

**AN INVESTIGATION INTO THE ROLE OF INTERNAL AUDITING FUNCTION IN
ENTERPRISE RISK MANAGEMENT: A CASE STUDY OF CO-OPERATIVE
COLLEGE OF KENYA**

John Gathogoh

Diploma in Internal Audit, KCA University, Kenya

CITATION: Gathogoh, J. (2014). An investigation into the role of internal auditing function in enterprise risk management: A case study of co-operative college of Kenya. *International Journal of Social Sciences and Entrepreneurship*, 1 (11), 88-106.

ABSTRACT

Organisations are created to achieve specific goals and objectives. Unfortunately, goals are not always achieved as expected, because they should be reached in a context of risky environments. Internal auditing is one of the main organizational functions that deal with risk exposure and management. This study is aimed at presenting the role of the internal auditing function in enterprise risk management in Co-operative College of Kenya. It also highlights how internal auditors should effectively play their roles in enterprise risk management. In order to successfully perform the research, it was necessary to use a research methodology. In this context, the literature review helped in describing, in details, some key notions, namely risk and risk management. The purpose was to understand more deeply how to deal with the various risks that generally threaten any organisation. This theoretical analysis was then applied to the Co-operative College of Kenya. Reliable data was collected and obtained from this institution, especially with regard to internal auditing and risk management. Thus, the following aspects were investigated: The current role of internal auditors in Co-operative College of Kenya; and The situation of risk management in Co-operative College of Kenya. Interviews and questionnaires were submitted to Heads of departments, units and sections. This inquiry assisted in determining the principal internal auditing and enterprise risk management problems in Co-operative College of Kenya. After that, suitable solutions were measured against the specifications and requirements. The results of this research gave way to the recommendation that enterprise risk management in Co-operative College of Kenya should be managed by College Council and management. Furthermore, internal auditors could help in identifying, evaluating and reporting on all possible risks surrounding the Co-operative College of Kenya.

Key Words: *role of internal auditing, enterprise risk management, Co-operative College of Kenya*

Introduction

Organisations exist to achieve specific goals and objectives. Unfortunately, goals were not always achieved as expected, because they have to be achieved in an environment of risk. Part of dealing with these risks includes the internal auditing function, which exists to examine and report on risk exposures and the organisation's risk management efforts. Through the system of internal control, managers have to identify, manage, and implement the controls to mitigate these risks. According to Flesher (1996), the internal audit activity should monitor and evaluate the effectiveness of the organisation's risk management system.

As today's companies plan their risk management strategies, the recent massive bankruptcies and colossal shareholder losses are undoubtedly on the minds of corporate stakeholders. Numerous risk-related issues have surfaced as a result of the scandals at companies such as Enron and WorldCom, leaving many shareholders, executives, and boards wondering what exposures their own organizations may face. The current risk environment can best be characterized by the oft-repeated dictum, "There are knowns, known unknowns, and unknown unknowns." (Walker et al 2003)

Internal audit has changed significantly during its history from its first appearance. At the very beginning internal audit was defined as a part of internal control system, related with accounting and finance (Brink & Cashin, 1958). Internal auditors played minimum role within organizations and had only a "limited responsibility in the total managerial spectrum" (Moeller & Witt, 1999). With time, the scope of internal audit has enlarged and its role in companies' management has increased. Accordingly, the spectrum of internal audit functions has widened and the place of internal audit has moved to higher levels of management.

One of the issues surrounding Enterprise Risk Management (ERM) was the role of internal auditing function in ERM processes. Because internal audit professional standards take a risk based approach, the internal audit function has a significant interest in the enterprise's risk management process, as it affects internal audit's professional responsibilities (IASB, 2004). Despite internal audit's natural interest in ERM, there was a debate as to the role of the internal audit function in ERM.

The objective of this study was to examine the role of internal audit function in Enterprise Risk Management, show internal audit significance to ERM and investigate how internal audit could be used in ERM. To achieve this, the researcher would review related literature and methodology used, analyse and discuss findings and formulate conclusions.

Enterprise risk management has received unprecedented international attention in recent years. In response to growing expectations for effective risk management across the entire enterprise, many leading organizations were abandoning their traditional approach to managing risks by silos, where risks areas were managed in isolation from one another, and were adopting an

enterprise risk management approach (Lam, 2000; Liebenberg and Hoyt, 2003). Thus, in many organizations, "risk management" was transforming into ERM.

As today's companies plan their risk management strategies, the recent massive bankruptcies and colossal shareholder losses are undoubtedly on the minds of corporate stakeholders. Numerous risk-related issues have surfaced as a result of the scandals at companies such as Enron and WorldCom, leaving many shareholders, executives, and boards wondering what exposures their own organizations may face. The current risk environment can best be characterized by the oft-repeated dictum, "There are knowns, known unknowns, and unknown unknowns." (Walker et al 2003).

Within this climate of ever-increasing corporate uncertainty, enterprise risk management (ERM) has emerged as a new paradigm for managing risk. Instead of relying on a traditional, intra-departmental strategy, where each area of the organization manages its own risks, ERM adopts a broader perspective that integrates and coordinates risk management across the entire organization. This enterprise wide approach was ultimately intended to enhance and protect stakeholder value. ERM, however, does more than just integrate risk management (Walker et al 2003). According to Enterprise Risk Management Framework, a new study being developed by The Committee of Sponsoring Organizations of the Treadway Commission, ERM was a process also designed to "identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Further, one of the issues surrounding ERM was the role of internal auditing function in ERM processes. Because internal audit professional standards take a risk based approach, the internal audit function has a significant interest in the enterprise's risk management process, as it affects internal audit's professional responsibilities (IASB, 2004). Despite internal audit's natural interest in ERM, there was debate as to the role of the internal audit function in ERM. In fact, the internal audit profession recently issued a call for research about the role of the internal audit function in ERM in its 2003 Research Opportunities in Internal Auditing (IIARF, 2003), and the Institute of Internal Auditors (2004) has issued guidance on internal audit's proper role in ERM. Two recent studies (Beasley et al., 2005; Gramling and Myers, 2006) have examined internal audit's role in ERM at a micro level (i.e., what specific ERM related role does internal audit play?).

