development expenditure among the different components of education has varied over the years. On average, university education has taken the largest share, but since the overall development vote has been low, this has not implied high allocations in absolute terms. The impact of FPE on the realignment of development funding is visible from the higher proportions of development spending allocated to primary education from 2003. As with recurrent funding, ECD, special education and technical education have received the least attention. The small share of special education arises from the fewer number of institutions, but that for ECD implies low priority, given that the number of ECD institutions in the country is larger than the number of primary schools.

The Kenyan government began providing textbooks in schools immediately after independence as one of the measures to support children from poor families. Under the Kenya School Equipment Scheme (KSES), Kes 20 per child were provided at the primary school level for the provision of learning materials. Increased enrolment in subsequent years, however, constrained the government's ability to fully meet the needs of schools and pupils. Subsequently, the cost-sharing programme shifted the entire burden of book provision to the parents, and KSES was abolished in 1989. However, the procurement and supply of textbooks to poor schools under an adjustment credit was re-introduced in the 1990/91 financial year. The importance of textbooks in the FPE programme is underscored by the fact that out of the FPE funds of Kes 1,020 per pupil, about two thirds (Kes 650 or 64%) is earmarked for the purchase of textbooks, supplementary readers and reference materials, among other items. But some background information is necessary to facilitate an understanding of the current policy context.

Following the policy realignment, in 1998, the government, with support from the Netherlands embassy, initiated the Direct Budget Support for Textbook Project (short-lived though it turned out to be). In the meantime, the government, with the support of DFID, initiated a programme under SPRED III project that had a textbook component. Under this project, some 1.6 million pupils in 5,387 schools spread over 28 districts and municipalities benefited at a cost of approximately Kes 1.2 billion. The Kenya government spent a similar amount in a matched funding arrangement. During the financial year 2000/1, MoE released Kes 260 million to schools to buy books.

According to the Free Secondary Education policy, the government was expected to meet the tuition fees of Kes 10,265 per student, while the parents were required to meet other requirements like lunch, transport and boarding fees for those in boarding schools, besides development projects. This was in line with the government commitment to ensure that regional special needs and gender disparities were addressed (Ohba, 2009). These efforts were a positive move towards the realization of the Millennium Development Goals (MDGs) and Education for All.

It is worth noting that this expansion in university education has happened without donor support. The largest programme for university education in Kenya was the Universities Investment Project (UIP), ending in 1993-94. Yet at that time, enrolments actually stagnated, mainly because universities were restricted to enrolling a maximum of 10,000 new students per year. This condition was part of the education sector adjustment credit (EdSAC) conditionalities attached by the World Bank to the UIP grant. Universities compensated for the lack of donor support by pursuing private income-generating programs that have proved useful in stabilizing the financial health of the institutions, facilitating completion of stalled projects, clearing pending bills and generally allowing investment in infrastructure and other projects that enhance the quality of teaching and learning.

Technical and Vocational Education

Technical and vocational education in Kenya is currently under the Ministry of Science and Technology. Like ECD, this has received far less government funding than other levels. As a result, most institutions have out-of-date equipment, a fact that has played a great role in the varying enrolment pattern. While there was an increase in enrolment between 2002/03 and 2003/04, there was a sharp contraction between 2004 and 2005 and, whilst picking up in 2006, still remaining below the 2003 enrolments. This sharp drop may be attributable to the expensive nature of TIVET especially in the national polytechnics, or to the abolishing of production courses in these institutions.

