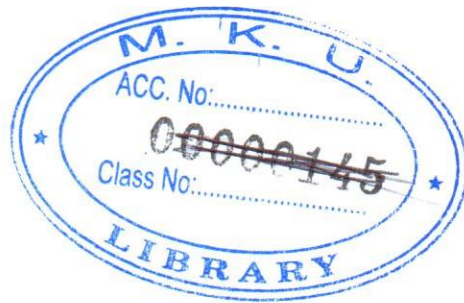


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AN ASSESSMENT OF THE IMPACT OF REGULATION ON EFFECTIVENESS OF INTERNAL
ACCOUNTING AUDIT: EVIDENCE FROM MOMBASA COUNTY



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ABSTRACT

The fact that a number of banks failed in the late 1990s, and the audited financial statements did not provide early warning signals about these failures, raised concerns among the general public about the quality of accounting and auditing in the country. Internal accounting audit helps the organisation to achieve its objectives in an organised and disciplined approach. The Enron and WorldCom scandals showed that there was lack of control in organisations even where internal accounting audit functions existed. This study assessed whether regulation of the internal accounting audit work contributes to audit effectiveness in Kenya. The research was conducted in Mombasa County and the researcher used the descriptive survey method to carry out the research. The primary data was obtained from questionnaires. The population of the study was 360 stakeholders and simple random sampling was used to sample 108 persons for the study. The questionnaire was circulated to internal accounting auditors, finance officers and top managers of randomly selected institutions in Mombasa County. Factor analysis was used to pick out important variables that form the basis of formulating a regulatory framework for the internal accounting audit practice in organizations. The results showed three new factors were successfully constructed using factor analysis and assigned as the regulatory factors affecting internal accounting audit; which are 1) Legislation 2) Licensing and 3) Registration. Regression analysis was used to establish the direction of influence of each of the variables on internal audit effectiveness. It is expected that the results of the study will provide a basis for formulation of a workable framework for the regulation of the internal accounting audit profession in Kenya. It was found out that among the components of regulation, legislation of the regulatory framework had the strongest influence. The results of the regression analysis indicated the significance of the dependent variables, individually and jointly, that is they have an effect on Internal accounting audit effectiveness. In conclusion, the research established that the independent variables significantly affect Internal audit effectiveness. From the study, it is recommended that the authorities in collaboration with the Institute of Internal Auditors come up with a legislated self-regulatory regime for the internal audit profession in Kenya.