Paralleling the rise of ERM, internal auditing has also experienced a paradigm shift in recent years. Guided largely by the IIA's revised definition of the profession, internal auditing has moved from a control-based approach to one that focuses on risk management, corporate governance, and adding value. Under this broadened orientation, internal auditors help organizations identify and evaluate risks, moving the profession to the front line of risk management. The two paradigm shifts one in internal auditing and one toward ERM have

recently crossed paths. As a result, internal auditors were in a position to make significant contributions to the ERM process and add value to ERM implementations.

Statement of the problem

Organisations exist to achieve specific goals and objectives. Unfortunately, goals were not always achieved as expected, because they have to be achieved in an environment of risk. Part of dealing with these risks includes the internal auditing function, which exists to examine and report on risk exposures and the organisation's risk management efforts. According to Flesher (1996), the internal audit activity should monitor and evaluate the effectiveness of the organisation's risk management system.

One of the issues surrounding ERM was the role of internal auditing function in ERM processes. Because internal audit professional standards take a risk based approach, the internal audit function has a significant interest in the enterprise's risk management process, as it affects internal audit's professional responsibilities (IASB, 2004). Despite internal audit's natural interest in ERM, there was debate as to the role of the internal audit function in ERM. In fact, the internal audit profession recently issued a call for research about the role of the internal audit function in ERM in its 2003 Research Opportunities in Internal Auditing (IIARF, 2003), and the Institute of Internal Auditors (2004) has issued guidance on internal audit's proper role in ERM.

Co-operative College of Kenya (COCK) was concerned about this matter, and the role of internal audit function in Enterprise Risk Management. The situation of risk management in Co-operative College of Kenya has raised two questions that were necessary to be highlighted. That is the role of the internal auditing function in the enterprise risk management processes in Co-operative College of Kenya and the current status of risk management in the Co-operative College of Kenya. It was the objective of this research to find answers to these questions.

Purpose of the study

The purpose of this study was to examine the role of internal auditing as an instrument for championing ERM in the Co-operative College of Kenya and with a view of providing vital information needed for effective ERM process.

Objectives of the study

1. To demonstrate the role of internal auditing function in an organisation;
2. To investigate the impact of internal auditing function on enterprise risk management in the Co-operative College of Kenya.

Theoretical framework

There are two types of roles expected from the internal auditors. This section focuses the discussion on the assurance and consulting roles specifically in the ERM. The internal auditors' assurance roles are theorized to reflect the agency theory perspective, while the internal auditors' consulting roles are to reflect on the stewardship theory perspective. In both situations, the internal auditors serve as the representative to the board and the management was viewed as the agent in the agency theory perspective and steward in the stewardship theory perspective. The shareholders, represented by the board, remain to be the principal (Mohd Ariff, K et al, 2011).

Agency theory

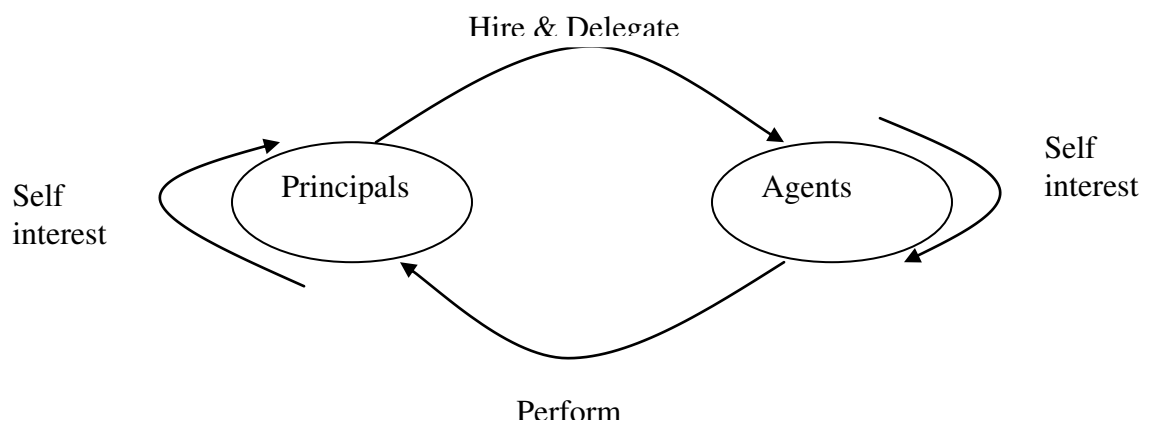
According to the agency theory, a company consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen and Meckling, 1976). Agency theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents. Furthermore, an assumption of agency theory was that principals and agents act rationally and use contracting to maximise their own wealth. A consequence of this assumption may be the "moral hazard" problem (Jensen and Meckling, 1976), where to maximize their own wealth; agents may face the dilemma of acting against the interests of their principals. Since principals do not have access to all available information at the time a decision was being made by an agent, they are unable to determine whether the agent's actions are in the best interest of the firm (Sarens, G. and Abdulmohammadi, M., 2011).