However, the inclusion of this sector as one of the investment programmes in the SWAp (Kenya Education Sector Support Project (KESSP), and therefore being in principle eligible for donor funding) may have played a role in rekindling interest - as did the diversification of courses offered in the institutions and the improved relevance of the same to the labor market, made possible by the reform program in 2003. The expansion of technical education in 2005/6 came with its inclusion in the SWAp, with donors becoming willing to fund TIVET. In this regard, the Italian government aided the expansion and upgrading of two of the national polytechnics - Mombasa and Kenya polytechnics - to offer degree programs as campuses of existing national universities. This initiative raised the profile of these institutions and enhanced their ability to attract students. The Italian government funding provided an example of the positive impact of donor funding on access expansion. Lack of enough qualified teachers/instructors, however, remains an impediment to expansion. Female student enrolment in TIVET comprises 41.1 % of total student enrolment. This is much higher than in public universities, where women constitute just about one-third of total enrolments. However, underlying this ostensibly better enrolment for women is their concentration in courses like secretarial studies, home economics, textile design and related subjects, where gender-stereotyping has strong influence.

The highest level of external support for university education was in 1991/1992, since when it declined. The diminished external support for higher education in the period after 2003 was associated with two principal factors. First, the increased revenues from Module II programmes, discussed above, meant that even with constant funding from the state and donors, their share would reduce. Second, the country adopted a sector wide approach (SWAp) approach, which initially excluded university education as a sub-sector for external support. The SWAp - Kenya Education Sector Support Programme (KESSP) – was established in 2005 following a major education conference in 2003 and the publication of a new sector policy paper (Sessional Paper No. 1 of 2005). The KESSP consists of 23 thematic areas in education, termed investment programs (IPs), which have to meet specific requirements before being eligible for donor funding from the pooled account. University education has remained one of the ineligible expenditure items for pooled funds (along with seven others) owing to there being no strategy for university development. A strategy has since been developed and it is expected that, following ratification by stakeholders, university education will be included in the eligible expenditure list from FY 2008/09.

International Aid to Kenyan Education

Kenya has had a long history of receiving international assistance for its education sector. At independence, the World Bank loaned the country a sum of Kenya Pounds (K£) 2.5 million (US$ 649,350) in order to implement one of the recommendations of the first Kenya Education Commission for the expansion of secondary schools over the 1965-76 period (Abagi, 1999). This was the genesis of donor assistance to Kenyan education which has continued to date.

These projects illustrate the importance of donor assistance to the Kenyan education sector. Donor programs have traditionally funded either special programs (such as those listed above) or capital projects. The impact of donor funding can therefore be judged from the perspective of the specific changes resulting from their implementation. As an example, the PRISM project funded by DFID has been lauded by some observers for the successful institution of school development planning in Kenyan primary schools. By the mid-2000s, all schools in the country developed these plans, which form the basis of funding from communities and, where applicable, from government sources, such as FPE funds. A second program that is believed to have resulted in significant change is the School-based Teacher Development (SbTD) programme, which was again funded by the British Government through DFID. This programme instituted school mentorship through the training of key resource teachers (KRTs) who in turn have provided continuous support to other teachers at the school level (OWN and Associates, 2002).

Whilst many donor-funded projects in the county have had notable impact, these two programmes are amongst the most recent, having had a direct impact on school administration and on teaching and learning processes. On the other hand, there have also been cases where funds for special programmes have been misused and the programmes have been suspended or scaled down. One notable such project is the Direct Budget Support for Textbook Project funded by the Dutch government. Aid was suspended by the donor agency because of glaring malpractices in its implementation. Substantial amounts of funding were thus held back, reducing the overall inflow of international assistance. The experience pointed to the dangers of depending on donor aid for specific projects, even though in this case, the concern was well-founded. Not only can aid be withdrawn at will, but it is also unpredictable as the recipient countries do not have total control on its disbursement. The universities investment project (UIP) was also attended by controversy, when it was discovered that the suppliers delivered reconditioned Tata buses from India, after colluding with some government officials, instead of the Isuzu brand that was specified in the tender. The situation was rectified when one senior university officer advised the other universities not to accept the buses. It can be simplistic therefore, to blame donor agencies for systemic ills when their best efforts in assisting countries are frustrated by graft. The suspension of aid arising from such concerns was not confined to the education sector. In the transport sector, the Kenya Urban Transport Infrastructure Project (KUTIP), heavily funded by the World Bank, was also terminated at about the same time due to similar, if not more grave, concerns.

