

Exploring the Motivation behind Leakage of Internal Audit Reports (Whistle Blowing) in the Public Sector in Kenya

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Abstract *The objective of this study was to explore the various motivators behind leakage of internal audit reports in public sector in Kenya. Leakage of information was considered as a mild act of whistleblowing. This study made use of primary data obtained from 23 internal auditors randomly selected from the public sector. The relevant data was analyzed using descriptive statistics and also subjected to Pearson coefficient of correlation and multiple linear regression analysis techniques. The results obtained by the study indicate that there was a significant influence of staff dissatisfaction, compensation, reporting structures, policy framework, public protection and personal conviction on information leakage in the public sector in Kenya. However, reputation, management commitment and accountability enforcement were found to be insignificant motivators behind information leakage.*

Key words Information leakage, whistleblowing, internal audit reports, public sector

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1. Introduction and literature review

Whistle blowing, leakage of office information and gossip has one thing in common; they involve unauthorized release of information to unintended recipients. The information may be true or not, but when an internal audit report leaks, the chances are that the information is significantly true. Institute of Internal Auditors (IIA) international standards require that internal auditors maintain some degree of confidentiality. The internal auditors are required to be prudent in the use and protection of information acquired in the course of their duties. The information acquired should not be used for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization (Institute of Internal Auditors, 2012).

Internal auditors engage in both financial and operational audits. Top managements' support for internal audit as well as the auditor's capacity in terms of skills, resources, and behaviors; facilitates learning from audits and help audited units to improve ethicality, efficiency and effectiveness. Internal Audits are also viewed as a Source of Ethical Behavior, Efficiency, and Effectiveness in Work Units, therefore internal auditors should maintain high ethical standards including confidentiality (Ma'ayan and Carmeli, 2016). Internal auditors have a responsibility to assess the fraud risk. In carrying out their work, the internal auditors should assume that anyone is capable of justifying the commission of fraud. Theft of confidential information is one of the frauds that can be perpetrated in an organization (Angima and Omondi, 2016). Modern internal auditors are required to have general competences, behavioral skills, and technical skills. Confidentiality is one of the behavioral skills that the internal auditors should have (Djukic and Djordjevic, 2014).

Kilonzo (2016) expressed disappointment by the mobile phone service provider Safaricom who criticized the distribution of a leaked in-house confidential audit report looking into the conduct of some

employees and business partners. The leaked report, that assessed the procurement process at the telecommunications service provider for two years between September 2013 and August 2015, was prepared by consulting firm KPMG (Kilonzo, 2016).

Ministry of health acknowledged that indeed leaked internal audit report exists. The interim audit report was an ongoing process that was supposedly leaked to the media before the Auditee(s) could respond to the matters raised therein. The report raised issues about misappropriation of Sh5.3 billion from the ministry which includes among other things, diversion of funds meant for free maternity services (Mutambo, 2016). A leaked internal audit report revealed that nine wheelbarrows were bought at Kes 109,320 each, exposing massive corruption in the county government. The management appeared perplexed when handed they received the audit report, which also indicated that officers at the veterinary department had inflated the price of metal hooks to Ksh 32,500 (Wanjala, 2015).

A government internal audit report exposed that Ministry of Education lost some Ksh 4.9 billion meant for free primary education from 2005 to 2009 through dubious imprests and outright fraud. The officers in charge of the National Treasury expressed that the Internal Audit Department (IAD) had determined that Ksh8.4 billion did not meet the forensic audit test, but the figure was later scaled down after the Education ministry provided documentation for Ksh3.5 billion (Menya, 2010). Chaudhary and Lucas (2014) observed that, boards of directors as well as audit committees are now applying greater pressure on management to protect privacy, where internal audit can be of great help. They also articulated that it was important for the internal audit to understand the types of data to be protected; the relevant regulations; the potential consequences of a breach; and the appropriate controls to expect, test, and help strengthen.

