
INFLUENCE OF PRINCIPALS' AUDITING PRACTICES ON FINANCIAL MANAGEMENT IN PUBLIC SECONDARY SCHOOLS IN MANDERA WEST SUB-COUNTY, MANDERA COUNTY, KENYA

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ABSTRACT

Purpose of the study: The purpose of this study was to examine the influence of principals' auditing practices on financial management in public secondary schools in Mandera West Sub-county, Mandera County, Kenya. The specific objectives of the study were to examine the influence of principals' audit planning practices, setting up school audit committees, stakeholders' involvement in auditing practices, and audit reporting practices on financial management in public secondary schools.

Research Methodology: The study used a mixed-methods approach, combining qualitative and quantitative techniques. The target population of the study was 251 respondents, including 8 principals, 239 teachers, and 4 school auditors. A sample of 152 respondents was drawn using Yamane's formula. Stratified sampling was used to create four strata based on zones in Mandera West Sub-county. Quantitative data was collected from teachers through questionnaires, while qualitative data was collected from principals and support staff through interview guides.

Findings of the study: The findings of the study showed that most respondents agreed that their principal establishes guidelines for auditing and allots time for the practice. Respondents generally agreed that their principal informs members of the expected remuneration before they are included in the audit committee. Respondents generally agreed that stakeholders' participation in the auditing activities in their secondary school is crucial for effective financial management. Based on the results, it appears that the most common audit reporting practice adopted by the principal in the secondary school is annual reporting.

Conclusion: The study concluded that regular planning for auditing activities is important for all schools, and principals should take the time to ensure that these processes are in place and being properly executed. Principals are aware of the importance of setting up effective audit committees and consider various factors when doing so. While the principal has some success in involving stakeholders in the auditing process to improve financial management in the school, there is still room for improvement. Respondents believe that the Board of Management (BOM) usually approves budgets and financial statements such as trial balances, receipt books, audit reports, stores, and cash books are available in their school.

Recommendation: The study recommends that principals should prioritize qualifications when setting up audit committees. The principal should consider ways to improve the effectiveness of the audit committees by ensuring that they have the required skills, knowledge, and resources to perform their roles effectively. Given the agreement level with the different statements, it is recommended that school management considers the experience and training of stakeholders.

Keywords: *Principals, Auditing Practices, Financial Management, Public Secondary Schools, Mandera West Sub-County*

INTRODUCTION

Auditing is a critical part of financial management in most organizations, including secondary schools. The goal of auditing is to assure internal and external stakeholders that financial resources are being properly managed and accounted for. Auditing has become increasingly important in recent years, as the scope and complexity of financial management has grown. According to Burk (2013), auditing methods in schools have seen major changes that have broadened its reach. This has enabled auditing to contribute more to the efficiency, accountability, and careful use of

resources in schools. Auditing is conducted in secondary school organizations of all sizes and structures, and by people working both for and against the organization in a variety of legal and cultural contexts. The auditing profession also balances acting as both an impartial professional and a financial management consultant.

Mulgan (2010) argues that an effective audit plan focuses auditor attention on critical audit areas and ensures that enough resources are dedicated to the engagement. Effective audit planning should lead to a well-managed and tightly controlled audit, and ultimately, effective planning will reduce audit risk. In other words, the audit strategy establishes the broad guidelines for conducting the audit, including its timing, direction, and scope. The audit strategy then directs how to develop an audit plan, which includes a response to the assessment of audit risks. A fundamental tenet of audit plans is that the school auditing plan must include a thorough response to any specific concerns that were discovered while learning more about the audited organization.

STATEMENT OF THE PROBLEM

Auditing plays a critical role in improving financial management in secondary schools. Principals, along with their school administration teams, are responsible for conducting internal audits within the school. These audits aim to ensure that financial transactions are recorded accurately, funds are appropriately allocated, and financial policies and procedures are followed. Internal audits may be conducted periodically or as needed to assess the financial management practices within the school. Principals are also typically involved in budgets and financial planning processes for schools. Several authors have studied the influence of auditing practices on financial management in secondary schools. Adow (2020) notes that cases of wastage and pilferage of school financial resources have increased despite the government's emphasis on adherence to auditing regulations and practices. Smith (2022) studied the impact of principals' involvement in financial auditing on the management of finances in Nigerian public secondary schools. The findings revealed that principals who were actively engaged in financial auditing practices demonstrated improved financial management outcomes, including increased financial transparency, better budget allocation, and reduced instances of financial mismanagement.