To reduce the likelihood of this problem (called adverse selection) and the moral hazard problem, principals and agents engage in contracting to achieve pareto-optimality, including the establishment of monitoring processes such as internal auditing (Adams, 1994). Specifically, internal auditing was considered a bonding cost borne by agents to satisfy the principals' demands for accountability (Sherer and Kent, 1983; Watts, 1988). Like any cost of running the business, the cost of the internal audit function was paid by principals to protect their economic interests. In other words, managers invest in the internal audit function to show to the board of directors (representing the owners of the company), that they have the company under control. More specifically, managers want to show that they have an adequate and effective risk management and internal control system (Sarens, G. and Abdulmohammadi, M., 2011).

In the case where the implementation of the ERM was mandated, the management's behaviour concerning such an implementation could be explained using the agency theory. The ERM in this case serves as the monitoring mechanism to protect the interest of the principal. The existence of the internal auditors could be viewed as the monitoring element to ensure proper implementation of the ERM by the management. The implementation of the ERM was one of the

governing mechanisms involving significant investments both in monetary and non-monetary resources and the internal auditor may monitor and observe the deployment of these resources to ensure it was for the best interest of the shareholders. Similarly, the internal auditors are also expected to perform their assurance roles in the ERM in companies that voluntarily choose to implement the ERM (Mohd Ariff, K et al, 2011). Thus, the internal audit function plays an important role in reducing information asymmetries between principals and agents. We argue that the more the information asymmetry, the greater the need for people taking on a monitoring role, thus the more the organisation would hire internal auditors. Investing more in the internal audit function means that there was relatively more staff in the organisation whose major responsibility was actively monitoring the organisation.

Figure 1: The agency model



Source: Abdullah, H and Valentine, B. (2009)

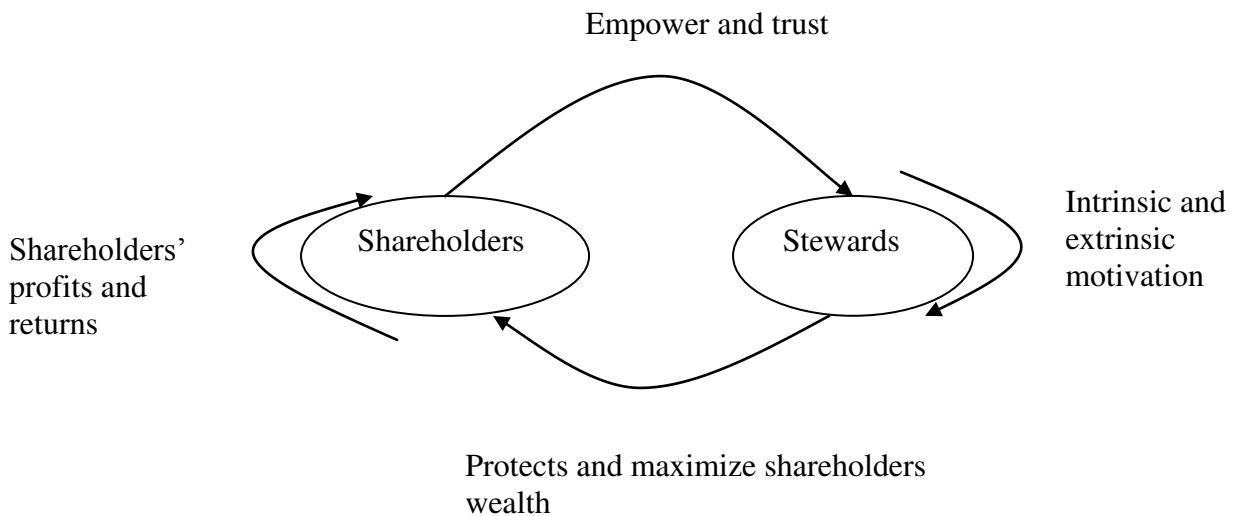
Stewardship theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman & Donaldson (1997) as “a steward protects and maximises shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximised”. In this perspective, stewards are company executives and managers working for the shareholders, protects and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Agyris (1973) argues agency theory looks at an employee or people as an economic being, which suppresses an individual’s own aspirations. However, stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust (Donaldson and Davis, 1991). It stresses on the position of employees or executives to act more autonomously so that the shareholders’ returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling behaviours (Davis, Schoorman & Donaldson, 1997).

On the other end, Daly et al. (2003) argued that in order to protect their reputations as decision makers in organizations, executives and directors were inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, it was believed that the firm's performance can directly impact perceptions of their individual performance. Indeed, Fama (1980) contend that executives and directors were also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer and Vny (1997) insists that managers return finance to investors to establish a good reputation so that that can re-enter the market for future finance. Stewardship model can have linking or resemblance in countries like Japan, where the Japanese worker assumes the role of stewards and takes ownership of their jobs and work at them diligently. Moreover, stewardship theory suggests unifying the role of the CEO and the chairman so as to reduce agency costs and to have greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated (Donaldson and Davis, 1991).

However, the internal auditors' consulting roles in the ERM suggest a different perspective. The internal auditors may now serve as the business partner to the management especially in providing advice to the management on the implementation of the ERM. Such consulting roles by the internal auditors in the ERM are vital especially for companies that intent to implement the ERM and for those that newly embark on the ERM. The roles of the internal auditors in providing a critical guidance may help the management team to establish the ERM unit. In the organisation where the implementation of the ERM was on a voluntary basis, the internal auditors were expected to perform more of their consulting roles compared to the assurance roles (Mohd Ariff, K et al, 2011).