Read and Rama (2003) in their research found that 71 percent of chief internal auditors had received a whistle-blowing complaint within the past two years. They further found that there was a positive association between the role of internal auditing in verifying compliance with the firm's code of conduct and the receipt of whistle-blowing complaints by internal auditing. Internal Audit Department is an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of managements control system. The main objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. It also provides management with re-assurance that their internal control systems are adequate for the need of the organization and are operating satisfactorily (Kinyua, 2016). In performing their engagement assignments, the internal audit may come across sensitive information which may be included in their reports. This therefore calls for high level of confidentiality in their reports.

Internal auditor's compliance with quality assurance standards which requires then to carry out both internal and external quality assessments was found to be wanting in the public sector (Okibo and Kamau, 2012). According to their study only a few state corporations were reported to have carried out either internal quality assessment or external quality assessment or both. Failure to enforce standards among the internal auditors may contribute towards leakage of the internal reports generated by management. External auditors have a duty to examine the financial statements and to express an opinion on whether they show a true and fair view at the year end. Internal auditors on the other hand review the internal control systems and advise the management. External auditor's reports to users of financial statements while internal auditors report to the management. External auditors may make use of the work of internal audit in forming their opinion. During the course of their work they will want to measure the effectiveness of internal audit (Simon *et al.*, 2014). Basically, internal audit reports are confidential and can only be publicized through external audit reports or directly with management's consent.

2. Problem statement

Internal Auditors reports are meant to be used internally by management in order to strengthen their internal control system; hence they are not supposed to be freely circulated to the general public (Simon *et al.*, 2014). IIA (2012) code of ethics demands that internal auditors should respect the value and ownership of information they receive and are not required to disclose the information without appropriate authority from management unless there is a legal or professional obligation to do so.

Kenya has seen in the recent past a wave of leaked internal audit reports. Some of these reports include the health scandal (Mutambo, 2016), the popular wheelbarrow saga (Wanjala, 2015), free primary education report (Menya, 2010) and Safaricom confidential report (Kilonzo, Standard Digital, 2016), among others. In many cases, the internal auditor is accused of leaking the report, when the effects of its leakage become sour. For example, Benard Muchere who was the head of audit at ministry of health in Kenya, denied leaking the audit report when questioned by senates PAC, he further cited the conflict between him and the senior ministry officials (Kilonzo, 2016).

There is always a person responsible for the leaked internal audit reports. If the leakage of the internal audit reports emanates from members of internal audit, then it amounts to breach of IIA ethics. If the leakage of reports stems from sources other than the internal audit, then it is an indication of weak systems within the organization, especially as regards whistle blowing policies. This research looked into the various reasons why internal audit reports which are basically confidential, are leaked to the public.