The Free Primary Education (FPE) Programme and Resumption of Aid, 2003

The launching of the free primary education (FPE) programme, in January 2003 was a landmark policy decision by the new government. Seen by donors as a key step towards school fee abolition, it opened the door to new levels of donor support, and it has subsequently taken the bulk of government and donor development funding for education. The World Bank gave a grant of Kes 3.7 billion in June 2003 while the British government through DFID had earlier given a grant of Kes 1.6 billion to boost the programme (Aduda, 2003). Other donors include the Organisation of Oil Petroleum Exporting Countries (OPEC)

(Kes 1.2 billion), the government of Sweden (Kes 430 million) and UNICEF (Kes 250 million) (Daily Nation July 10 2003, p.5). Over time, the number of projects increased from nine in 2003/04 to 15 in 2006/07. External support to education in 2006/07 alone was equivalent to more than one third (35.3percent) of total external support to education for the entire period under review, totaling KES 5,053.05. The adoption of the SWAp in 2005 resulted in setting clearer priorities and the design of a framework for joint financing, including annual sector reviews and budget workshops, which set the stage for this huge increase in external support. An important change in the way funding was allocated was made under FPE, whereby the government decided to transfer funds to schools directly. This included donor funds for such programmes as the Instructional Materials (IM) and school-building grants. The process appears to have worked well: an audit of funds-utilization under the free primary education program (MoE, 2005) concluded that overall, the resources earmarked for this purpose - both from government and donors - do reach the schools.

Another area that has received little government funding is early childhood development. It has recently accounted for less than one percent of the total public budget for education. Donor support to the extent of Kes 300 million is much higher than total public budgetary provision to ECCE over the last two decades. External support to education has therefore played a very significant role in meeting the expenditure needs especially of the neglected sectors and sub-sectors. It may not account for a high proportion of the overall sector budget, but aid has often provided the only significant source of funding for specialized programs, such as NFE and ECCD, that receive little government attention. Although there are more than 20 agencies involved in supporting the sector, only DFID, World Bank, UNICEF and CIDA, have signed up to the JFA and, consequently, contribute to the pooled resources. Some of the non-pooling partners, including the United States Agency for International Development (USAID), are constrained by accountability requirements of their home governments which prevent them joining the JFA.

The bulk of aid funds are committed to the basic education sector, with only three projects targeting higher education consistently over the three years. The project with the heaviest funding in 2006/7 was SPRED at Kes 1,885 million. Instructional materials programmes building heavily on SPRED received generous funding, accounting for 51 percent of the entire grants to the sector in 2006/07 and more than one third (37.3%) of the total external support in the same year. Most of the other projects targeted infrastructure (with the exception of WFP projects, which focus on school health), thereby providing a good mix of external support to major items which underpin learning.

Embezzlement of Funds

Some government officials are corrupt and hence they mismanage or misallocation of funds that are allocated to them, (UNESCO, 2005). For instance, the sponsor's funds; this makes some children who are poor miss the opportune moments of schooling.

Senior officials in the Ministry of Education, in Kenya have been accused of protecting corrupt headmasters and members of PTA (Parents Teacher Association) suspected of embezzling funds because they are also indirectly benefiting from incentives that are being paid by parents, disgruntled senior education officials have revealed, (UNESCO, 2005).

They allege that several internal audit reports as well as complaints by parents and teachers to the ministry against certain school heads and PTAs have been swept under the carpet. Many officials say the payment of incentives to teachers had resulted in an upsurge of fraud by school heads who are now exposed to huge amounts of money which they were not used to handling

THE INTERNAL AUDIT FUNCTION

The traditional view of internal audit department is that it is numbers based retrospective and always looking back and emphasizes on finding faults. The present view is that the modern internal auditor is process oriented with systemic concerns i.e. "why are we doing this?" and "what is the standard?" His perspective is on the future i.e., "how can we do this better?" and he will evaluate, advice and assist i.e. "we are here to help"
Definition of internal auditing that was issued in 1999 says (Glenn 2001)

"An independent objective assurance and consulting activity designed to add value and improve organizations operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes"

IIA definition of internal audit therefore places emphasis on the value adding role of internal audit as an assurance and consulting activity. The key words here therefore are independence, objectivity, risk management activities, control and governance. Independence and objectivity are important for assurance activities whereas consulting activities are necessary for risk management, control and governance processes.