Figure 2: The stewardship model

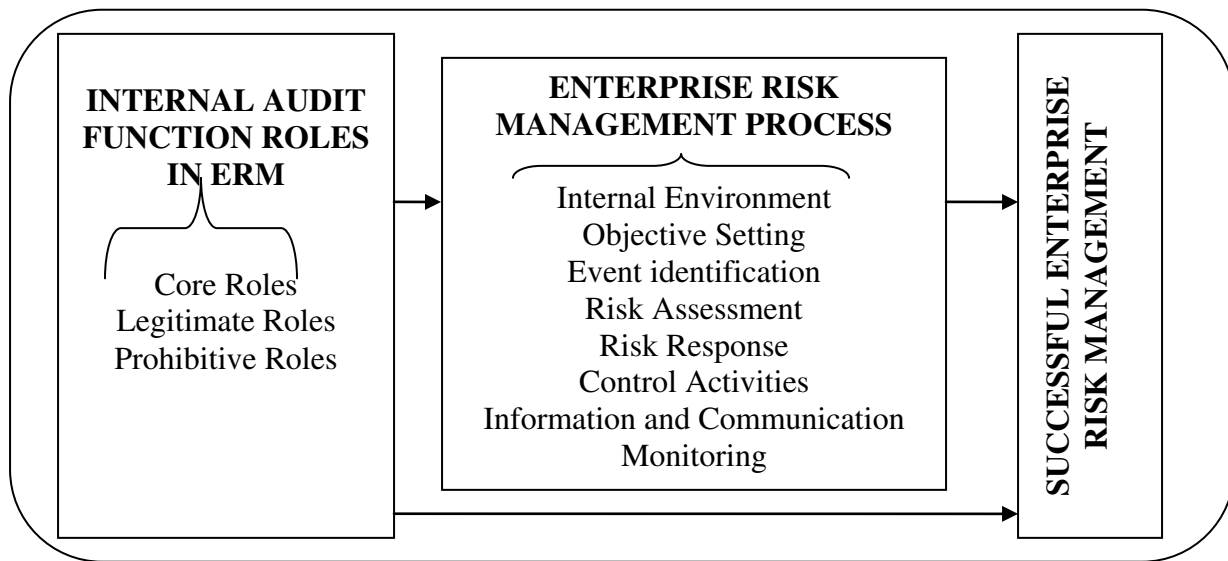


Source: Abdullah, H and Valentine, B. (2009)

Conceptual framework

A conceptual framework is described as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Reichel & Ramey, 1987). Conceptual frameworks, according to educational researcher Smyth (2004), are structured from a set of broad ideas and theories that help a researcher to properly identify the problem they are looking at, frame their questions and find suitable literature. Miles and Huberman (1994) defined a conceptual framework as a visual or written product, one that “explains, either graphically or in narrative form, the main things to be studied, the key factors, concepts, or variables and the presumed relationships among them”. The conceptual framework described below is a research tool intended to assist the researcher to develop awareness and understanding of the situation under scrutiny and to communicate this.

Figure 3: The role of internal audit function in ERM



The internal auditor’s core role in the ERM is congruent with the assurance activities, while the legitimate role reflects the consulting activities stipulated in the new definition of internal auditing (IIA, 2006). The prohibitive role in the ERM suggests various roles that may affect the objectivity and independence status of internal auditing. The involvement of the internal auditor in this role would violate the independence and objectivity of the internal auditor itself. (Mohd Ariff K. et al, 2011). These categories are presented in Figure 7.

The management of the enterprise establishes objectives of the enterprise. These objectives are set considering possible influence of the environment. Internal audit function may provide substantial aid to the management of the enterprise by identifying possible negative events that may negatively affect enterprise objectives. Usually negative events of environment come from

political, legislative, demographical, technological and other environments. Risk in this case was defined as probability that negative event would occur. (Romas Staciokas, and Rolandas Rupšys, 2005). In his article “Risk Based Internal Audit-Indian Perspective” Kumar, P.S. states that the internal audit assists in identifying the potential risks, assessing the risk intensity and risk exposure of the organisation, and provides an objective and independent opinion on the effect of risk response measures, key controls and whether the risks of the Organisation are managed at tolerable levels or not. It is a continuous process.

It is the responsibility of the management to deal with actions regarding business risks. The management may decide to accept risk, to avoid risk or to mitigate risk. The contribution of internal auditors is substantial, because one of internal audit functions is the evaluation of adequacy of control means. During audit engagements internal auditors assess if control means are effective and adequate in order to mitigate the risk. Internal auditors not only provide assurance about these controls, but also consult senior management for better improvement of these controls. (Romas Staciokas, and Rolandas Rupšys, 2005). Enterprise risk management requires appropriate, timely, reliable and objective information. Internal audit assures that information provided was timely and reliable. Exchange of such information ensures adequate communication during risk management process (Romas Staciokas, and Rolandas Rupšys, 2005).

Research Methodology

Research design

According to Hussey and Hussey (1997), research design is the science (and art) of planning procedures for conducting studies so as to obtain the most valid findings. Determining the research design gives a detailed plan that can be used to guide and focus the research. Saunders, M. et al. (2000) indicate that the general ethical issue is that the research design should not subject the research population to embarrassment or any other material disadvantage. The research design needs to consider the extent to which data should be collected from a research population who is unaware of the fact that they were the subject to research and who have thus not consented to it. There are three distinct approaches to research: quantitative; qualitative; and what is variously called multi-methods (Brannen, 1992), multi-strategy (Bryman, 2004) or mixed methods (Creswell, 2003) research. Quantitative research is a formal, objective, systematic process in which numerical data are used to obtain information about the world. This research method is used to describe variables; to examine relationships among variables; to determine cause-and-effect interactions between variables (Burns & Grove 2005).

Examples of quantitative research design are experimental, causal-comparative, correlation and survey. On the other hand qualitative research is the development of concepts which help us to understand social phenomena in natural (rather than experimental) settings, giving due emphasis to the meanings, experiences, and views of all participants Pope & Mays (1995). Qualitative

research takes place in natural settings employing a combination of observations, interviews, and document reviews. Six qualitative research strategies are case study, focus group, ethnographic, phenomenological, grounded theory, and historical research perspectives.