3. Conceptual Framework

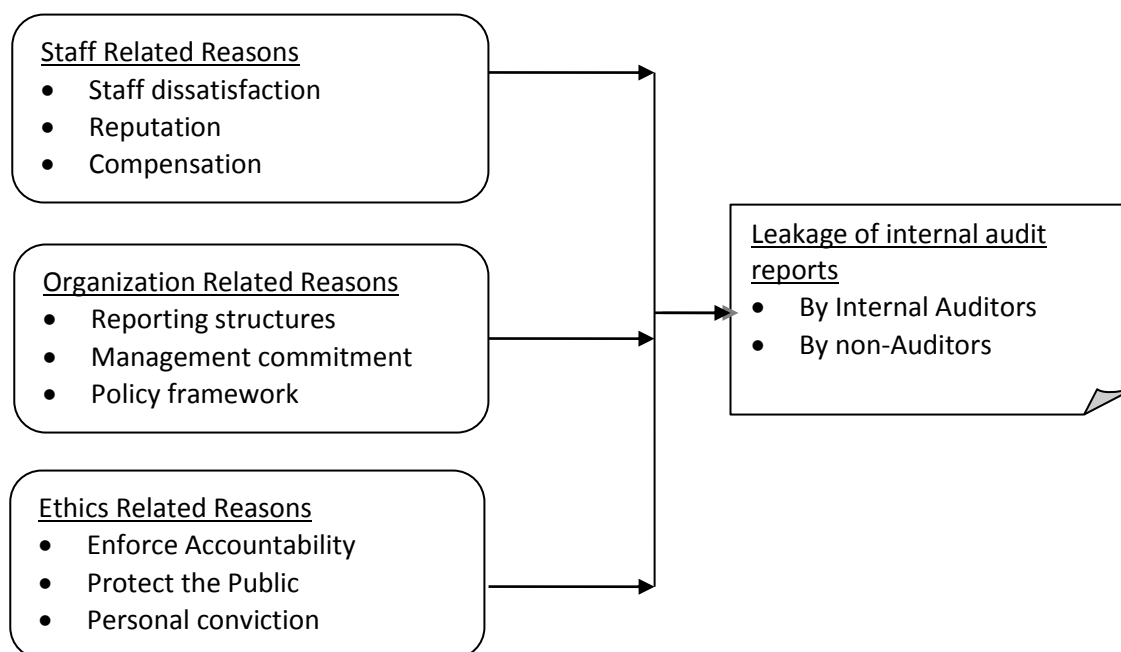


Figure 1. Conceptual Framework

There have been suggestions that there is a stronger level of anonymity safeguard when reporting channels are administered by third parties especially when lower level employees are the whistle blowers. Further externally administered reporting channel is believed to enhance whistle blowing as contrasted with an internally administered one (Gao, 2015). Existence of an audit committee provides internal auditor with an alternative to air their grievances. The existence of private access to the audit committee was found to have a positive effect on the moral courage of the head of internal audit (Khelil *et al.*, 2016).

Factors such as monetary incentives, relationship between organization managers and its employees, have been identified as leading to higher whistle blowing intent. However when retaliation threat is high, monetary incentives do not significantly influence trust in an attempt to curb whistle blowing (Guthrie and Taylor, 2017). Research has also demonstrated that having an Internal Audit function is a positive factor for whistle blowing, which was earlier noted as the most common method for identifying fraud (Raiborn *et al.*, 2017). Whistleblower's decision can then be viewed by others as a lack of loyalty to the organization yet it can also mean high level of loyalty to the organization but accompanied by some degree of dissatisfaction (Swiatek-Barylska, 2013). Insensitivity to employees' workplace needs and desires may be viewed as some of the signs of employee dissatisfaction. Employee dissatisfaction is negatively associated with both internal and external whistle-blowing intentions by both internal auditors and other category of employees (Alleyne *et al.*, 2016).

Employees may be motivated to blow the whistle on unethical behavior in order to protect their organization, mostly when the organizations engender a reputation of integrity (Croucher *et al.*, 2016)

The presence of rational whistleblowing occurs if the government offers a reward to whistleblowers in order to encourage them to report the cases of tax management misconduct in their organizations (Kleven *et al.*, 2016). Such whistle blowers acts are motivated by the monetary rewards or compensations.

Research found that inaction to audit queries has significant relationship with performance of the audit function; further existence of non-functional Public Accounts Committee has significant relationship with performance of the audit function (Ijeoma and Nwufu, 2015). Management commitment to address audit recommendations will have an effect on the extent of whistleblowing in the organization.

The Kenyan law requires that the audit committee to review arrangements by which staff of the entity or any other person may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective in reviewing whistle blowing arrangements should be to ensure that they are impartial and independent investigation of such matters and for appropriate follow-up action (Government of Kenya, 2016).

4. Methodology of research

The main objective of this study was to assess the motivations behind leakage of internal audit reports in public sector in Kenya. Leakage of internal audit reports is viewed by this research as a form of whistle blowing. Causal analysis was employed by the study to analyze the research objectives. The research design employed by the study was a descriptive survey. Online survey questionnaires were emailed to random internal auditors in the public sector. The total number of responses was 23. The reliability of the questionnaire was measured using the Cronbach alpha which was 0.937. According to Kline (1999) a rule of thumb in using Cronbach alpha indicates that a coefficient of above 90% is excellent (Kline, 1999).

5. Findings

This section discusses the findings made from the data collected by this study. The data is presented in the form of frequency distribution tables and various types of charts to facilitate description and explanation of the study findings.

5.1. Likelihood of Internal audit Reports leakage

The respondents were required to state their opinion on the likelihood that internal audit reports leaks to the general public. The results were as indicated in figure 2.