Johnson (2022) explored the roles of principals' internal audits in promoting financial accountability in public secondary schools in Ghana. The findings highlighted that principal who

conducted regular internal audits played a critical role in fostering financial accountability. Internal audits enabled principals to identify and rectify financial irregularities, enhance transparency, and ensure compliance with financial policies and regulations. Adow (2020) highlights the increasing cases of wastage and pilferage of school financial resources in the context of Mandera County, Mandera West Sub-county, Kenya. However, the specific research problem or gap is not explicitly mentioned in the given information. Smith's (2022) study showed limited understanding of the specific influences of principals' auditing practices on the management of financial outcomes in Nigerian public secondary schools. Johnson's (2022) study did not show the need for a comprehensive understanding of the specific roles of principals' internal audits in promoting financial accountability in public secondary schools in Ghana. The identified research gaps are based solely on the information provided and may not fully capture the actual content and scope of the studies. This informs the current research on the influence of principals' auditing practices on financial management in public secondary schools in Mandera West Sub-county, Mandera County, Kenya.

RESEARCH OBJECTIVES

The study was based on the following research objectives:

- i. To examine how principals' audit planning practices, influence financial management in public secondary schools in Mandera West Sub-county;
- ii. To establish how setting up school audit committees influences financial management in public secondary schools in Mandera West Sub-county;
- iii. To assess the influence of stakeholders' involvement in school auditing practices on financial management in public secondary schools in Mandera West Sub-county;
- iv. To determine the influence of principals' audit reporting practices on financial management in public secondary schools in Mandera West Sub-county.

RESEARCH QUESTIONS

The study was guided by the following research questions:

- i. How do principals' audit planning practices influence financial management in public secondary schools in Mandera West Sub-county?

- ii. How does setting up school audit committees influence financial management in public secondary schools in Mandera West Sub-county?
- iii. What is the influence of stakeholders' involvement in school auditing on financial management in public secondary schools in Mandera West Sub-county?
- iv. To what extent do principals' audit reporting practices influence financial management in public secondary schools in Mandera West Sub-county.

THEORITICAL REVIEW

The Auditing Theory

The auditing theory proposed by Dennis (2014) will serve as the foundation for the research. According to this idea, auditing processes include identifying auditing objectives in the context of corporate financial reports, to investigate the underlying beliefs about what types of practices will achieve these goals, and to explain how the concepts used in developing these practices emerge from these goals and beliefs, and how they are then used in developing and applying the rules that govern audit practices in the organization. This theoretical approach explains what it means to provide justifications for adopting rules of the type indicated in any auditing procedure. According to Dennis (2014), philosophical ideas concerning the social construction of reality are used in constructing auditing concepts that emerge from the objectives and beliefs that drive audit practices. Auditing theory provides new insights into the nature of auditing materiality, evidence, professional judgment, and skepticism.

This is accomplished using the approach of conceptual enquiry, which is defined in the book as a specific type of philosophical investigation into auditing concepts. The insights presented in this book should aid standard setters in their decision-making and practitioners in adhering to audit standards. The auditing practices of principals in the study's context includes regularities in behavior where there is an aim to comply to a pattern. This indicates that secondary school principals must distinguish between behaviors that are in accordance with practice and those that are not. To ensure financial prudence in secondary schools, principals must implement auditing processes that correspond to laws and regulations published by an entity, the International Audit and Assurance Standards Board, and outlined in International Standards on Auditing. In other words, this theory emphasizes the need of understanding auditing as a process that aids standard

setters in deciding what rules to promulgate in standards to maintain financial prudence in educational institutions.

