Intervening Effect of Internal Audit on the Relationship between Governance and Performance of National Government-Constituencies Development Funds in Kenya

Charles Thomas Keya,PhD Candidate
Prof. Josiah Aduda
Dr. Winnie Nyamute
Department of Finance and Accounting
School of Business
University of Nairobi, Kenya

Prof. Ganesh Pokhariyal
Department of Applied and Industrial Mathematics
School of Mathematics
University of Nairobi, Kenya

Abstract

The objective of the study was to determine the intervening effect of internal audit on the relationship between governance and performance of National Government Constituencies Development Funds (NG-CDFs) in Kenya. The study was anchored on Agency theory. A census survey was carried out on the performance of all the 290 NG-CDFs in Kenya. A positivistic research philosophy and a descriptive cross-sectional survey design were used. Data collected using structured questionnaires was collated, cleaned, sorted, edited, analyzed and interpreted based on descriptive statistics, simple, stepwise and multiple regression analysis. The questionnaire was administered through a drop and pick method to all the 290 NG-CDFs out of which 185 filled and returned the questionnaires whichpresents a 66.07% response rate. Secondary data was easily accessible from the National Treasury, Kenya National Bureau of Statistics, the Auditor General's reports and NG-CDF website which was collected for the period 2014 to 2018. The objective had corresponding hypothesis which was stated and tested at 95 percent confidence level. It was established that internal audit as an intervening variable has statistically significant effect on the relationship between governance and performance of NG-CDFs. The study benefits policy makers in the sense that the NG-CDF board should ensure that all NG-CDFs have homogeneous governance practices and adhere to internal audit mechanisms which ensure performance in the NG-CDFs. Managers in NG-CDFs may consider strengthening governance interaction and combine with internal audit variable of the study to enhance performance. The NG-CDFs management may also apply DEA technique to measure the performance. In addition, future studies need to use similar variables in the other funds such as youth fund, women fund among others.

Keywords: Internal Audit, Governance and Performance of NG-CDFS

1.0 Introduction

The performance of most NG-CDFs has been poor and the intervening role of internal audit on the relationship between governance and NG-CDFs performance has been lacking. From empirical evidence, governance influences organizational performance. However, governance alone cannot satisfactorily account for organizational performance. It needs internal audit to intervene the relationship between governance and organizational performance. Internal audit is an autonomous, neutral, guarantee and consulting action tailor-made to accelerate worth and upgrade an organization's activities and assists it to attain its goals by installing formal techniques and strategies to explore and modernize the efficiency of risk management, control and upgrade practices of governance (Ndimitu et al., 2018). According to the researcher of the study, internal audit is part of internal structure that the organization's management puts in place which must be independent, objective, consultative in nature that provides assurance services to the entity, adds value, and ensure that the organization has complied with the rules, regulations and laws that affect it and improve organizations operations leading to enhanced performance.

An efficient internal audit is its ability to identify, recognize and oversee important risk, ensure installment of functional internal control procedures, reliable measures for response on risks management and assurance and objective confirmation from the entity that information is dependable (Unegbu & Kida 2011).Further, an effective internal audit function plays a key role in assisting governance to identify fraud and mitigate risks.

Al-Shammari(2010) asserts that one of the functions of internal audit is to safeguard organizational resources against manipulation and fraud and assist the mitigation of key risks that threatens organization for instant, ensuring that engagements are performed more effectively and efficiently, that all organizational risks are addressed and ensure optimal use of the organization's scarce resources. As such the effect of internal audit on governance is that it supports the monitoring and oversight functions filled by management, the board and external auditors by providing independent, objective assurance over strategic operational aspects of corporate governance such as the systems of internal controls which lead to improved governance resulting to enhanced performance (Ahmad, 2018).

Internal Audit offers management consultancy services because of its competency in understanding of the entity's strategic peril reduction risk skills. Consulting role of internal audit provides consultant services that may cover identification and management of risks, advice for financial reporting, monitoring and aligning internal controls to the internal process of the company (Mihret & Grant, 2017).

Internal audit ensures that the entity complies with the authority's laws which enhance confidence of the leadership to navigate risks and venture into new opportunities (Ndimitu et al., 2018). Provision of assurance by internal audit on performance of control systems, procedures and assessment on the efficient utilization of organizational resources enhances effectiveness and efficiency in governance. Internal Audit assists the Board of an organization discharge its corporate governance responsibilities (Al-Shammari, 2010)

Further, internal audit reviews budget and budgetary controls, strategic plans in order to assure the management on compliance with all regulations and also assures the organization that its risk management policy was good (Koutoupis et al., 2018).

Internal audit was operationalized in NG-CDFs to include, consultative/risk assessment compliance, assurance, objective and independent. Risk management promotes NG-CDFs' output and therefore, they should carry out periodical risk management for them to ascertain their effectiveness in practice (Ndimitu et al, 2018). Further, compliance with laws and regulations is critical to all NG-CDFs in Kenya for them to be successful in providing education and security services. Compliance involves testing and reporting on whether an organization has complied with the requirement of various laws, regulations and agreements. For example, NG-CDFs must ensure that in the construction of classrooms, dormitories, laboratories and administration blockscompliance with the ministry of education safety standards such as inclusivity, escape exit in case of fire outbreak or terrorist attack and so on is adhered to so as to minimize causalities in case of an accident. As such, internal audit's goal is to enhance compliance with policies and pillars of governance. Therefore, it is important for NG-CDFs to comply with the rules and regulation as outlined by NG-CDF Act of 2016 for enhanced performance.