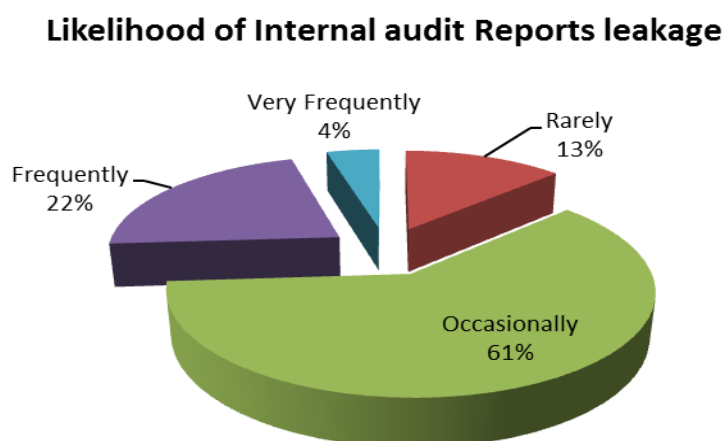


Figure 2. Likelihood of I.A. Reports leakage

Majority of the respondents (61%) were of the opinion that internal audit reports occasionally leaks to the general public, or lands into the wrong hands. 22% of the respondents were of the opinion that audit reports are frequently likely to leak to the public. The simple mean of the responses was 2.17 on a scale of

1-4 where 1 is Rarely, 2 is Occasionally, 3 is frequently and 4 is very frequently. This implies that the audit reports are occasionally likely to get to the unintended recipients. This is evidenced by various newspaper reports on the leakage of such sensitive information (Menya, 2010; Kilonzo, 2016; Wanjala, 2015).

5.2. Likely Source of Internal Audit Reports leakage

The respondents were required to state their opinion on the category of staff that is likely to leak internal audit reports to the general public. The results were as indicated in figure 3.

Those likely to leak IA Reports

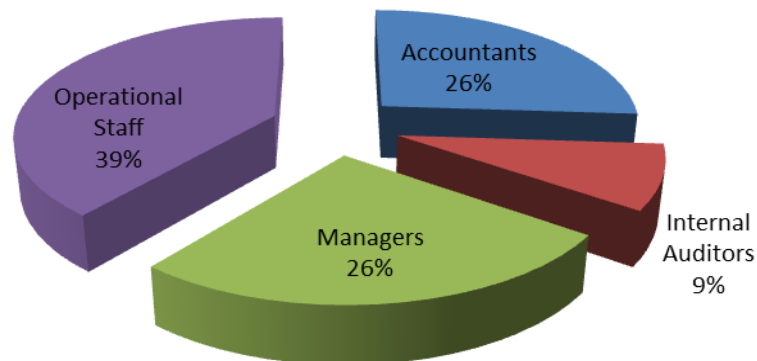


Figure 3. Likely source of IA Reports leakage

Figure 3 shows that majority of respondents (39%) were of the opinion that operational staff are likely to leak information, followed by accountants and managers at 26% each. Only 9% of the respondents were of the opinion that the leakage could originate from internal auditors. This finding may imply that internal auditors have a greater level of integrity in terms of confidentiality as compared to the rest of the staff categories.

5.3. Leakage of Internal Audit Reports by Internal Auditors

The respondents were required to state their opinion on the likelihood of leakage internal audit reports by the internal auditors. The results were as indicated in figure 4.

Leakage of IA Reports by Internal Auditors

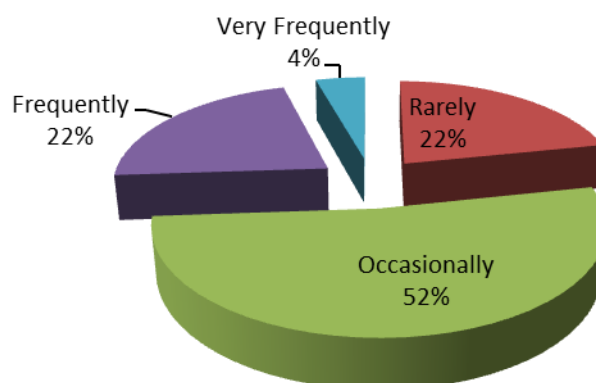


Figure 4. Leakage by internal auditors

Majority of the respondents (52%) were of the opinion that internal auditors occasionally leak their reports to the general public, or issues their reports to wrong recipients. The simple mean of the responses was 2.08 on a scale of 1-4 where 1 is Rarely, 2 is Occasionally, 3 is frequently and 4 is very frequently. This