The Financial Agency Theory

Adams (1994) proposed the financial agency theory, which will drive this research. This theory is often used in accounting research to clarify and forecast external auditor appointments and the performance. The financial not only does agency theory helps explaining and predict. In addition to demonstrating the necessity of internal audit, it also clarifies the obligations placed on internal auditors by the organization and forecasts how organizational change will impact the internal auditing functions. The agency theory serves as the foundation for extensive research that can assist the academic world and the internal auditing industry both. Rationale for applying this principle to this research in the school context is that it justifies the fact that in order to effectively disseminate auditing and financial information at the school, auditing must be positioned within the social and cultural framework in which it operates.

EMPIRICAL REVIEW

The tasks used in getting finances and spending it wisely go under the umbrella of financial management. Careful planning and resource management are essential components of effective financial management. Financial management, according to Mestry and Bisschoff (2011), is the practice of managing financial aspects of a school with the intention of generating high-quality education. On the other hand, Watson (2011) and Saye (2012), however, point out that management of finances refers to duties that SGB and SMT should complete, includes cash handling, purchasing, payment of services, creating inventories, spending money, auditing, maintaining property, reporting finances, and managing budgets. The emphasis and duties of auditing have changed over time. Prior to 2012, the focus was more approaches, where audit was planned cyclical, methodical basis and the auditors' work was checked the effective organization internal controls against a list of the current policies and procedures (Al-Khalif, 2012). Since that time, the internal auditor's exclusive duty has been to reduce or eliminate risks. These practices can be appropriate during periods of slow developments and less rapid evolution in technology, but it is not applicable currently because modern schools depend in all aspects of their operations

and depend on advanced electronic technology, and they require quick information to make choices regarding global operations.

According to Swiss (2012), The goal of auditing is to improve an organization's operations. It is a free, objective assurance and consulting activity. Using a scientific, structured approach, we may evaluate and improve the effective management of risks, controls and the governance. procedures, auditing, as an independent, objective process, aids school organizations in achieving their goals. Auditors intends carrying out the auditing quickly and effectively. Plan begins as soon as an audit engagement is initiated. Al-Ghazzawi (2012) contends that plan need to be viewed as the distinct and the independent part an entire audit. Plans typically begins with an examination of concerns that were discussed with the management, such as a lack of control or errors that were not corrected, soon after or in connection with the conclusion of the previous audits. These concerns should be taken into account while planning because the audit for the following year will be affected by them. It shouldn't be considered that the audit strategy is carved in stone once the first planning step is over, just as it may change while the audit goes on. For instance, if a significant incident occurs while the audit is being undertaken, the plan may need to be changed.

To guarantee the accuracy and transparency of company reporting, audit committees are crucial. Schools use comparable methods. In a long-term study done in Australia, Ghalib (2013) found that having a clearly stated charter is a crucial first step in helping audit committees and the understanding of its functions. Audit committees are important to members, so defining members and criteria for selection is essential to effectiveness. Members of the audit committees are frequently members of the board, thus they already possess skills related to school management. Parents and students are the main participants in education. Internal parties with a stake in the school's success include teachers and other educational and non-educational employees (Wright & Wright, 2012). Governments and officially recognized government-affiliated organizations, including inspectorates or municipalities, take a slightly more distant role as vertical stakeholders. Additionally, all other groups, teams, or people from the school's neighbourhood that have an interest in the institution on some levels are referred to as horizontal stakeholders.

Talking to and working with stakeholders is essential to the auditing of school finances, and involving them in the auditing process is essential to improving quality control in management. Another crucial step in the auditing process is audit reporting. According to Zickien (2013), the

goal of financial reporting is to give management and stakeholders information they may use to make resource allocation decisions. In other words, timely financial information that is also devoid of major errors, omissions, and fraud is beneficial. Al-Amiri, Al-Mutaz, and Mohammed (2014) found that the audit reporting requirements differ from audit to audit in a study of 71 tertiary institutions in Saudi Arabia. For instance, the auditor must be aware of any specific reporting requirements that some companies must meet in order to adhere to laws or standards governing school governance.

CONCEPTUAL FRAMEWORK

The conceptual framework in this research is based on audit planning practices, audit committee formation, stakeholder involvement, and audit reporting practice, which constitutes independent variables, where the financial management, which will include indicators such as prudent resource use, accountability, and efficiency, will constitute the dependent variable. As depicted in Figure 1, the intervening variable for this study was government policy.