According to Keya et al., (2020) governance is a technique comprising of a set of regulations and laws, responsibilities and practices which guide and provide strategic direction to assure risks are managed; objectives are attained and resources have been used responsibly and there is transparency, disclosure, installation of structuresin an organization and accountability to enhance performance. Further, governance are policies, laws and regulations that direct the way an organization is managed and controlled resulting to transparency as well as objectivity in the relationship between the entity and the owners that contain both internal and external contracts between employees and the owners that enhance harmony for improved performance (Ondigo,2019).

Indicators of governance used by the researcher are organizational structures, transparency and disclosures. Organizational structures are the frameworks and pillars for practicing corporate governance (Semmar, 2012). They are the mechanisms for decisions making that are not clearly particular in initial contract between managers and owners (Formentini & Taticchi, 2016). Transparency is essentially about the availability of information for all the players such as agents, owners, firm and other partnersabout the firm's methods of corporate governance, its operational as well as financial performance(Hebb, 2006). On the other hand, disclosure is the openness in the organisation's conduct of its business activities (OECD, 2004)

McCann (2004) asserts that organizational performance relates to the efficiency and effectiveness of the business in converting inputs into outputs. Good organizational design leads to good organizational performance. Performance is important as a dependent end-result-of-design variable and change-initiating independent variable. Organizational performance may be measured by various methods that consider cost of operations and the benefits arising there from. The specific methods are cost effective analysis, and the Data Envelopment Analysis (DEA) as suggested by Tavana et al. (2016). DEA technique is mostly vigorous than the other techniques given the fact that it measures performance considering several inputs and output variables (Kimanziet al., 2018). DEA model is a non-parametric method which evaluates performance of Decision Making Units (DMU) as per ratios that utilize several inputs to generate numerous output (Emrouznejad et al., 2010). Performance of NG-CDFs in Kenya is measured using DEA model based on consumer rights and standards requirements by the Constitution of Kenya (GoK, 2010).

In the research, DEA Model inputs were: budget allocations, projects approved, operational costs incurred and employee remunerations. The outputs were projects completed, projects efficiency, employee efficiency and operational efficiency. Customer satisfaction in NG-CDFs is achieved through the fulfillment of the output that reflects the provision of quality education and security services to the citizens. Education and security quality services are measured for example by the number of projects constructed complying with the ministry of Education guidelines, ministry of Public works and reduction in crimes. Performance of NG-CDFs is computed to reflect efficiency in terms of the output- input ratio.

The origin of NG-CDF can be traced to the CDF Act (2003) and revised in 2013, 2015 and 2016. Through the Act 2016 of parliament its name changed from CDF to NG-CDF to signal that it is managed by the central government. The NG-CDF through the 290 NG-CDFs is meant to provide resources for infrastructure and economic development in constituencies through a bottom-up approach. Constituencies identify projects that require government funding and make proposals for financial support. The projects shall be in respect of national government functions that cover education and security. NG-CDFs has made a difference in grassroots development. Schools and police institutions have been established through it. However, NG-CDF has recorded high level of wastefulness.Huge sums of money have been misused, misdirected, and misapplied and in the end tax payers never got value. Money was spent on non-viable projects or plainly stolen or misappropriated (Auditor General, 2018).There have been several cases of wastage of the NG-CDF money through malpractices in the tendering process which has lead to stalled, abandoned and quality issues being raised for the on-going and completed projects (Muli et al., 2016).These unacceptable performances of NG-CDFs have been attributed to widespread corruption and poor governance which results from dismal adherence to internal audit and governance guidelines (Okungu, 2008).Members of parliament, who ought to oversee cash utilization, tend to deploy the money with political goals in mind. They either spend it in areas where they have strong support at the exclusion of other areas or devote to activities that give short-term populist results but they are hardly sustainable.

Accounting frauds which include Enron, WorldCom, Global Crossing and Tyco in the USA as well as Vivendi, Parmalat scandals have shaken investors' confidence to the core and called into question the honesty and integrity among Corporate Boards and Executive management (Keya et al., 2020). The ineffectiveness of the board, corruption, lack of transparency and accountability are all part of this situation (Shamshuddin & Bharathii, 2014) which the Sarbanes Oxley Act of 2002, strived to address. Many state funds in Kenya such as National Social Security Fund (NSSF), National Hospital Insurance Fund (NHIF) among others face financial crisis due to poor governance, lack of internal audit monitoring, fraud and corruption (Economic Survey, 2019).

Empirically, studies on the relationship between governance and performance of NG-CDFs have not yet come out with authoritative relationship between the two variables. Most researches put more emphasis on determining the relationship between governance and organizational performance thus empirical gap (Muriuki 2017, Mbu-Ogar et al., 2017). Some researchers have investigated the relationship between internal audit and organizational performance and found that internal audit is related to organizational performance (Ahmad, 2018). However, some studies have been done on NG-CDF in Kenya (Adhoa et al., 2018, Muli et al., 2016) but no specific study has been carried out on the intervening effect of internal audit on the relationship between governance and the performance of NG-CDFs in Kenya.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Agency Theory

The proponent of this theory is Jensen and Meckling (1976). Agency relationship is a contract under which the principals engage the agent to do some duties on their behalf (Jensen and Meckling, 1976). Agency problem arises as a result of separation of control from the owners and it causes the conflict of interest between shareholders and management and on the other hand conflict between shareholders and debt holders. The shareholders through the board delegate the management of the entity to the agents. Unfortunately, the management operates the organization in accordance to their individual selfish interests, and not the shareholders' goals which leads to agent principal conflict (Jensen & Meckling,1976).In NG-CDFs, this relationship exists between the principal and the agent such that the owners of the resources is the government and the citizens and the agents are NG-CDFs management committees. The theory assumes that the agents have considerable advantage over wealth owners. It also assumes information asymmetry such that the agents have access to better information about the performance and value of an organization hence the principals need information for monitoring the behavior of their better-informed agents.