implies that the internal auditors are occasionally likely to issue their reports to the unintended recipients hence leading to leakage of sensitive information.

5.4. Leakage of Internal audit Reports by Non-Auditors

The respondents were required to state their opinion on the likelihood of leakage internal audit reports by non-auditors. The results were as indicated in figure 5.

Leakage of IA Reports by Non auditors

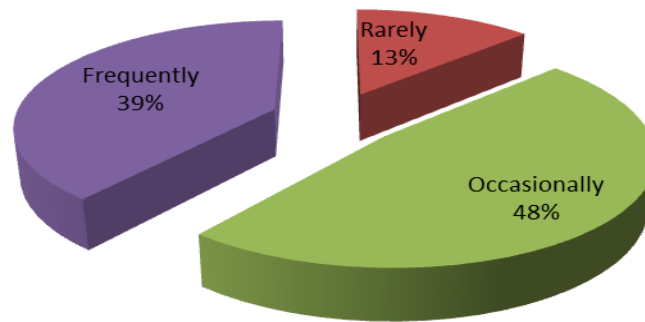


Figure 5. Leakage by Non-Auditors

Figure 4 show that 48% (majority) of the respondents were of the opinion that non-auditors occasionally leak information to the general public, or to wrong recipients. 39% of the respondents were of the opinion that non-auditors are frequently likely to leak the audit reports to the public. The simple mean of the responses was 2.26 on a scale of 1-4 where 1 is Rarely, 2 is Occasionally, 3 is frequently and 4 is very frequently. This implies that the non-auditors are occasionally likely to issue their reports to the unintended recipients hence leading to leakage of sensitive information. Non-auditors in this study imply operational staff, managers and accountants as indicated in figure 3.

5.5. Reasons for Internal audit Reports leakage

The respondents were required to state their opinion on the likely reasons why the perpetrators of leakage of internal audit reports do so. The respondents were allowed to give more than one reasons. The results were as indicated in figure 6.

Reasons for leaking IA Reports



Figure 6. Reasons for Leakage of audit reports

Figure 6 presents the responses used to describe the reasons behind leakage of internal audit reports. The findings indicate that the leading reasons were staff dissatisfaction, management commitment levels, and reporting structures, in that order. The least mentioned reasons were compensation, reputation

and public protection in that order. Personal conviction, accountability, and policy framework were averagely mentioned.

5.6. Correlational Analysis

Pearson’s Correlation Coefficient was computed to show the relationship existing between the various audit report leakage motivators identified by the study. The study’s dependent variable is Information Leakage (IL) and the independent variables consist of Staff dissatisfaction (SD), Reputation (Rp), Compensation (Cmp), Reporting Structures (RS), Management commitment (MC), Policy Framework (PF), Enforce Accountability (EA), Public protection (PP) and Personal Conviction (PC). The results are tabulated in table 1.

Table 1. Correlation analysis

	<i>Leakage</i>	<i>Implication</i>
Information Leakage (IL)	1	Self-correlation
Staff dissatisfaction (SD)	0.522	Somewhat Positive correlation
Reputation (Rp)	-0.675	Somewhat negative correlation
Compensation (Cmp)	0.561	Somewhat Positive correlation
Reporting structures (RS)	-0.147	Non-significant negative correlation
Management commitment (MC)	0.058	Non-significant positive correlation
Policy framework (PF)	-0.011	Non-significant negative correlation
Enforce Accountability (EA)	-0.235	Mild negative correlation
Protect the Public (PP)	-0.326	Mild negative correlation
Personal conviction (PC)	0.749	Strong Positive correlation