According to Creswell, mixed methods research is a research design (or methodology) in which the researcher collects, analyzes, and mixes (integrates or connects) both quantitative and qualitative data in a single study or a multiphase program of inquiry. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone. In this research study the researcher would adopt the mixed research design. To achieve this, the researcher would employ the case study research design which is a qualitative research design. Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context were not clearly evident; and in which multiple sources of evidence are used (Yin, 1984).

In a case study, a single person, program, event, process, institution, organization, social group or phenomenon is investigated within a specified time frame, using a combination of appropriate data collection devices (Creswell, 1994). The researcher also adopted the descriptive research design. Descriptive research design is a quantitative research design that describes what exists and may help to uncover new facts and meaning. The purpose of descriptive research was to observe, describe and document aspects of a situation as it naturally occurs (Polit & Hungler 1999). This involves the collection of data that would provide an account or description of individuals, groups or situations. Instruments used to obtain data in descriptive studies include questionnaires and observation.

This research study was focused on the Co-operative College of Kenya, with the key emphasis on the internal audit function's role in fraud risk management. The choice of using the Co-operative College of Kenya was motivated by the fact that, as other public institutions, it was concerned with Enterprise Risk Management. This research was intended to show the management of this institution the advantages of Enterprise Risk Management, the internal audit function's role in risk management and how these were important in reaching the corporate objectives.

Research population

Population as defined by Sekaran (2006) refers to “the entire group of people, events, or things of interest that the researcher wishes to investigate”. The entire staff of the Co-operative College of Kenya constitute the population of the study. The staff strength of the Co-operative College of Kenya was one hundred (100).

Sampling Procedure and Sample Size

A sample is a finite part of a statistical population whose properties are studied to gain information about the whole (Webster, 1985). When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey. The researcher selected a sample of thirty (30) staff from the target population who were engaged in the study. A simple randomization was used where heads of departments, units and sections would be the key respondents. Sampling is defined by Merriam (1998) as the selection of a research site, time, people and events in a field research. According to Le Compte and Preissle (1993) sampling has to do with representation of individuals and subsets making up the population group from which results can be generalized. There are two different types of sampling procedures: probability and no probability. Probability sampling methods ensure that there is a possibility for each person in a sample population to be selected, whereas no probability methods target specific individuals. Clearly, there can be an inherent bias in no probability methods. Therefore, according to Weisberg, Krosnick, and Bowen (1989), it was not surprising that most survey researchers prefer probability sampling methods. In this study the researcher would use convenience sampling that is a sample would be drawn randomly from a list of individuals in a population.

Data Collection Procedures

The researcher administered questionnaire to thirty staff of various ranks to allow for possible coverage of views, opinions and experience relating to role of internal auditing in ERM in the government institutions in general and the Co-operative College of Kenya in particular. Direct face-to face interviews with heads of departments, units and sections and a few selected other members of staff who were likely to be in possession of useful information would be used. The researcher would observe some of the activities of internal audit function of the Co-operative College of Kenya with a view to perceiving directly the actual situation. This approach was particularly advantageous in view of the unbiased nature of the data collected through it. The researcher used the following documents: Research papers; Textbooks on Auditing and Accountancy; Auditing and Financial Management Journals; Magazines; and Periodicals. The researcher also used the internet for further information gathering.

Data Analysis

Data collection and data analysis are concomitant activities (Marshall and Rossman, 1999; Yin, 2003). Data analysis pertains to 'examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence' (Yin, 2003) to address the research question(s). According to Creswell (2003) data analysis is a process that involves arranging the data into different types of categories depending on the sources of information, reading through all the data so as to obtain a general sense of the information and to reflect on its overall meaning, having a detailed analysis with a coding process and making an interpretation or

meaning of the data such as noting the lessons that were learnt. Data can be qualitative or quantitative. According to Witte & Witte (2009) “When, among a set of observations, any single observation is a word, or a sentence, or a description, or a code that represents a category then the data are qualitative.” Further Witte & Witte (2009) states that “When, among a set of observations, any single observation is a number that represents an amount or a count, then the data are quantitative.” So 'yes-no' responses are examples of qualitative data while Likert scale category responses are quantitative data.

In this research study the researcher will adopt the mixed research design. To achieve this, the researcher will employ the case study research design which is a qualitative research design. Researcher Robert K. Yin defines the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1984). In a case study, a single person, program, event, process, institution, organization, social group or phenomenon is investigated within a specified time frame, using a combination of appropriate data collection devices (Creswell, 1994). The researcher also adopted the descriptive research design. Descriptive research design is a quantitative research design that describes what exists and may help to uncover new facts and meaning. The purpose of descriptive research is to observe, describe and document aspects of a situation as it naturally occurs (Polit & Hungler 1999). This involves the collection of data that will provide an account or description of individuals, groups or situations. Instruments used to obtain data in descriptive studies include questionnaires and observation.