The theory suggests that organizational performance is improved through the shareholders' delegation of responsibilities to the professional managers with strong mechanism to monitor the performance of managers to register improved performance hence high return to the shareholders (Power, 2000). Modovean (2001) suggests that the owners should enact ratification, monitoring and sanctioning to guard against management failure. Two significant governance ways of solving or minimizing the agent principal problem escalating from self-interest is through proper remuneration of board of directors and installation of governance structures to lower agency costs (Solomon, 2010).
Power (2000) suggests that the major way of monitoring is through the final annual accounts whose credibility is enhanced by the audit report. However, accounts might not be a sufficient tool for monitoring purpose as a result of information asymmetry whereby managers or external auditor doctor final results to conceal information fearing that it may be used against them. The internal audit monitors and assures the stakeholders that all is well. Since the management may falsify the financial reports to hide their misconduct, internal audit acts the oversight role in ensuring that the agents are transparent and accountable to the principals (Ndimitu et al., 2018).

Internal audit also watches the management's activities and advices the board on the same. Similarly audit board enforce internal controls which ensure that the agents' activities are meant to improve the organizational performance. Organizational controls ensure compliance with the regulatory laws and regulations.

In organizational structure, internal audit is responsible for overseeing good governance. Good governance promotes performance since organizational resources misuse is minimal. Therefore, every NG-CDF should uphold good governance practices and tighten internal audit role to promote efficiency and eliminate incompetence, corruption, fraud and so on to enhance performance.

The critics of Agency theory argue that agency theory caters for shareholders only leaving out other stakeholders in the running and management of the organization thus leading to decisions that maximize wealth of the shareholders at the expense of other stakeholders.

2.1.3 Stakeholders Theory

Stakeholder theory was pioneered by Freeman (1984) where he introduced the idea that corporations have stakeholders and outlined the basic features of the stakeholder concept which was later developed by Donaldson and Davis (1991).Stakeholder theory's major idea is that the organization has relationships with many interested groups which it should strive to maintain and support by considering and balancing their relevant interests (Jones & Wicks, 1999). The major objective of stakeholder theory is to assist managers to understand stakeholders and strategically manage them for the long term survival of the organization (Freeman, 1999).Stakeholders is a wide terminology that commonly alludes to category of persons who might influence directly or indirectly the attainment of the institution's aims and performance (Davis et al; 1997. The theory asserts that the owner is one of several equal stakeholders. Therefore, the focus of management decisions considers the interest of all stakeholders. The major stakeholders of NG-CDF projects include; suppliers, creditors, Government, project manager, constituents, NG-CDF parliament committee, District projects committee, contractors, Project Management Committee, NG-CDF Committee, Non Governments Organizations, NG-CDF board, government departmental heads and the public at large. The constituents play a critical role in decision making because they are the beneficiaries of the projects (Flaman & Gallagher, 2001).The stakeholder perspective highlights the effective management of relationships between a project and its key stakeholders in order to ensure project success Kolltveit et al.,k (2007)

Stakeholder management tools are crucial in supporting decision-making, sharing of knowledge, reducethe level of subjectivity,remain transparent for the other stakeholders, facilitate understanding of stakeholders' expectations and ensure efficiency and effectiveness in performance (Bourne & Weaver, 2010). Stakeholders can influence the reporting of an organization structure, the financial policy and performance. Stakeholder habits are thus significant due to their influence on kinds of governance structures applied (Freeman et al., 2004). Stakeholder theory is related to the study variables because stakeholder management contributes and synergizes with proactive risk management since it anticipates and foresees possible social risks, relationship risks and mitigates them(Bourne, 2009). The risk managers, accountants, auditors among others from the pool of stakeholders provide free services to the NG-CDF management committee about risk identification and management. The provision of free services reduce costs thus enhance NG-CDF performance. The theory further suggests that the interrelationship among stakeholders influences the process of decision making by the management which leads to effectiveness and enhanced organizational performance (Freeman, 1984).The community donates land to NG-CDFs all over Kenya to build education and security institutions which provide education and security services respectively to all stakeholders. Furthermore, the communities form vigilant security groups for example Nyumba Kumi which assists the security forces in the enforcement of law and order hence boost security services delivery. The suppliers for instant provide school construction materials, school consumables among others on credit which boost education delivery services.

The theory's inability to meet all stakeholders' interests and identification of genuine stakeholders is its undoing (Smallman, 2004).

2.2 Empirical Review

Adekola et al., (2018) investigated the impact of internal audit function and internal audit efficiency on organizational performance using a cross sectional survey research design. The population was 300 members of staff from bursary unit, accounts and internal audit section of Ekiti State University of Nigeria. Data was collected using a structured questionnaire on a 5 likert scale. The study found that internal audit function and internal audit efficiency have a positive and significant relationship on organizational performance. Ahmad (2018) studied the effect of internal audit on organizational performance of selected banks in Jordanusing descriptive analysis design. A cross sectional survey was carried on four Jordan banks that is bank of Jordan, Cairo Amman bank, Jordan Kuwait bank and Arab bank. A sample size was 364employees.Primary data was collected using aquestionnaire for a period of six months from September, 2017 to February, 2018 from the four selected Jordan banks. Secondary information was gathered from different sources such as books, magazines, journals, newspapers and online databases via internet and analyzed with the help of multiple regressions. Simple linear regression was used to establish the relationship between internal audit and organizational performance. Data was analyzed using SPSS version 20 and hypotheses were tested at 95% confidence level. The study found a significant impact of internal audit on the organizational performance in all banks except Arab Bank.