Correlation analysis is helpful in revealing whether there is a positive or negative relationship between the independent and dependent variables. According to Rasli (2006) rule of thumb, “If the absolute r-value is above 0.196, then there is a mild correlation. A somewhat correlation can be concluded if the absolute r-value is above 0.5. If the absolute r-value is exceeds 0.7, the correlation is strong” (Rasli, 2006). The results of table 1 were therefore interpreted as follows. There was no significant correlation between information leakage on one hand; and reporting structures, management commitment, and policy framework on the other hand. There was a mild correlation between information leakage on one hand; and accountability and public protection on the other hand. There was a somewhat negative relationship between information leakage and reputation since the Pearson coefficient of correlation was -0.675; while staff dissatisfaction and compensation had a somewhat positive correlation at coefficients of 0.522 and 0.561 respectively. Finally there was a strong positive correlation between information leakage and personal conviction with a coefficient of 0.749.

5.7. Regression Analysis

The multiple regression analysis in this study models the linear relationship between the dependent variable which was information leakage and independent variables which were; Staff dissatisfaction (SD), Reputation (Rp), Compensation (Cmp), Reporting Structures (RS), Management commitment (MC), Policy Framework (PF), Enforce Accountability (EA), Public protection (PP) and Personal Conviction (PC). The overall model statistics are as indicated in table 2.

Table 2. Overall Regression Statistics

<i>Regression Statistics</i>	
Multiple R	0.962
R Square	0.925
Adjusted R Square	0.872
Standard Error	0.256
Observations	23

The results in table 2 indicated coefficient of determination (R^2) of 0.925 and coefficient of correlation (R) of 0.962. R value points to a strong linear relationship between Staff dissatisfaction, Reputation, Compensation, Reporting Structures, Management commitment, Policy Framework, Enforce

Accountability, Public protection, Personal Conviction and information leakage in public sector in Kenya. The adjusted R² indicates that explanatory power of the independent variables is 0.872. This means that about 87.2% of the variation in Information leakage is explained by the study model indicated below. However, 12.8% of the variation in information leakage is unexplained by the model.

$$IL = \beta_0 + \beta_1(SD) + \beta_2(Rp) + \beta_3(Cmp) + \beta_4(RS) + \beta_5(MC) + \beta_6(PF) + \beta_7(EA) + \beta_8(PP) + \beta_9(PC) \quad (1)$$

Where:

IL = Information Leakage, SD = Staff dissatisfaction, Rp = Reputation, Cmp = Compensation, RS = Reporting Structures, MC = Management commitment, PF = Policy Framework, EA = Enforce Accountability, PP = Public protection, and PC = Personal Conviction

Table 3. ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	9	10.452	1.161	17.705	0.000
Residual	13	0.853	0.066		
Total	22	11.304			

The ANOVA test in table 3 on the overall model indicated that the independent variables: Managements compensation, Staff dissatisfaction, Reputation, Compensation, Reporting Structures, Management commitment, Policy Framework, Enforce Accountability, Public protection and Personal Conviction have a significant effect on information leakage in public sector in Kenya since the estimated p value is 0.000 which is less than 5% level of significance.

Table 4. Regression Coefficients

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Significance Implication</i>
Intercept	1.378	0.714	1.931	0.076	Not significant
Staff dissatisfaction	0.345	0.087	3.987	0.002	Significant
Reputation	-0.161	0.167	-0.964	0.353	Not significant
Compensation	0.373	0.119	3.138	0.009	Significant
Reporting structures	0.336	0.100	3.353	0.005	Significant
Management commitment	0.050	0.102	0.486	0.635	Not significant
Policy framework	-0.401	0.098	-4.107	0.001	Significant
Enforce Accountability	-0.186	0.099	-1.883	0.082	Not significant
Protect the Public	-0.262	0.095	-2.755	0.016	Significant
Personal conviction	0.216	0.079	2.732	0.017	Significant