IX. Independence and Objectivity

Internal Audit and Independence and Objectivity

Auditor independence and objectivity are the cornerstones of the profession. The assurance services provided by the auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence of appearance. Prior research on auditor independence and objectivity has been undertaken predominantly in the context of external audit. However, in more recent years there has been a heightened interest in issues associated with independence and objectivity of internal audit (Stewart J and Subramanian N 2009).

The Institute of Internal Auditors (IIA) has issued a number of professional standards and guidelines with respect to independence and objectivity. The IIA has published "Independence and Objectivity: A Framework for Internal Auditors (IIA 2001) as a guide to managing threats to objectivity. The framework identifies seven key threats i.e., self-review, social pressure, economic interest, personal relationship, familiarity, cultural and cognitive biases. It also identifies a number of safeguards against these threats.
Today's internal auditors are much more than financial analysts. They provide assurance and consulting activities. They add value by helping to improve organizations operations and meet objectives. As the internal auditor's responsibilities grow, so does the demand for greater accountability, independence and objectivity (Mutchler et al, 2001).

The internal auditor is an employee of the organization but at the same time expected to review the activity of management and report any significant issues to the audit committee. Independence and objectivity are vital in ensuring that stake holders views audit work performed and the results are credible and unbiased which is the committee of the board. This may severely affect the auditors' independence and objectivity. Independence means freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats of objectivity must be managed at the individual auditor engagement functional and organizational levels (IIA)

Objectivity is an impartial, unbiased mental attitude and avoidance of conflict of interest, allowing internal auditors to perform engagements in such a manner that they have a honest belief in their work product and that no significant quality are made (IIA)

INTOSAI Govt, 9140, acknowledges that auditors operating in the public sectors operate in complex organizational structures. They contend that the manner in which public sector entities maintain internal control and how they are held accountable has evolved to require more transparency and more accountability from these organizations that spend investors or tax payers' funds.

Various models can be used to resource the internal audit activity which would then enhance objectivity and independence. The internal audit department can be performed in-house by employees who understand the operations and activities being undertaken. This function can also be co-sourced with the services being provided by in-house employees and service providers usually other audit firms. It could still further be provided by these external service providers but managed by in-house employees and finally and especially when funds have been provided by other un-regularsources could lead to full outsourcings.

X. Proficiency and Due Professional Care

Internal Audit and Proficiency

Modern auditing operates in a very dynamic and complex environment. Professional proficiency implies having up to date knowledge and abilities that are related to higher education, financial management, and government policies as well as accounting and auditing issues. Professional proficiency is achieved and enhanced throughformal education, on the job training, continuing education programs, professional certification and service to the profession. Professional proficiency can only be demonstrated through job performance (http://www.unc.edu/depts/intaudit/AuditMan/Professional%20Proficiency.htm).

Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. (IIA, 2007). The rationale is that internal auditors' experiences, knowledge and education are most valuable to management (http://www.ukessays.com/essays/accounting/internal-audit-proficiency-internal-controls.php).

Internal Audit and Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.Internal auditors must exercise due professional care by considering the extent of work needed to achieve the engagement's objectives, relative complexity, materiality, or significance of matters to which assurance procedures are applied, adequacy and effectiveness of governance, risk management and control processes, probability of significant errors, fraud, or non-compliance; and cost of assurance in relation to potential benefits (IIA 1220).

Quality Assurance and Improvement Programme

A Quality Assurance and Improvement Program assesseswhetherinternal audit function conforms with international auditing standards and guidelines and whether the internal auditors also apply professional code of ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

Every internal audit function needs a quality assurance programme to enable it provide the best possible services. The benefits associated with having quality assurance include consistent application of institution processes, standardization and completeness of documentation and reporting reliability. Quality assurance ensures that value added services are delivered to customers.