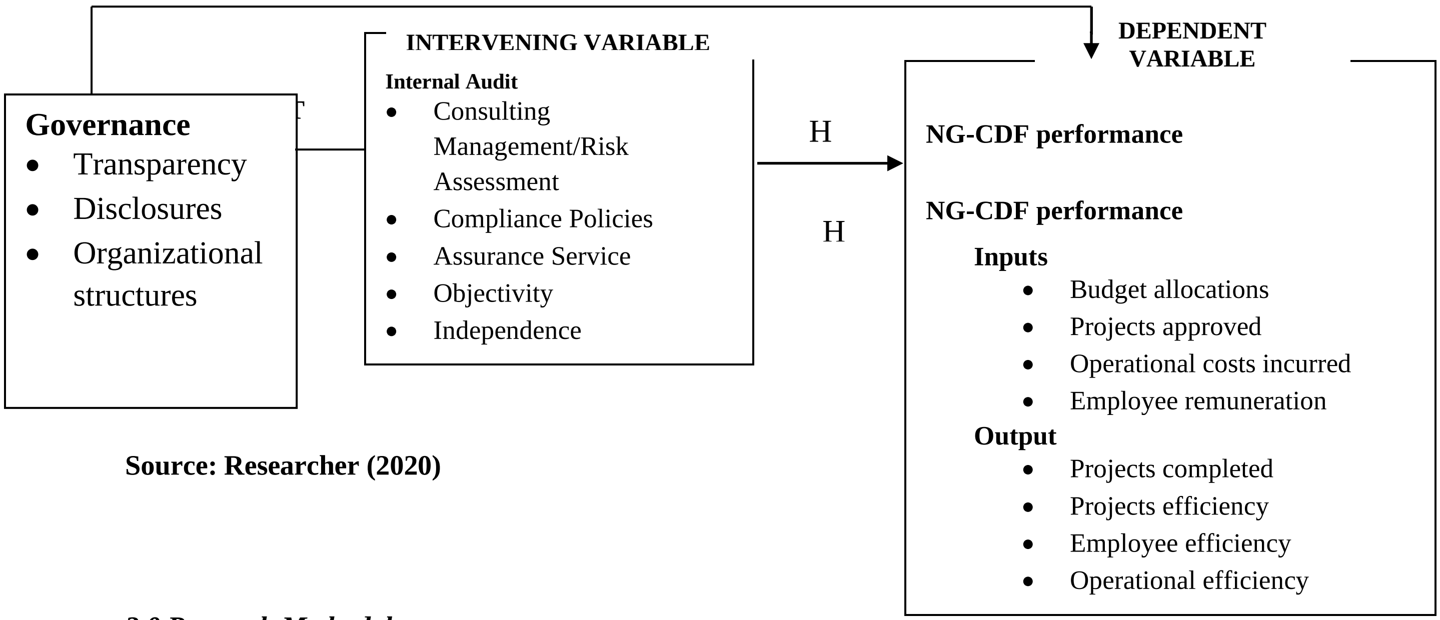
Muriuki et al., (2017) explored the influence of corporate governance on organizational performance of state corporations in Kenya. A survey design was used on a sample size of 125 out of a population of 187 State corporations resulting to 375 respondents. Data was collected using questionnaires. Descriptive and inferential statistics were computed using statistical package of social sciences. Linear regression model was used to determine the relationship between corporate governance and organizational performance. The findings were that corporate governance has a positive significance influence on organizational performance of state corporations in Kenya. Mbu-Ogar et al.; (2017) investigated the effect of corporate governance on organizational performance using a survey on the Nigerian manufacturing companies quoted on the Nigerian stock exchange for the year 2014/2015. Secondary data was extracted from the published financial statements of the manufacturing companies under review and ordinary least square regression technique was used in analyzing the data. The study found that corporate governance has significant effect on return on capital employed.

Andhoga et al., (2018) carried a study to determine the role of political influence on effective management of National Government Constituency Development Funded projects in Kasipul constituency, Homa Bay County, Kenya. The study employed mixed methods research design involving both quantitative and qualitative data. A survey was carried on a population of 400 respondents obtained by multi staged proportionate random sampling techniques involving project beneficiaries, project managers, local governmental officials and the NG-CDF committee members. Informant interviews and focus group discussions with selected participants were conducted to obtain data. The study findings were that political influence has no significant role on the effective management of NG-CDF projects in Kasipul constituency.

Muli et al; (2016) investigated the role of stakeholder management on the performance of projects funded by National Government Constituency Development Fund in Machakos County, Kenya. The study adopted cross-sectional research design and the population sample size was four hundred and fifty (450) projects which was obtained by stratified random sampling. Data was collected by a questionnaire, coded and analyzed by Statistical Package for Social Sciences (SPSS)version 18. The relationship between stakeholder management and performance of projects funded by NG-CDF was tested by correlation analysis and there was a positive correlation. Logistic regression was used to test the significance of the model and hypothesis. The findings were that those projects under stakeholder management were successful than those which were not under stakeholder management.