The researcher used the questionnaire technique for collecting the primary data, as it was an efficient means of collecting answers from a large sample size. The questionnaire was adapted from the one used by Alleyne and Howard (2005). The questionnaire was designed in order to enable extraction of accurate information from the respondents' answers, and to make sure that collected information was adequate for achieving the objectives of this study. The questionnaire was divided in three sections, Section I related to respondents' background information. Section II consists of six questions where respondents were asked about their opinion on internal audit, while Section III had ten questions on enterprise risk management. The questionnaire contained Likert-like questions, on a five-point scale, and respondents had to choose from a scale ranging from “strongly agree” to “strongly disagree”. Most of the questions were closed, in order to ease the respondent's task of answering. The questions were designed based on a detailed review of the features of prior studies by Alleyne & Howard (2005) and Gay et al. (1997). Most of the structured questions were close-ended type and respondents were asked to mark appropriate box matching the correct answer. Other questions required the respondents to give opinions. The responses to the structured close-ended questions were rated in percentages and analysed. Excel was used in the computation of responses from the respondents. SPSS Analysis was also used to analyse and interpret the relationships between the variables. The Likert-type scale ranged from 1 to 5 and the scale was presented as follows: 1, strongly disagree; 2, disagree; 3, neutral; 4,

agree; and 5, strongly agree. The score for each response was computed by adding each frequency count to the scale 1 to 5. The highest percentage score and the lowest score were computed and presented as the following: The percentage score was computed as $X = Y/28 \times 100$ (where 28 = total number of respondents, Y is the number of respondents for each response 1 to 5)

Research Findings

It was found that the internal audit function was important to the College as it adds value to its processes by regularly identifying events that may negatively affect the College objectives. In addition the internal audit function should be involved in the risk assessment process and periodically assess the adequacy of the College internal controls system. The College internal audit function was independent as it reports directly to the audit committee and has assisted the College to reduce and minimise risks. For example, the organogram of the College shows that, the internal audit unit reports to the board functionally and for that matter independent of the operations of the College. It was also found that the College aims and objectives were documented, communicated and understood by management and staff thus ERM was important to the achievement of these aims and objectives and improvement of the College performance.

However it was found that the responsibility for an effective ERM within the College was not documented or communicated and understood and neither was appropriate resources allocated in support of ERM policy and practice. The College did not have a documented risk management policy and had not carried out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives. In addition the responsibility for ERM and identification of risks facing the College was not clear and staff surveyed had different persons whom they thought were responsible for ERM and identification of risks in the College. In summary it could be said that ERM in the College was at basic stage if not non existent.

Conclusions

Enterprise risk management is a fundamental element of corporate governance and thus the College management should be responsible for establishing and operating the enterprise risk management framework on behalf of the Council. Enterprise-wide risk management brings many benefits as a result of its structured, consistent and coordinated approach. The College internal audit core role in relation to ERM should be to provide assurance to management and to the Council on the effectiveness of risk management. When internal auditing extends its activities beyond this core role, it should apply certain safeguards, including treating the engagements as consulting services and, therefore, applying all relevant Standards. In this way, internal auditing would protect its independence and the objectivity of its assurance services. Within these constraints, ERM can help raise the profile and increase the effectiveness of internal auditing.

Recommendations

The responsibilities for ERM and identification of risks in the College should be contained in a documented statement and communicated to management and staff. The College management should ensure all staff understand how these responsibilities link to their work in order to know how to manage risks that occur in their work. Moreover, an enterprise risk management policy should be established in the College to help management operate more effectively. The risk management policy would enhance management's chance to align the College risk appetite, strategy and objectives (deciding on the level of risk that was acceptable, evaluating different strategies, and lastly aligning the objectives with the strategy selected); link growth, risk and return; decide on the risk response to choose, namely avoidance, reduction, sharing or acceptance; minimise operational surprises and losses by identifying potential events, risks and responses in advance; identify and manage risks that potentially threaten other parts of the organisation (cross-enterprise risks); provide integrated responses to multiple risks; evaluate opportunities by considering potential events as risks or opportunities; and allocate capital and resources to their fullest potential. The policy would also guide on appropriate resources allocation in support of ERM policy and practice and in carrying out a comprehensive and systematic identification of risks relating to each of declared aims and objectives.

References

- Abdullah, H and Valentine, B. (2009). Fundamental and Ethics Theories of Corporate Governance Middle Eastern Finance and Economics, Issue 4, Euro Journals Publishing, Inc. <http://www.eurojournals.com/MEFE.htm>
- Adams, M.B. (1994). 'Agency theory and the internal audit'. *Managerial Auditing Journal*, 9 (8).
- Agyris, C. (1973). "Some Limits of Rational Man Organizational Theory". *Public Administration Review*, Vol. 33.
- AIRMIC, ALARM and IRM. (2002). A risk management standard.
- Aldridge C. Richard, and Janet L. Colbert (1994), "Management's Report on Internal Control, and the Accountant's Response", *Managerial Auditing Journal*, 9(7).
- Anderson, K. and Terp, A. (2006). Risk Management, Andersen T.J. (ed.), *Perspectives on Strategic Risk Management: 27-46*. Denmark: Copenhagen Business School Press
- Asare, T. (2008). A Study of the Role of Internal Auditing in the Public Sector of Ghana: Governance and Accountability, M.Sc. Dissertation, Birmingham City University Business School, Birmingham, United Kingdom.
- Beasley, M.S., Clune, R., & Hermanson, D.R. (2005). ERM: A status report. Internal Auditor.
- Birkett, P. W. Barbera. M. R. Leithhead. B. S. Lower. M. and Roebuck. P. J. (1999). Internal auditing knowledge: global perspectives. Florida: Institute of Internal Auditors Research foundation.
- Bou-Raad, G. (2000). "Internal auditors and a value-added approach: the new business regime", *Managerial Auditing Journal*, 15(4).
- Brink, V.Z., and J.A. Cashin. (1958). *Internal Auditing* (New York: Ronald Press).