Quality assurance if well designed increases effectiveness of the audit work as well as enhancing reliability of internal audit reporting. Consistently used, internal audit is able to face new challenges arising from increasing audit work demands caused by for example globalization, information technology, preferential free trade areas, mergers, etc. Quality assurance will help the internal audit function to achieve these new roles by improving on their work output through continuous process improvement.

XI. Managing the Internal Audit Activity

Internal Audit and Control

INTOSAI Govt. 9100 defines internal control as an integral process that is effected by an entity's management and redesigned to address risks and provide reasonable assurance that the organization is executing orderly, ethical, economical, efficient and effective operations, it is fulfilling its accountability obligations and complying with applicable laws and regulations and eventually safeguard resources against loss, misuse and damage. It is a dynamic and integral process that is continually adapting to the changes that an organization is facing.

Effective internal control, no matter how well conceived and operated, can only provide reasonable but not absolute assurance. Effective internal control reduces the probability of not achieving objectives, but there will always be the risk that internal control will be poorly designed or fail to operate as intended.

Internal Audit and Risk Management

Recent corporate governance developments have raised the profile of risk management within organizations. While the prime responsibility for risk management lies with governors, directors and senior staff, internal auditors are also seen as key contributors as consultants and assurance providers on risk management and systems. In particular, the internal audit profession has become a key driver of the concept of Enterprise Risk Management defined by COSO (2004) as the "process affected by the entity's board of directors, management and other persons applied in strategy setting across the enterprise defined to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding achievement of the entity's objectives".

The IIA's international standard defines risk as "The possibility of an event occurring that will have an impact on the achievement of objectives". Risk is measured in terms of impact and likelihood. Risk management therefore is a structured, consistent and continuous process for identifying, assessing and mitigating on risk. Risk managers involve the evaluation of both opportunities and threats.

The IIA has also published "Risk Management Process: The Fundamentals" that summarizes the risk management process. Though as mentioned earlier the primary responsibility of the operation of a risk management process and establishment of procedures rests with the body charged with governance, every person within the organization has a role to play.

The Institute of Internal Auditors – Wales and Ireland in 2002 issued a position paper on "The Role of Internal Auditor in Risk Management" to provide guidance to members on the roles are permissible and the safeguards needed to protect the internal auditors independence and objectivity.

The internal auditor's core role identified with regard to risk management is to provide objective assurance that the major business risks are being managed appropriately. Research has shown that the two most important ways that internal audit provides value to the organization are providing objective assurance that the major business risks are being managed appropriately and providing assurance that the risk management and internal control framework is operating effectively (IIA and Delloitte and Touche 2003).

In summary the role of the internal audit will normally be to provide assurance in the design and how well the risk management processes are working, management of risks and reliable and appropriate assessment of risks and the subsequent risk reporting.

The internal auditor could also offer a consultancy role including providing advice, facilitating training programmes on risk management, development of common terms in a risk framework, supporting management on the best way to identify, analyze, and mitigate risk in so far as these consulting roles do not compromise the auditor's objectivity and independence.

Charter and Structure

The internal audit charter is a formal document that defines the internal auditor's activity, purpose, authority and responsibility. The purpose of this charter as mentioned is to set out the nature, role, responsibility, status and authority of the internal audit department and to outline the scope of their work. The charter also establishes the internal audit function's position within the organization, authorizes access to records, personnel, and physical properties relevant to the performance of engagements in addition to defining the scope of the audit work.

Apart from defining the scope of the audit work, the internal audit charter also defines the authority of the internal audit function, the responsibility of the department plus the standards of audit practice that will be applicable in the conduct of the audit work.

XII. Governance

Internal Audit and Governance

Governance is the domain of internal audit. The internal audit activity must assess and make appropriate recommendations for improving the governance process by coordinating the activities of and communicating information among the board, external and internal audit and management, ensuring effective organization performance management and accountability, communicating risk and control information to appropriate areas of the organization and promoting appropriate ethics and values within the organization (East African Standard 2010).