2.3 Conceptual Framework

Figure 2.1: Conceptual Model



Source: Researcher (2020)

3.0 Research Methodology

The study was a census and the target population was the 290 NG-CDFs in Kenya.The research study applied both secondary and primary mechanisms in data collection because both data reinforce each other (Cooper & Schindler, 2006).Primary data was collected by self-administered pre-arranged questionnaire which was prepared in line with the goals, theories upon which the study was anchored, empirical studies and corresponding hypotheses of the study. Either the chairperson or the secretary or the treasurer or the Fund account manager answered the questions resulting to one hundred and eight five respondents. Secondary data was easily accessible from the National Treasury, Kenya National Bureau of Statistics, the General Auditor's reports and NG-CDF website. Secondary data on performance of NG-CDFs was collected for the period 2014 to 2018 from NG-CDFs reports. An average of that data for the five years showing the performance of each NG-CDF was computed and analyzed. Descriptive analysis was conducted to measure the dispersion of variables such as standard deviation and coefficient of variation which were used to disclose the relationship of variables under study. Qualitative data was collected using Likert scale where content analysis was undertaken to determine the association of the independent variable with the dependent variable. R-squared was applied to test the strength of the overall relationship of the predictor variable in anticipating the dependent variable, governance (Gujarat, 2009) and performance of NG-CDFs in Kenya. The regression equation was presented as $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mathcal{E}$

Where: Y = Performance of NG-CDFs in Kenya; β_0 = Regression Constant, β_1 = Coefficients measurement which is the change in a dependent variable with respect to a unit change in predictor variable holding other factors constant, X_1 = Governance, X_2 = Internal Audit and $\mathcal{E}$= the error term / disturbance term.The p-value for the F-statistic was used to determine the robustness of the model. It was used to accept or reject the null hypothesis. The study tested the hypothesis at 95% level of significance; subsequent decision points to reject or fail to reject a hypothesis were founded on the p-values. Where $p<0.05$, the research rejected the null hypothesis, and where $p>0.05$, the research failed to reject the null hypothesis. The findings are presented along study objective and corresponding hypothesis.

4.0 Descriptive Analysis and Findings

4.1 Response Rate

The study targeted 280 respondents; however, the researcher received responses from 185 respondents forming 66.07% response rate, which was found to be adequate. This response rate is considered satisfactory to make conclusions for the study. Mugenda and Mugenda (2003) observed that a 50% response rate is adequate, 60% good while 70% rated very well. Such a high response rate for this study can be as a result of the use of trained research assistants who were equipped with skills on how to build rapport with respondents.

4.2 Descriptive analysis for Governance and Internal Audit

Table 4.1 shows the descriptive statistic of the variables under study in terms of numbers, mean, standard deviation, coefficient of variation, t-test, and significance of governance and internal audit. The relationship between variables was tested by descriptive and inferential statistics. Simple, stepwise and multiple regression analysis were then used to test the hypothesis at 95 percent confidence level.

Table 4.1: Descriptive Data Analysis

	N	Mean	Std Deviation	CV	T	Sign
Governance						
Transparency	185	3.34	1.05	33	4.017	0.174
Disclosure	185	3.42	1.068	31	4.830	0.000
Organizational Structure	184	3.36	1.121	34	4.500	0.021
Internal Audit						
Management/Risk	185	3.24	1.096	34	2.300	0.115
Compliance	185	3.08	1.018	33	0.520	0.366
Assurance Policies	185	2.99	1.128	38	-0.034	0.297
Objectivity	185	3.068	1.137	37	0.745	0.088
Independence	185	2.616	1.056	41	-5.286	0.001

Source: Author (2020)

4.3Performance of NG-CDFs in Kenya

Data envelopment analysis was used to examine performance of NG-CDFs in Kenya using input/output relationship. A decision-making unit where a score less than 100% is considered inefficient compared to other units. The findings are shown in Table 4.2. Efficiency is the ratio of outputs to the resources used/inputs. DEA Model inputsinthe study were: budget allocations, projects approved, operational costs incurred and employee remunerations. The outputs were: projects completed, projects efficiency, employee efficiency and operational efficiency. The findings shown in Table 4.2 indicate that (45.95%) of NG-CDFs were moderately inefficient with efficiency score of between 0.31 and 0.6. It was also established that 43.78% of NG-CDFs were inefficient with efficiency score of 0.3 and below. Further, findings indicate that the performance of 9.18% of NG-CDFs was above average with efficiency score ranging from 0.61 and 0.9. Only two NG-CDFs representing 1.08% were found to be efficient with efficiency score of 1. The mean efficiency score was 0.37368 which is below average. In order to increase efficiency, NG-CDFs should decrease the level of resources and investments and/or increase the production factors.

Table 4.2: Performance of NG-CDFs in Kenya

Range/Statistic	Frequency	Value
0.0 to 0.3	81	43.78%
0.31 to 0.6	85	45.95%
0.61 to 0.9	17	9.18%
0.91-1	2	1.08%
Mean		0.37368
Standard Error		0.0214
Median		0.333523
Mode		0.454532
Standard Deviation		0.182824
Sample Variance		0.025175
Kurtosis		0.063122
Skewness		0.543802
Range		0.94742
Minimum		0.05054
Maximum		1
Sum		105.8571

Count		185
Confidence Level (95.0%)		0.032132

Source: Author (2020)

4.4 Hypothesis Testing Results

The objective of the study was to determine the intervening effect of internal audit on the relationship between governance and performance ofNG-CDFs in Kenya through formulation of the following hypothesis.

Ho*$_2$*: *There is no significant intervening effect of internal audit on the relationship between governance and performance of NG-CDFs in Kenya.*

In testing for the intervening effect of internal audit, the Baron and Kenny (1986) method was used. The approach known as stepwise technique includes a four step process whereby in step one, the influence of governance on performance of NG – CDFs to establish the direct relationship was evaluated. Step two evaluates the influence of governance on internal audit to establish the relationship between the independent variable and the intervener. Step three evaluates the influence of internal audit on performance of NG-CDFs in Kenya and the requirement is that this effect should be significant. Finally, step four tests the influence of governance on performance of NG-CDFs while controlling for the effect of internal audit. The influence of governance should be statistically significant when controlling for internal audit for intervention to be confirmed. Results from the four steps are presented in Table 4.3 – 4.6 respectively.