This indicates that Policy Framework had the highest influence on the information leakage by a coefficient of -0.401, indicating an inverse correlation. The influence of the policy framework was also statistically significant at 95% since its P-value (0.001) was less than 0.05. This implies that when there are strong policies frameworks to deal with whistle blowing and related activities, then leakage of information will be minimized and vice versa. The second highest influence on information leakage is by Compensation with a coefficient of 0.373, indicating a direct correlation. The influence of the compensation on information leakage was also statistically significant at 95% since its P-value (0.009) was less than 0.05. This implies that when an employee is given some incentive or compensation to provide information, they are highly likely to provide such information; consequently the higher the incentive, the higher the information leakage and vice versa. Staff dissatisfaction follows closely with a coefficient of 0.345. Staff dissatisfaction had a statistically significant influence on information leakage since its P-value (0.002) was less than 0.05. This therefore meant that dissatisfied staff members were highly likely to perpetrate information leakage; thus, the higher the level of staff dissatisfaction, the higher the likelihood of information leakage and vice versa.

Reporting Structures had the fourth highest influence on the information leakage by a coefficient of 0.336, indicating a direct correlation. The influence of the Reporting structures was also statistically significant at 95% since its P-value (0.005) was less than 0.05. This implied that when reporting structures

are well defined to deal with whistle blowing and related activities, then leakage of information will be minimized; and poor reporting structures leads to poor information handling.

The fifth highest influence on information leakage is by public protection with a coefficient of -0.262, indicating an inverse correlation. The influence of the public protection on information leakage was also statistically significant at 95% since its P-value (0.016) was less than 0.05. This implies that when an employee is more committed to public welfare, they are highly likely not to provide information; consequently the commitment by an employee to protect the public welfare, the lower the information leakage and vice versa. The following variable is personal conviction with a coefficient of 0.216. Staff personal conviction had a statistically significant influence on information leakage since its P-value (0.017) was less than 0.05. This therefore meant that personal conviction by a staff member may highly likely lead him/her to leak information to the public; thus, the higher the level of staff personal conviction, the higher the likelihood of information leakage and vice versa.

Accountability enforcement had the seventh highest influence on the information leakage by a coefficient of -0.186, indicating an inverse relationship. The influence of accountability enforcement was however not statistically significant at 95% since its P-value (0.082) was more than 0.05. This implied that when there is accountability enforcement was not a significant reason behind information leakage. Reputation and management commitment were also found to have no significant influence on information leakage since their respective p values were more than 0.05. This meant that management commitment cannot significantly prevent information leakage. Similarly staff usually doesn't leak information to increase their reputation. Y intercept of 1.378, meaning that, in absence of the other variables, the information leakage is closer rare than occasionally. This is further confirmed by the significance levels which is more than 0.05. The study therefore concludes that the Y-intercept in the above model is not a significant predictor of information leakage.

6. Conclusions

The aim of this study was to evaluate the motivations behind leakage of internal audit reports in the public sector in Kenya. The results obtained by the study indicate that there was a significant influence of staff dissatisfaction, compensation, reporting structures, policy framework, public protection and personal conviction on information leakage in the public sector in Kenya. However, reputation, management commitment and accountability enforcement were found to be insignificant motivators behind information leakage in the public sector in Kenya. The regression analysis showed a coefficient of determination (R^2) of 0.925 implying that all the variables in question whether significant or not explained 92.5% of the influence. Therefore only 7.5% was not explained by the variables in the model.

The variables were categorized into three categories, which are, staff related reasons, organizational related reasons and ethics related reasons. Each category comprised of three variables. Both staff related and organization related categories had two significant variables and one non-significant variable. On the other hand, ethical related reasons had two non-significant variables and one significant variable. The study hence concludes that organization related and staff related reasons play a bigger role in influencing information leakage as compared with ethical related reasons.

7. Recommendations

Based on the findings of the study, the Kenyan public sector may consider improving their policies and administrative practices in such a way that, staff dissatisfaction in the workplace is reduced; staff compensation is improved so that the staff may not be tempted to trade with organizational information; reporting structures and policy frameworks are favorable to deal with whistle blowing and related activities; and Staff should be trained on how to balance between personal ethics and workplace objectives. These actions will help the organizations minimize the incidences of information leakage.

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