- Brink, V.Z. (1982). *Modern Internal Auditing* / V.Z. Brink, H.N. Witt. New York: John Wiley & Sons, Inc..
- Cai, C. (1997). "On the functions and objectives of internal audit and their underlying conditions", *Managerial Auditing Journal*.
- Carmichael, D.R., Wouldingham, J.J., and Schaller C.A. (1996). "Auditing concepts and methods. A Guide to current theory and practice", 6th edition, McGraw-Hill ed.
- Causality Actuarial Society (CAS) (2003). *Overview of Enterprise Risk Management*. The Casualty Actuarial Society Forum, Casualty Actuarial Society
- CIPFA. (2001). *Risk management in public services*. London.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2004). *Enterprise Risk Management - Integrated Framework*, New York.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2003). *Enterprise Risk Management Framework, Exposure Draft for Public Comment*, www.erm.coso.org,
- Committee of the Sponsoring Organizations of the Treadway Commission (COSO) (1992). *Internal Control Integrated Framework (COSO Report)*, AICPA, New York, NY.
- Co-operative College of Kenya. *Strategic Plan 2004/2009*.
- Co-operative College of Kenya. *Strategic Plan 2009/2012*.
- Co-operative College of Kenya. *Strategic Plan 2012/2014*.
- Creswell, John W. (1994). *Research Design: Qualitative and Quantitative Approaches*;
- Creswell, J. (2003). *Social Science Research methods: Qualitative and Quantitative Approaches*. University of Wisconsin: White water. Publications; California.
- Daily, C.M., Dalton, D.R. and Canella, A.A. (2003). "Corporate Governance: Decades of Dialogue and Data". *Academy of Management Review*, Vol. 28, No. 3.
- Davis, J.H., Schoorman, F.D. and Donaldson, L. (1997). "Toward a Stewardship Theory of Management". *Academy of Management Review*, Vol. 22.
- Donaldson, L. and Davis, J. (1991). "Stewardship Theory or Agency Theory: CEO Governance and Shareholder Returns". *Academy Of Management Review*, Vol. 20, No. 1.
- Fama, E. (1980). 'Agency problems and the theory of the firm'. *Journal of Political Economy*, 88 (2).
- Flesher, D.L., (1996). *Internal Auditing: Standards and Practices* (Altamonte Springs, FL: The Institute of Internal Auditors.
- Gleim, N. I. (2004). *CIA review part I: internal audit role in governance, risk, and control* 11th edition. Florida: Gleim Publication.
- Goetzee, P.G. (2004). *The Effect of HIV/AIDS on the control environment: an internal audit perspective*. University of Pretoria.
- Gramling, A.A., & Myers, P. (2006). *The role of the internal audit function in enterprisewide risk management*. Working paper.
- Gramling, A.A., & Myers, P. (2006). "Internal Auditing's Role in ERM" *Internal Auditor* (April 2006)
- Griffiths, D. (2006), *Risk-based internal auditing - An introduction*, available at www.internalaudit.biz (Retrieved 2/8/2010).
- Hayes, R., Dassen, R., Schilder, A. and Wallage, P. (2005). *Principles of Auditing: An Introduction to International Standards on Auditing*. Pearson education Limited, London.
- Hussey, R. and Hussey, J. (1997). *Business research*. London.

- Institute of Internal Auditors (IIA). (2006). The Role of Auditing in Public Sector Governance, Altamonte Springs, FL, Institute of Internal Auditors. www.theiia.org/download.cfm?file=3512 (Retrieved 26/7/2010).
- Institute of Internal Auditors (IIA). (2006). Organizational Governance: Guidance for Internal Auditors, Altamonte Springs, FL, Institute of Internal Auditors. www.theiia.org/download.cfm?file=76050 (Retrieved 30/7/2010)
- Institute of Internal Auditors (IIA). (2008). International Professional Practices Framework – International Standards for the Professional Practice of Internal Audit, Altamonte Springs, FL, IIA Inc.
- Institute of Internal Auditors (IIA). (1999). “Definition of Internal Auditing”, The Institute of Internal Auditors, Altamonte Springs, FL.
- Institute of Internal Auditors (IIA). (2004). New guidance for the professional practice framework.
- Institute of Internal Auditors (IIA). (2004). The Role of internal audit in enterprise-wide risk management. [Online]. Available from: <http://www.iiia.Org.uk>
- Institute of Internal Auditors (IIA). (2004). The Role of Internal Auditing in Enterprise Risk Management (September). Altamonte Springs, FL: The Institute of Internal Auditors.
- The Institute of Internal Auditors-UK (1991). “Standards and Guidelines for the Professional Practice of Internal Auditing”, IIA-UK ed. (statement of responsibilities).
- Institute of Internal Auditors Research Foundation (IIARF) (2003). Research Opportunities in Internal Auditing, Altamonte Springs, FL, Institute of Internal Auditors Research Foundation.
- Internal Audit Standards Board (IASB) (2004). International Standards for the Professional Practice of Internal Auditing, Altamonte Springs, FL, Institute of Internal Auditors.
- Jensen, M.C. and Meckling, W.H. (1976). ‘Theory of the firm: managerial behaviour, agency costs, and ownership structure’. *Journal of Financial Economics*, 3 (4). www.pfmr.go.ke/downloads/Success%20stories.pdf (Retrieved 25/8/2010).
- Karagiorgos Th., Drogalas, G. Pazarskis, M. and Christodoulou, P. (2006) “Conceptual framework, development trends and future prospects of internal audit: Theoretical approach,” 5th Annual Conference of the Hellenic Finance and Accounting Association (H.F.A.A.), University of Macedonia, Thessaloniki, Greece, Conference Proceedings.
- Karagiorgos, T., Drogalas, G., Pazarskis, M. and Christodoulou, P. (2007). “Internal Auditing as a Main Tool for Efficient Risk Assessment”, 2007 Management of International Business & Economic Systems (MIBES) Conference, Dept. of Business Administration of the TEI of Larissa, Larissa, Greece, Conference Proceedings.
- Konrath, L. F. (1996). “Auditing concepts and applications”, 3rd ed., West Publishing Company, United States of America, 730.
- Krogstad, J., Ridley, A., and Rittenberg, L. (1999). "Where we're going", *Internal Auditor*.
- Kumar, P.S. Risk Based Internal Audit-Indian Perspective. www.cga.nic.in/pdf/RBIA-IndianPrespective.pdf
- Lam, J., (200). “Enterprise-wide Risk Management and the Role of the Chief Risk Officer,” *Erisk.com*. March 2000.