Step One: Governance was regressed against NG-CDFs Performance. Outcomes are shown in Table 4.3.

Table 4.3: Governance and performance of NG-CDFs

Model Summary

Model	***R***	***R Square***	***Adjusted R Square***	***Std. Error of the Estimate***
1	.447[a]	.215	.202	.17543

a. Predictors: (Constant), Governance

ANOVA[a]

Model		***Sum of Squares***	***Df***	***Mean Square***	***F***	***Sig.***
1	Regression	1.895	1	1.895	49.868	.000[b]
	Residual	6.901	181	.038		
	Total	8.796	182			

a. Dependent Variable: Performance (Efficiency Score)

b. Predictors: (Constant), Governance

Coefficients[a]

Model		***Unstandardized Coefficients***		***Standardized Coefficients***	***T***	***Sig.***
		B	***Std. Error***	***Beta***		
1	(Constant)	.286	.017		16.824	.000
	Governance	.049	.007	.398	7.062	.000

a. Dependent Variable: Performance (Efficiency Score)

Source: Author (2020)

The findings in Table 4.3 indicate a statistically strong and positive relationship between governance and performance of NG-CDFs. The overall R squared was .215 indicating that governance explains 21.5% of variation in performance of NG-CDFs in Kenya. Although moderate, the relationship is significant ($F=49.868$, $p<0.05$). The p-value of 0.000 was less than 0.05 level of significance, hence the model is statistically significant. This was as well depicted in the corresponding t statistic ($\beta=.049$, $t=7.062$) hence governance was a key determinant on performance of NG-CDFs. The results thus confirmed the first step of testing for the intervening effect of internal audit on the relationship between governance and performance of NG-CDFs. The testing process in step two involved testing the influence of governance on internal audit. The findings of the tests are presented in Table 4.4

Table 4.4: Governance and Internal Audit

Model Summary				
Model	***R***	***R Square***	***Adjusted R Square***	***Std. Error of the Estimate***
1	.669[a]	.444	.429	.88098
a. Predictors: (Constant), Governance				

ANOVA[a]						
Model		***Sum of Squares***	***Df***	***Mean Square***	***F***	***Sig.***
1	Regression	196.002	1	196.002	164.018	.000[b]
	Residual	216.21	181	1.195		
	Total	412.212	182			
a. Dependent Variable: Internal Audit						
b. Predictors: (Constant), Governance						

Coefficients[a]						
Model		***Unstandardized Coefficients***		***Standardized Coefficients***	***T***	***Sig.***
		B	***Std. Error***	***Beta***		
1	(Constant)	.585	.065		9.003	.000
	Governance	.525	.041	.603	12.807	.000
a. Dependent Variable: Internal Audit						

Source: Author (2020)

The outcomes depicted in Table 4.4 indicate that governance has a positive and statistically strong relationship with internal audit (R=.669). Further the coefficient of variation (R^2=.444) depicted that internal audit is explained at 44.4% by governance. Further the F-value was 164.018 with P-value of 0.000 which is<0.05, hence the model is statistically significant. The corresponding t statistics was also significant. The results, therefore suggest that the second step of testing conforms to the process of testing the intervening effect to move to step 3. In third step, internal audit was regressed against performance of NG-CDFs. The results in the third step are demonstrated in Table 4.5.

Table 4.5: Internal Audit and performance of NG-CDFs

Model Summary				
Model	***R***	***R Square***	***Adjusted R Square***	***Std. Error of the Estimate***
1	.317[a]	.220	.161	.29006
a. Predictors: (Constant), Internal Audit				

ANOVA[a]						
Model		***Sum of Squares***	***Df***	***Mean Square***	***F***	***Sig.***
1	Regression	.899	1	.899	23.658	.000[b]
	Residual	7.000	183	.038		
	Total	9.889	184			
a. Dependent Variable: Performance (Efficiency Score)						
b. Predictors: (Constant), Internal Audit						

Coefficients[a]						
Model		***Unstandardized Coefficients***		***Standardized Coefficients***	***T***	***Sig.***
		B	***Std. Error***	***Beta***		
1	(Constant)	.216	.016		13.500	.000
	Internal Audit	.063	.013	.376	4.864	.000
Dependent Variable: Performance (Efficiency Score)						

Source: Author (2020)

The results in Table 4.5 indicate that internal audit had a reasonable relationship with performance of NG-CDFs (R=.317) whereby internal audit explains 22% of performance of NG-CDFs (R^2=.220) with remaining percent being explained by other aspects not considered in the model. The analysis from the model had F-value of 23.658 with P-value of 0.000 which is less than the level of significance 0.05; hence the model is considered to be statistically significant. Just like in the second step, the corresponding t statistic was significantly different from zero.

Therefore, the condition in the third step in testing for an intervening effect was satisfied and hence it was in order to progress to step 4 and conclude the test for the intervening effect. Finally, step four tested the influence of governance on performance of NG-CDFs while controlling for the effect of internal audit.These tests were done using simple linear regression analysis. The effect of governance on performance of NG-CDFs shouldn't be statistically significant at α=.05 when internal audit is controlled.