In assessing if the internal audit function would add value to an organization, it is important to check if the internal auditor is strategically positioned to contribute to business performance especially in terms of its missions and objectives, structure and funding. Do they use the appropriate processes which are proactive and not reactive? This would involve use of IT, planning methodology, etc. The internal auditor must also have professionally qualified staff

Recent events have highlighted the critical role of board of directors in promoting good cooperate governance. Boards are being charged with ultimate responsibility for effectiveness of their organizations internal control systems. They further highlight that an effective internal audit function plays a key role in assisting the governing body to discharge its governance responsibilities (KPMG, 2003).

Internal audit through the audit committee are now also expected to address the following key areas i.e. fair, balanced and understandable annual reports, greater disclosure of audit committee activities- internal audit being among them and board room diversity (KPMG 2012).

They further assert that fair balanced and understandable means giving appropriate weight to good news as well as bad news, describing strategy and risk according to the auditors understanding, whether the disclosed risks are genuinely the principal risks, a report on the link between the business model strategy, risk and performance and important messages on policies and transactions. In assessing board room diversity, there should be published the boardroom policy on board room diversity and report prepared annually. There also should be full disclosure of the audit committee activities of which internal audit is part.

XIII. Research Methodology

The study adopted a hypothetico-deductive approach with triangulation of a survey and a case study. Qualitative datawas collected in this study in order to provide both descriptive and interactive forms of empirical evidence.

Our first studies were explanatory in nature and found and confirmed that there was a relationship between internal audit and value addition.

For the purpose of our study we adopted a multiple case design with a single unit of analysis per case. This involved the management of the institutions, the accountants in charge of finance in the institutions, and the auditors of the institutions. The multiple cases allowed the researchers to collect more factors that could contribute to effectiveness of internal audit. It also gave a wider variety of factors. In any case evidence from multiple case studies shows higher data reliability than evidence from one study and this makes the study to be more robust and reliable than the case of a single case design. Interviews were also used as a source of evidence. This study also utilized ex post facto analysis which involved examination of relevant documents to the study.

The study sampling frame was from public educational institutions registered under the relevant Acts of Parliament under the GOK. Samples were from 3 public primary schools, 3 public secondary schools, 3 tertiary and vocational institutions and 1public university.

XIV. Findings

This study was to look at whether the internal audit function in public educational institutions added any value to those institutions. Value addition was presumed to include independence and objectivity in performance of work, proficiency of the auditor and due professional care, quality assurance and improvement programs, how the internal audit activity was managed, whether the internal audit had a charter and structure, governance issues of internal audit and finally how they themselves rated their own performance.

The internal audit function in the public educational institutions in Kenya is mainly carried out by auditors from the ministry in charge of education and in special cases auditors from other government ministries, regulatory bodies and the donor community. The larger institutions were able to in addition to using ministry auditors were also able to employ their own internal auditors.

The study found out that majority of auditors was(8 out of 10) partially qualified and were not members of a professional organization. The institutions audited on average were large, most of them having budgeted revenue above 10 million. All the auditors sampled reported to the CEO on behalf of the governing body. The internal audit function was understaffed in all institutions sampled.

All the auditors interviewed expressed lack of independence as their main link to the governing bodies was the CEO. There was also the aspect of the accounts being sent to the ministry headquarters for approval which took a lot of time before being sent back to the institution, mostly well into the next financial year thereby affecting the implementation of the audit recommendations. Transfers of auditors to other stations also affected the work being done in these institutions.

There were also instances where the schools CEOs were promoted to be senior officials in the ministry concerned with the running of the public institutions thereby becoming superior officers to the auditors. Auditors had a phobia for this and tended to deal with such senior CEOs cautiously thereby affecting the objectivity and independence of their work.

