

ABSTRACT

The internal audit function plays a significant role in the financial performance of banks as it tasked with not only carrying out an oversight function but also providing assurance to their stakeholders. It is also required of an internal auditor to undertake assessment on the status of internal controls as well provide recommendations on the same albeit independently. They are also required to build investors' confidence on banks' financial by providing accurate financial statements. However, these functions are adversely influenced by interference from top management and high levels of incompetence among internal auditors leading to a significant negative impact on the financial performance of banks. This study specifically investigated the influence of internal audit on the financial performance of banks listed at the Nairobi Securities Exchange. In particular, it examined the influence of: internal auditor's independence, internal auditors' experience and internal auditors' qualifications. The study was guided by four theories; Agency Theory, Lending Credibility Theory, Limperg's Theory of Inspired Confidence and Market Power Theory. Target population was that of 11 commercial banks listed in Nairobi Securities Exchange. The sample size was that of 76 audit managers and internal auditors that will be selected to participate in the study. Census sampling was employed to pick the respondents. Questionnaires were used to collect primary data in the study locale. Data was analyzed qualitatively and quantitatively using SPSS version 22.0 and was presented in Frequency and Percentage tables and Pearson Product-Moment correlation (Pearson r) applied. A Chi Square was employed to test hypothesis. The study established that, internal auditors' independence, internal auditors' qualifications, and internal auditors' experience all influenced the financial performance of commercial banks listed in the Nairobi Securities Exchange (NSE). Based on study findings, a considerable number of the sampled respondents as demonstrated by the obtained mean of 4.048 mean of 4.213 linked the existence of an internal audit budget to the financial performance of commercial banks listed in NSE. Further, the results of the research have revealed 4.213 were of the opinion that qualified opinion on going-concern as a result of internal auditors' qualifications significantly influenced investor confidence on commercial banks' listed in NSE securities. Study findings also revealed educational background of internal auditors was a significant measure to how internal auditors' experience influenced financial performance of commercial banks listed at the NSE as shown by a mean of 4.066. Based on the study findings, Return on Assets (ROA) as demonstrated by mean of 4.482 was to a very great extent a significant measure of financial performance of listed banks.

The study concluded internal audit budget that determines internal auditors' independence has a significant influence on the financial performance of listed banks. It can also be concluded that educational background of internal auditors and professional training of internal auditors significantly influenced financial performance of listed banks. From the research findings the study recommends that as a measure of enhancing internal auditor independence, commercial banks listed at the Nairobi Securities Exchange (NSE) should invest financial resources in the form of a budget to their internal audit departments. The study also recommends since it researched on variables such as; internal auditors' independence, internal auditors' qualifications and internal auditors' experience and their contribution towards the effectiveness of internal audit function in relation to the financial performance of listed banks, further studies should be done to determine the other factors that contribute to the effectiveness of internal audit on financial performance of banks and not necessarily those listed at the NSE.