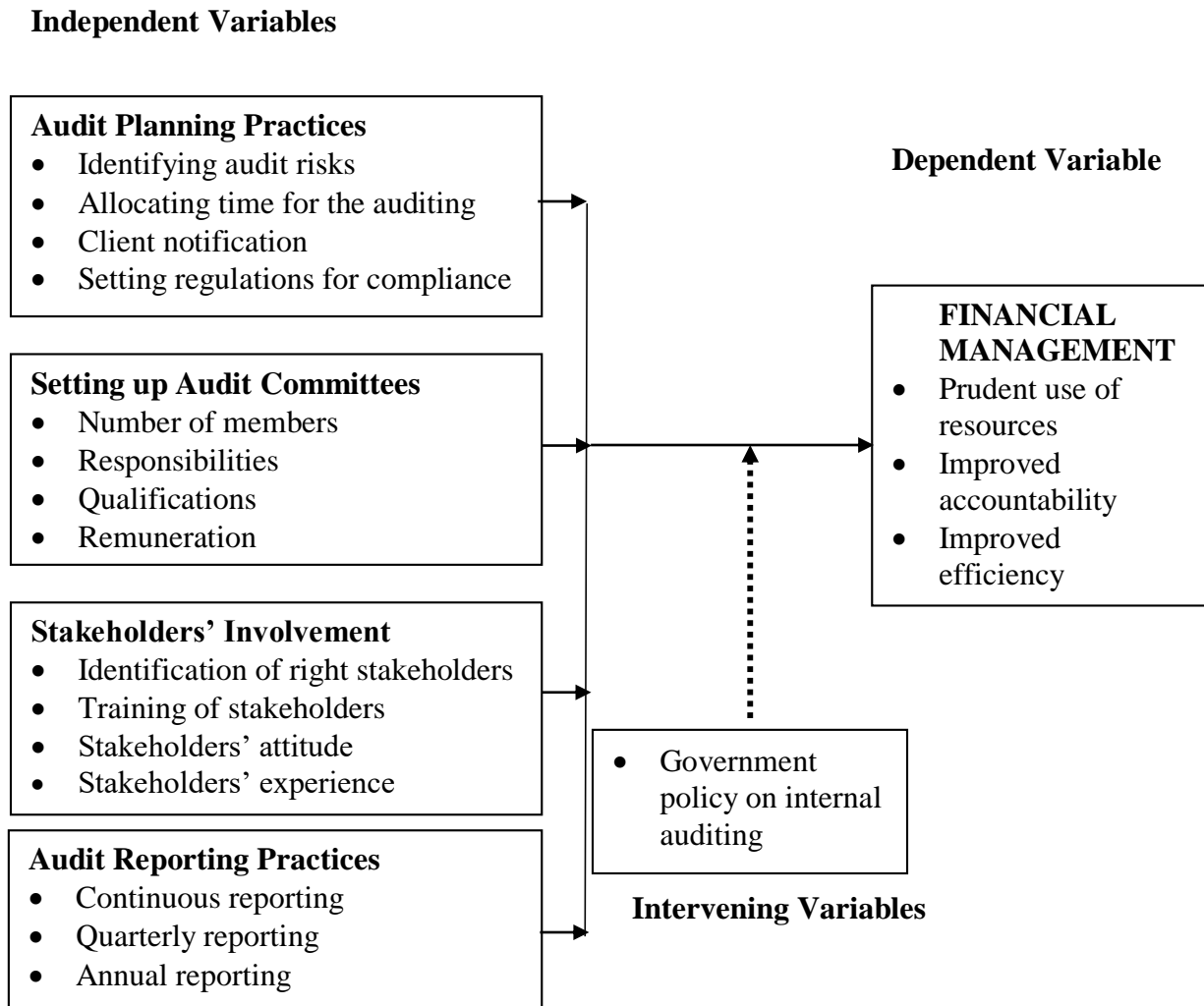


Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The research study used a descriptive surveys approach to incorporate both qualitative and quantitative techniques. The research was conducted in Mandera West Sub-County in Mandera County. As there are eight public secondary schools in Mandera West Sub-county, the targeted population was 289 respondents, including eight principals, 239 teachers, and four school auditors. Based on the number of zones in Mandera West Sub-county, stratified sampling was used to construct four strata. With the use of this sampling technique, it was possible to get samples that were uniform, proportionally representative of each zone, and homogeneous. Using purposive sampling, one (1) principle was chosen from each zone, taking into account secondary schools