Table 4.6: Regression Results Depicting Intervening Effect of Internal audit on Governance and Performance of NG-CDFs in Kenya

Model Summary							
Model		***R***	***R Square***	***Adjusted R Square***		***Std. Error of the Estimate***	
1		.445[a]	.201	.191		.18451	
a. Predictors: (Constant), Governance, Internal Audit							
ANOVA[a]							
Model		***Sum of Squares***	***Df***	***Mean Square***	***F***	***Sig.***	
1	Regression	1.833	2	.917	25.472	.000[b]	
	Residual	6.564	180	.036			
	Total	8.397	182				
a. Dependent Variable: Performance (Efficiency Score)							
b. Predictors: (Constant), Governance, Internal Audit							
Coefficients[a]							
Model		***Unstandardized Coefficients***		***Standardized Coefficients***	***T***	***Sig.***	
		B	***Std. Error***	***Beta***			
1	(Constant)	.127	.011		11.545	.000	
	Governance	.388	.045	.413	8.622	.000	
	Internal Audit	-.099	.054	-.119	-1.833	.078	
Dependent Variable: Performance (Efficiency Score)							

Source: Author (2020

The results in Table 4.6 demonstrate that both governance and internal audit explain 20.1% of the variation in performance of NG-CDFs (R^2 =.201) which is statistically significant (p-value< 0.05). Jointly, the two variables (governance and internal audit) had a significant effect on performance of NG-CDFs (F=25.472, p-value=.000. However, on individual evaluation, the study show that governance had a positive and significant effect on performance of NG-CDFs (t=8.622, p-value=.000) whereas internal audit was not statistically significant at 95% level since the t statistic was 1.833 in absolute and p value was 0.078. In addition, the sign of effect was negative. Following Baron and Kenny (1986) four steps of testing intervening effect, the study has comprehensively confirmed that internal audit significantly influences the relationship between governance and performance of NG-CDFs in Kenya.

5.0 Conclusion

The null hypothesis (**Ho_2**) was rejected leading to accepting the alternative hypothesis which explored the intervening effect of internal audit on the relationship between governance and performance of NG-CDFs in Kenya implying that internal audit had a significant effect on performance of NG-CDFs in Kenya. Therefore, by introducing the intervening variable, internal audit, leads to enhancement of the relationship between governance and performance of NG-CDFs

6.0Recommendations

The study recommends that managers should therefore embrace internal audit and also be alive to the fact that organizational performance also relies on other inputs. The NG-CDF Board should ensure that there are sound governance practices in all the NG-CDFs that result to effective internal audit mechanisms which ultimately enhances NG-CDFs performance. Management effort should focus on autonomous and objectivity of internal audit and its support to internal audit. All NG-CDFs should use DEA technique to measure performance. In addition, future studies need to use similar variables in the other funds such as youth fund, women fund among others.

References

Adekola, D.R, Kemisola A.F, Adebayo, I.A & Adewale, O.A. (2018). Impact of internal audit function and efficiency on organizational performance. *International Journal of Accounting research Vol 3(6), 2018 pp15-19*

Ahmad, B.O. (2018). The Effect of Internal Audit on Organizational Performance: An Empirical Exploration of Selected Jordanian Banks. *Research Journal of Finance and Accounting ISSN2222-1697 (Paper) ISSN2222-2847 (Online) Vol.9, 14 2018 pp 137-144*.

Al-Shammari, B. &Al-Sultan, W. (2010). Corporate governance and voluntary disclosure in Kuwait. *International Journal of Disclosure and Governance*, 7(3), 262–280.

Andhoga, W.O, Mose, G.N, Mavole J.N. (2018). Role of Political Influence on the Effective Management of National Government Constituency Development Funded Projects in Kasipul Constituency, Homa Bay County, Kenya. *Scholars Journal of Arts, Humanities and Social Sciences* 6(8): 1706-1715ISSN 2347-5374(Online) ISSN 2347-9493(Print)

Auditor General's Reports (2018). *Public -Sector Accountability*. Series No.1/2010.

Bourne, L. & Walker, D.T. (2005). Visualizing and mapping stakeholder influence. *Management Decision, 43 (5): 649 – 660.*

Bourne, L. & Weaver, P. (2010). Mapping Stakeholders: Construction Stakeholder Management. Chichester: Backwell Publishing Ltd.

Bushman, R. M., Piotroski, J. D., & Smith, A. J. (2004). What determines corporate transparency? *Journal of Accounting Research*, 42(2), 207-252.

Cooper, R.D. & Schindler, S.P. (2014). *Business Research Methods.* 12th Edition. New York: McGraw Hill.

Davis, J.H., Schoorman, F.D, & Donaldson. (1997). Towards Stewardship Theory of Management. *Academy of Management Review*,22 (1), 20-47.

Donaldson, L. & Davis, J. (1991). Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns. *Australian Journal of Management*, 16(1), 49-64.

Economic Survey (2019). Kenya National Bureau of Statistics. The Popular Version. Series No.1/2019.

Emrouznejad, A., Anouze, A. L., & Thanassoulis, E. (2010). A semi-oriented radial measure for measuring the efficiency of decision making units with negative data, using DEA. *European Journal of Operational Research*, *200*(1), 297-304.

Flaman, G. & Gallagher,U. (2001). Assessment and Control of project Risks. Englewood Cliffs: PrenticeHall.

Formentini, M., & Taticchi, P. (2016). Corporate sustainability approaches and governance mechanisms in sustainable supply chain management. *Journal of Cleaner Production*, *112*, 1920-1933.

Freeman, R. E. (1999). Divergent stakeholder theory. *Academy of Management Review, 24 (2): 233 – 236.*

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder Theory and "The Corporate Objective Revisited". *Organization Science*, 15(3), 364–369.

Freeman, R.E. (1984). *Strategic Management: A Stakeholder Approach.* Boston: Pitman Publishing.

Gok. (2010). The Constitution of Kenya. The National Council for Law Reporting. Chapter Four Section 46. Nairobi: Government Printers.

Gujarati, D &Porter, D. (1992). *Essentials of Econometrics*. New York: McGraw-Hill.