It was noted that the internal auditors tended to concentrate on financial statements and did very little if any of consulting engagements. Some of these internal auditors were even part of the management decision making process as evidenced by their presence on various institution management committees. This was ostensibly to enable then to clean the financial statements before the year ended.

Most of the auditors personally thought they had the knowledge and skills requisite to perform their work effectively and efficiently. However majority of them neither did not have full professional qualifications nor were members of a professional body. There also existed no formal process for enhancement of their knowledge or skills and those who upgraded their skills did it through personal initiative.

On the important aspect of quality assurance and improvement programs, the internal auditors seemed not to receive any useful feedback from management of the institutions concerning their work as they mostly looked at financial statements. The emphasis was on whether the financial statements were balancing. The work of the internal auditor was not adequately supervised as the management function of the institution had no clear idea of what work they do. Therefore the auditors were more or less self-regulating. It was also noted that none of the auditors sampled had auditing standards and guidelines in their offices.

On managing the internal audit activity, very few of the internal auditors adopted a risk based approach. They also all had resource limitations especially in the area of information systems. It is also important to note that all internal auditors interviewed had adequate understanding of the institutions business, risk environment, and control framework as opposes to strong understanding or weak understanding.

Though the internal auditors had documented roles and responsibilities, there was no existence of an audit charter. The expectations of management of the internal audit function was not clear as was the scope of work which was basically limited to financial statements audit and in some cases involvement in the preparation of the financial statements. In the larger, tertiary institutions, there were challenges faced in accessing information.

The internal auditor's terms of reference seemed to be constant despite the changing environment. The documented terms of reference did not also address the institutions future needs. The internal audit department was therefore not strong in enhancing its objectivity and understanding of the institutions issues and the ability to respond to changing needs.

In relation to governance, financial statements were not always presented to the main stakeholders. The auditors were strong on fair, balanced and understandable annual reports and adequate disclosure and weak on boardroom diversity.

On their opinion on how they possibly added value, there was a consensus on reduction of incidences of fraud and errors, improvement of control procedures and enhancement of accountability and responsibility.

XV. Conclusions

As was noted earlier, internal audit is moving away from the traditional view of being retrospective, always looking back and finding faults to a more modern approach which is process oriented with systemic concerns i.e. 'why are we doing this?', 'what is the standard?' and 'how can we do this better?'

It was noted that due to the governance structure of schools, most of the auditors reported to CEO as there did not exist a specific committee detailed to look at audit issues. This had an effect on objectivity and independence.

As a number of auditors still practiced the traditional approach to internal audit, they had no idea as to what consulting engagements were. This affected the objectivity of their work. Due to this approach, their work was not understood hence finding them sitting on management committees which then actually compromise their own independence and objectivity.

The aspect of sending the accounts to the ministry headquarters for approval is also a serious impairment to the objectivity and independence of the internal audit function. The auditors especially in the secondary and primary schools sat on governing committees that discussed the accounts which had not been approved and where they had been approved, it was well into the following financial year, in some instances years later meaning that then they served no useful purpose and no follow up was possible.

There was the issue of CEOs being promoted to the ministry headquarters thereby turning to be superior officers to the auditor i.e. a classical case of the 'hunter becoming the hunted.' This had a twofold effect in affecting the independence and objectivity of the internal auditor. On the one hand, the auditors in institutions that had CEOs ranked highly in the governments structures and who stand a high chance of being promoted to the ministry headquarters were treated differently thus affecting the independence and objectivity of the auditor and secondly, in instances where the CEO turned to be superior officers, not only was this a discouragement to the auditor but also affected future performance of his work.

On the issue of the internal audit function sitting in the various management committees within the institution is definitely impairment to the independence and objectivity of the internal audit function.

Though the auditors personally thought they had the requisite knowledge and skills to perform their responsibilities, their being partially qualified and absence of membership to a professional organization hindered their ability to effectively carry out their work. Evidence of auditors sitting on operational committees was evidence of lack of understanding of the internal audit function. Though a number of auditors made a personal initiative to improve on their proficiency, in order to enhance this, there is need to have a formal institutional or systemic approach to the improvement of the proficiency of the auditor.