- Liebenberg, A. & R. Hoyt. (2003), The determinants of Enterprise Risk Management: Evidence from the appointment of Chief Risk Officers. *Risk Management and Insurance Review*, 6, 1.
- Mautz, R.K. (1961). *The Philosophy of Auditing*, Sarasota, FL: American Accounting Association.
- Mathooko, J.M., Mathooko, F.M., & Mathooko, P.M., (2007). *Academic Proposal writing: A guide to preparing proposals for academic research*. Amu Press, Nakuru.
- Meigs, W.B., Whittington, O.R. & Meigs R.F. (1982). *Principles of Auditing*. Richard D. Irwin Inc., Illinois.
- Miles, M. B., & Huberman, M. A. (1994). *Qualitative Data Analysis: An Expanded Sourcebook* (second ed.). Beverley Hills: Sage.
- Millichamp, A. (2002). *Auditing*. Continuum, London.
- Mugenda, O. & Mugenda, A.G., (1999). *Research Methods: Qualitative and Quantitative Approaches*. Acts Press, Nairobi.
- Mwindi, D. (2005). *Auditing*. Focus Publishers Limited, Nairobi.
- Moeller, R., and H.N. Witt (1999). *Brink's Modern Internal Auditing*, 5th Ed. New York: John Wiley & Sons, Inc.
- Mohd Ariff Kasima, Siti Rosmaini Mohd Hanafib, Azwan Abdul Rashidc. (2011). The Veracity of the ERM Implementation: An Internal Auditing Perspective, 2nd international conference on business and economic research (2nd ICBER 2011) Proceeding. http://www.internationalconference.com.my/proceeding/2ndicber2011_proceeding/075-2nd%20ICBER%202011%20PG%20057-68%20ERM%20Implementation.pdf
- Nagy, L. Albert and Cenker, Wouldiam J. (2002). "An assessment of the newly defined internal audit function", *Managerial Auditing Journal*, 17(3), pp. 130-137.
- Namee, Mc. D. (2005). Risk management today and tomorrow. [Online]. Available from: <http://www.mc2consulting.com/risknz.htm> [Date accessed: 01/03/2005]
- NIST (2004). "Risk Management Guide for Information Technology Systems.", National Institute of Standards and Technology, Retrieved 29 March 2009, from <http://csrc.nist.gov/publications/nistpubs/800-30/sp800-30.pdf>
- National Treasury (2010). *Public sector risk management framework*
- Partnerships BC (2005), "An Introduction to Risk Management in a Public Private Partnership.", Partnerships British Columbia, Retrieved 29 March 2009, from www.partnershipsbc.ca
- Patton, M. Q. (1990). *Qualitative evaluation and research methods* (2nd ed.). Newbury Park, CA: Sage Publications.
- Pickett. S. H. K. (1997). *Internal auditing handbook*. New York: John Wiley.
- Reichel, M., & Ramey, M. A. (Eds.). (1987). *Conceptual frameworks for bibliographic education: Theory to Practice*. Littleton Colorado: Libraries Unlimited Inc.
- Rudasingwa Justin. (2006). *The Role of the Internal Audit Function in Enhancing Risk Management in the Rwandan Social Security Fund (RSSF)*.
- Sarens, G. & Abdolmohammadi, M. (2011). Monitoring Effects of the Internal Audit Function: Agency Theory versus other Explanatory Variables, *International Journal of Auditing* 15: 1-20, Blackwell Publishing Ltd, 9600 Garsington Rd, Oxford <http://onlinelibrary.wiley.com/doi/10.1111/j.1099-1123.2010.00419.x/pdf>

- Saunders. M. Lewis. P. and Thornhill. A. (2000). Research methods for business students. London: Pearson Education Limited.
- Saunders, M., Lewis, P. & Thornhill, A. (2003). Research Methods for Business Students. Pearson Education Limited, London.
- Sekarem, U. (2003). Research Methods for Business: A Skill Building Approach. John Wiley & Sons Inc., New York.
- Sherer, M. and Kent, D. (1983). Auditing and Accountability. London: Pitman.
- Smyth, R. (2002). Knowledge, interest and the management of educational change. Unpublished Doctoral Thesis, University of New England, Armidale.
- Taylor, D.H. and Glezen, W.G. (1991) "Auditing: Integrated Concepts and Procedures", 5th ed., John Wiley & Sons Inc, U.S.
- The Institute of Chartered Accountants in England & Wales (ICAEW). (1999). Internal Control Guidance for Directors on the Combined Code. www.accountancybooks.co.uk
- Walker, P. L., Shenkir, W. G., & Barton, T. L. (2002). Enterprise risk management: Putting it all together: The Institute of Internal Auditors Research Foundation.
- Walker, P. L., Shenkir, W. G., & Barton, T. L. (2003). ERM in practice. Internal Auditor.
- Wang, X. (1997). "Development trends and future prospects of internal audit", Managerial Auditing Journal, 12(4/5).
- Witte, R. S. & Witte, J.S. (2009). Statistics (9th Edition). John Wiley & Sons.
- Wouldiams, E. J. (2002). The impact of globalization on internal auditors: The evolution of internal auditing. Brigham Young University.
- Ministry of Finance, Kenya. <http://www.treasury.go.ke/background-to-the-internal-audit-department>