Hebb, T. (2006). The economic inefficiency of secrecy: Pension fund investors' corporate transparency concerns. *Journal of Business Ethics*, 63, 385-405.

Institute of Internal Auditors (2004). *The Professional Practices Framework: Internal Standard for the Professional Practice of Internal Auditing.*

Jensen, M. & Meckling, W. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305-360.

Jones, T.M & Wicks. (1999). Letter to AMR Regarding ''Convergent Stakeholder Theory''. *Academy of Management Review, 24 (4): 621-623*

Keya, C.T, Aduda, J., Nyamute, W., & Pokhariyal, G. (2020). Governance and Performance of National Government Constituencies Development Funds in Kenya. European *Scientific Journal Vol.16 No 10 (2020) PP 154- 170*

Kimanzi, K., Mirie, M., Lishenga, J., & Ochieng, D.E. (2018). Financial Structure and Operating Efficiency of Housing Cooperative Societies. *European Scientific Journal Vol.15, No 28 (2018) pp 109- 123 ISSN 1857-7881 (Print) 1857-7431 online*.

Kolltveit, B.J, Karlsen, J.T & Gronhaug, K. (2007). Perspectives on project management. *International Journal of Project Management 25(1), 3-9.*

Koutoupis, A., Pazarskis, M., & Drogalas, G. (2018). Auditing Corporate Governance Statements in Greece–the role of internal auditors. *Corporate Governance: The International Journal of Business in Society*, *18*(5), 1007-1020.

Mbu-Ogar, G.B, Effiong, S.A & Abang, J.O. (2017). Corporate Governance and Organizational Performance: Evidence from the Nigerian Manufacturing Industry. *IOSR Journal of Business Management Volume 19 Issue 8. (ISOR-JBM) Ver. VIII (August 2017), pp 46-51.*

McCann, J. (2004). The changing definition of organizational effectiveness. *Human Resource Planning.* 27(1), 17-30.

Mihret, D. G., & Grant, B. (2017). The role of internal auditing in corporate governance: a Foucauldian analysis. *Accounting, Auditing & Accountability Journal*, *30*(3), 699-719.

Modoveanu, & Mihrea. (2001). *Agency Theory and the Design of an Efficient Governance Mechanism.* Minnesota: Rotman School of Management, University of Minnesota

Mugenda, O. M,& Mugenda, A. G. (2003). *Research Methods: quantitative and qualitative approaches.* Nairobi: Acts Press.

Muli, S, Bwisa, H., Kihoro, J. (2016). Role of stakeholder management on the performance of projects funded by constituency development fund in Kenya. *International Journal of Economics, Commerce and Management Vol. IV, Issue 12, 2016*

Muriuki J.W.,Cheruiyot T.,Komen J.(2017).Influence of Corporate Governance on Organizational Performance of State Corporations in Kenya. *Science Journal of Business and Management. Vol.5, No.4 2017, pp. 136-148 doi 10.11648/j.sjbm.20170504.12*

Ndimitu, P. N., Mwangi, C. I., Kisaka, S., & Mwangi, M. (2018). The Relationship between Internal Audit and Internal Controls in Water Service Providers in Kenya. *DBA Africa Management Review*, *8*(2).

Okungu, J. (2008). *The beauty and shame of Kenya's Constituency Development Fund.* [Online] Available: http:/www.afroarticles.com/article-dash boardarticle.php?id=6337&act=print.

Ondigo,H.(2019). Relationship between corporate governace and finacial perfomance of comercial banks in kenya.*SSRG International journal of economics and managment studies (SSGR-IJEMS)-Volume 6 Issue 12-Dec 2019 pp167-183doi>:10.14445/23939125/IJEMS- V 6112P119*.

Organization for Economic Co-operation and Development (2004*), "OECD Principles of Corporate Governance.* Paris: Press.

Power, M. (2000). *The Audit Implosion: reporting risk from the Inside*. London: ICAW

Republic of Kenya (2003). *Constitution of Kenya.* Nairobi. Government Printers

Republic of Kenya (2013). *CDF Act.* Nairobi. Government Printers.

Republic of Kenya (2015).NG-CDF *Act.* Nairobi. Government Printers

Republic of Kenya (2016). NG-CDF *Act.* Nairobi. Government Printers

Sarbanes – Oxley Act (2002). *Corporate and auditing and accountability, Responsibility and transparency act of 2002,* USA public law 107 – 204 17th congress, 2nd session, July 30.

Semmar, A. (2012). Corporate governance of state-owned enterprises in morocco: evolution and perspectives. *In OECD, Towards New Arrangements for State Ownership in the Middle East and North Africa, OECD Publishing. doi: 10.1787/9789264169111-8-en*

Shamsuddin & Bharathii D. (2014). Factors that determine the Effectiveness of Internal Audit Functions in the Malaysian Public sector. *International Journal of Business, Economics and Law, vol.5, Issue 1 (Dec.) ISSN 2289 -1552.*

Smallman, C. (2004). Exploring Theoretical Paradigm in Corporate Governance. *International Journal of Business Governance and Ethics*, 1(1), 78-94.

Solomon, J. (2010). *Corporate Governance and Accountability,* 2nd Edition, Chichester, UK: Hoboken, NJ, Wiley.

Tavana, M., Kaviani, M. A., Di Caprio, D., & Rahpeyma, B. (2016). A two-stage data envelopment analysis model for measuring performance in three-level supply chains. *Measurement*, *78*, 322-333.

Unegbu, A.O & Kida, M.I (2011). Effectiveness of internal audit as instrument of improving public sector management. *Journal of Emerging trends in Economics and Management sciences (JETEMS) 2 (4), 302-309.*