Due to lack of the understanding of the role and function of the internal audit by both the internal audit and management, there was therefore no documented quality assurance and documented programme in place in the educational institutions. The internal audit work plans were financial statement centered. The lack of internal audit function coupled with the absence of committees specifically dealing with audit work, meant that there were no quality procedures in place.

The absence of audit standards and guidelines coupled with absence of best practice procedures resulted in the compromise of the audit work.

The internal audit activity was not well managed in these institutions. There were resource limitations affecting the work of the auditor. The internal audit function by adopting the traditional approach, just had a working knowledge of the business of the institution, and in most tertiary institutions operations were quite complex, meant that working knowledge was not enough. It was necessary to have thorough knowledge of the institutions operations.

The internal audit function also displayed working knowledge of the institutions risk environment and control framework. These areas also require a high level of knowledge for there to be value addition.

The absence of a charter meant the absence of a strategic audit plan. As a result the documented roles and responsibilities were not dynamic and hence could nod address affectively the independence and objectivity of the auditor, long term proficiency plans, quality plans and hence the effectiveness of the work being carried out. The absence of the charter reduced the internal audit function to a 'fire-fighting role.'

It is also important to note that the absence of a reporting structure that includes major stakeholders, compromises the work of the internal auditor. Organizations exist to serve stakeholders needs. The internal audit functions must likewise address the stakeholders' expectations. This can be achieved by providing the stakeholders with not only reports of the internal audit function activities, but also reports on significant activities of the institution.

Board room diversity is also an area that needs to be addressed as the governing body must have requisite knowledge of the internal audit function. It was not mandatory for all the board members to have this knowledge.

In conclusion therefore, though the internal audit function reduced instances of fraud and error, improved control procedures, and enhanced accountability and responsibility, there was no significant improvement in value to the institutions in which they were placed. Shrewd management activities could still have achieved the same result.

XVI. Recommendations

Due to the fact that the study has concluded that the internal audit function has not added any significant value to the institutions in which they are placed, the following recommendations were made:

The institutions should put in place formal training programs that not only will enhance the proficiency of the internal auditors but will also equip them with specialized skills necessary to enable them to perform their work effectively.

The government, being the provider of the funds should introduce systemic approaches to enable the internal audit function to improve on their proficiency and due professional care.

The relevant professional bodies should also be compelled by the government, even possibly through an act of parliament to regulate and institute quality measures given the significance and the amount of public funds passing through these public educational institutions.

The institution should also include in its management training courses, functions of the internal audit functions and expectations of management in relation to internal audit function.

Boardroom diversity should be enhanced in order to manage and control the internal audit function. The governing body should also find ways in which more stakeholder participation could be enhanced thereby increasing the value of internal audit reporting.

It will also be necessary to delink the internal audit function from the ministry function to prevent instances where the auditee becomes a superior officer of the auditor via promotion.

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ACRONYMS

ASE	Affordable Secondary Education
ASAL	Arid and Semi-Arid Lands
CDF	Constituency Development Fund
CEO	County Education Officer
CHE	Commission for Higher Education
CIDA	Canadian International Development Agency
COSO	Committee of Sponsoring Organizations
DFID	Department for International Development
ECD	Early Childhood Development
ERM	Enterprise Risk Management
FPE	Free Primary Education
GDP	Gross Domestic Product
GOK	Government of Kenya
IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
JICA	Japan International Cooperation Agency
Kes	Kenya Shillings
KSES	Kenya School Equipment Scheme
KIE	Kenya Institute of Education
LATF	Local Authority Transfer Fund
MDGs	Millennium Development Goals
MoE	Ministry of Education
MoEST	Ministry of Education, Science and Technology
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PTA	Parents Teachers Association
SbTD	School-based Teacher Development
SWAp	Sector Wide Approach
TIVET	Technical, Industrial and Vocational Education and Training
UNICEF	United Nations' Children's Fund
UoN	University of Nairobi
UPE	Universal Primary Education