with documented instances of financial management issues. Every stratum or subgroup within the population is represented in the sample thanks to stratified random sampling. To eliminate bias and favouritism, however, 36 secondary school teachers were chosen at random from each zone. This process allowed the researcher to sample 144 teachers, four principals, and four school auditors. The researcher employed structured interviewing techniques and open-ended test questions in this study to collect qualitative data from administrators and school auditors. Statistical Packages for Social Science (SPSS Version 23) was employed examine quantitative data inferentially using Pearson's Correlation Analysis and descriptively using frequencies and percentages. ANOVA, or Analysis of Variance, is a statistical method for examining how two or more groups or treatments differ from one another in a dataset.

RESULTS AND DISCUSSIONS

The most common planning activity that principals undertake when planning for auditing in schools is allocating time for the auditing. The respondents have a low level of agreement that their principal identifies audit risks before auditing, and a moderate level of agreement that their principal notifies them of areas to be audited before auditing begins. However, the respondents have a moderate to high level of agreement that their principal sets rules to be followed during auditing. Respondents generally agreed that their principal informs members of the expected remuneration before they are included in an audit committee. However, they are less likely to agree that their principal considers the number of audit committee members to ensure effectiveness, takes into consideration the responsibilities to be undertaken while setting up audit committees, or considers the qualifications to be included in the audit committees to improve financial management.

The most frequent factor considered when involving stakeholders in the auditing process is the identification of the right stakeholders. Respondents generally agreed that the involvement of stakeholders in auditing activities in their secondary school is crucial for effective financial management. However, the level of agreement varies with different statements. The respondents seem to agree more with the statement that the experience accumulated by different stakeholders usually forms a basis for their involvement in the auditing exercise. Based on the results, it appears that the most common audit reporting practice adopted by the principal in the secondary school is annual reporting. The respondents generally agreed that reporting of audit findings is not done on

a continuous basis in their school and that their principal rarely undertakes quarterly reporting. However, they agree that annual reporting of audit results is a common practice, but the outcomes on financial management are not necessarily minimal.

CONCLUSIONS

Regular planning for auditing activities is important for all schools. Principals should take the time to ensure that these processes are in place and being properly executed. Planning is a critical aspect of the audit process, and principals should take the time to carefully consider the various activities involved in planning for auditing in their schools to ensure a smooth and effective process. Principals are aware of the importance of setting up effective audit committees. By prioritizing qualifications, responsibilities, and other relevant factors, principals can ensure that their audit committees are properly equipped to monitor and assess the school's financial and operational processes. While principals have some success in involving stakeholders in the auditing process to improve financial management in the school, there is still room for improvement. In particular, principals could focus on better choosing the appropriate parties to involve in the processes.

Based on the results, it appears that the school is placing more emphasis on deciding which parties to participate in the auditing process are the appropriate stakeholders and providing training to these stakeholders, compared to considering their attitude and experience. Respondents believe that the Board of Management (BOM) usually approves budgets and financial records such as trial balances, receipt books, cash books, audit reports, and stores are available in their school. The majority of respondents believe that continuous reporting of audit results is more effective in improving financial management in their school. It can also be concluded that the principal's reporting practices have an impact on the financial management in the school.

RECOMMENDATIONS

The study recommends that principals should prioritize qualifications when setting up audit committees. This means ensuring that audit committee members have relevant skills and expertise, such as financial reporting, accounting, and audit experience, and are capable of providing independent oversight and advice to the organization's management. The study also recommends that principals should prioritize time allocation for auditing and client notification as key planning activities. The study also recommends that school management should consider the experience and

training of stakeholders before involving them in auditing activities. This will help to improve the effectiveness of the audit processes and financial management in the school. Finally, the study recommends that it may be advisable for the school to prioritize continuous reporting of audit findings to ensure better financial management. The school should also consider incorporating quarterly reporting of audit results to ensure regular monitoring and improvement of financial management practices.

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