INFLUENCE OF EXTERNAL AUDIT REPORTS ON THE FINANCIAL STEWARDSHIP OF PUBLIC UTILITY FIRMS IN KENYA: A SURVEY OF WATER AND SEWERAGE FIRMS IN CENTRAL RIFT REGION, KENYA

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A Project Submitted to the Institute of Postgraduate Studies of Kabarak University in Partial Fulfilment of the Requirements for the Award of Master of Business Administration (Accounting) Degree

KABARAK UNIVERSITY

NOVEMBER, 2025

DECLARATION

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Amina Mohamed Farah

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RECOMMENDATION

To the Institute of Postgraduate Studies:

The Project entitled **"Influence of External Audit Reports on the Financial Stewardship of Utility Firms in Kenya; A Survey of Water and Sewerage Firms in Central Rift Region, Kenya"** and written by **Amina Mohamed Farah** is presented to the Institute of Postgraduate Studies of Kabarak University. We have reviewed the research project and recommend it be accepted in partial fulfilment of the requirement for award of the degree of Master of Business Administration(Accounting).

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DEDICATION

This work is dedicated with profound gratitude and love to my beloved parents, Mohamed Farah and Bahila Ali**.** Your unwavering support, sacrifice, and boundless encouragement have been the foundation of my academic journey. Your resilience, wisdom, and unwavering belief in my potential have shaped me into the person I am today. Without your guidance and prayers, this achievement would not have been possible. To my dear sisters, Leila Mohamed and Halima Mohamed**,** your steadfast support, encouragement, and constant motivation have been a source of strength throughout this journey. Your belief in my dreams and your unwavering presence in my life have been truly invaluable. This work is a testament to your love, sacrifices, and the values you have instilled in me. I am forever grateful for your presence in my life.

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ABSTRACT

Water and sewerage firms play a critical role in the provision of essential services aimed at enhancing the living conditions of citizens. As public utility entities, these firms are obligated to uphold the principles of financial stewardship outlined in various regulatory frameworks. Article 201(d) of the Constitution of Kenya emphasizes the prudent and responsible use of public resources, while Article 227 underscores the need for fairness, equity, transparency, competitiveness, and cost-effectiveness in financial resource utilization. Additionally, the Public Financial Management Act of 2012 mandates public institutions to manage resources in a lawful, effective, efficient, economical, and transparent manner. In spite of these regulatory expectations, water and sewerage firms continue to face financial stewardship challenges such as the non-disclosure of loan obligations and the absence of debtor aging reports. The general objective of this study was to examine the influence of external auditing on the financial stewardship of public utility firms in Kenya, focusing on water and sewerage companies in the Central Rift Region. The study was anchored on the Principal–Agent Theory and targeted senior management staff across six water sector corporations in the region, comprising a census of 63 officials. A quantitative research approach was adopted, and primary data were collected using structured questionnaires. Descriptive statistics including frequencies, means, and standard deviations were used for initial data analysis. Inferential statistics, specifically multiple linear regression analysis, were employed to establish relationships between external audit dimensions and financial stewardship using IBM SPSS software. The key findings revealed that all four variables audit report quality, external audit findings, past audit actions, and leadership had a positive and statistically significant influence on financial stewardship. Among these, past audit actions had the strongest predictive power (β=0.641, $p<.001$), emphasizing the critical importance of implementing previous audit recommendations. Audit report quality (β= 0.278, p = .001) and external audit findings (β = 0.219, p = .014) also made significant contributions, while leadership involvement (β = 0.163, p = .043), although moderate, remained significant. The regression model explained 70.7% of the variance in financial stewardship (R^2 = 0.707) and passed all key diagnostic tests including normality, homoscedasticity, multicollinearity, and autocorrelation. These findings suggest that effective external audit practices, particularly the follow-up and implementation of audit recommendations, play a vital role in enhancing financial accountability in public utility firms. The study recommends greater emphasis on audit implementation mechanisms and leadership engagement to promote sound financial stewardship. Future research may consider exploring the influence of specific leadership styles and internal governance mechanisms on audit responsiveness and financial accountability in the public sector.

Keywords*: External Audit Reports, Financial Stewardship, Utility Firms*

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
AFROSAI	African Organization of Supreme Audit Institutions
AU	African Union
ERB	Ethics Review Board (ERB)
IBM SPSS	International Business Machines Statistical Packages for Social Sciences
IFAC	International Federation of Accountants
ISA	International Standards on Auditing
KPMG	Klynveld Peat Marwick Goerdeler
NACOSTI	National Commission of Science, Technology and Innovation
OAG	Office of the Auditor-General
OECD	Organization for Economic Co-operation and Development
ORCID	Open Researcher and Contributor Identifier
PFMA	Public Finance Management Act
WASREB	Water Services Regulatory Board
WSF	Water Services Fund

CONCEPTUAL AND OPERATIONAL DEFINITION OF KEY TERMS

Financial Stewardship: Financial stewardship refers to the responsible planning, management, and oversight of financial resources to ensure accountability, transparency, and efficiency in the use of public or organizational funds (Eton et al., 2020). In this study, financial stewardship will be measured through indicators such as budget adherence, timeliness in financial reporting, compliance with financial regulations, and the level of financial accountability mechanisms within utility firms.

Utility Firms: Utility firms are organizations that provide essential public services such as water, electricity, gas, and sanitation, often under government regulation to ensure accessibility and fair pricing (Independent Pricing and Regulatory Tribunal, 2019). For this study, utility firms refer specifically to public water and sewerage service providers operating within the Central Rift Region of Kenya, as registered and monitored by the Water Services Regulatory Board.

External Audit Report: An external audit report is an independent evaluation conducted by a third-party auditor to assess the accuracy and fairness of an organization's financial statements and compliance with applicable standards and regulations (DeFond & Zhang, 2014). In this study, external audit reports refer to annual assessments and published reports by the Office of the Auditor General detailing findings, recommendations, and financial compliance of public utility firms.

Audit Report Quality: Audit report quality reflects the degree to which an audit report accurately represents the financial position of an organization, identifies irregularities, and provides actionable recommendations in a timely and independent manner (Dzomira, 2017a). In this study, audit report quality is measured by timeliness of the report, comprehensiveness of findings, clarity of recommendations, and perceived objectivity and professionalism of the auditors.

Past Audit Actions: Past audit actions refer to the implementation status and responsiveness of an organization to previously issued audit recommendations and findings aimed at improving financial operations and accountability (Demeke, 2021). In this study, past audit actions are operationalized through indicators such as the proportion of prior recommendations implemented, timelines of implementation, and institutional mechanisms for audit follow-up.

Leadership: Leadership in the context of financial governance refers to the ability of top management or governing boards to influence, support, and enforce policies that promote accountability, ethical practices, and the achievement of audit objectives (Sathyamoorthi et al., 2018). Leadership will be measured based on management commitment to audit implementation, support for internal controls, responsiveness to audit queries, and ethical conduct in financial decision-making.

External Audit Findings: External audit findings are the documented observations, irregularities, and control weaknesses identified during an independent audit that highlight deviations from expected financial management standards (Saleh & Harb, 2020). In this study, external audit findings are captured through frequency and nature of audit issues raised, material misstatements reported, and control deficiencies identified by external auditors in utility firms.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

External auditing plays a vital role in promoting transparency, accountability, and effective financial management in both public and private organizations worldwide. Across the globe, external audit reports provide independent assurance that public resources are used properly and that financial statements accurately reflect an organization's performance (IFAC, 2024). According to the International Federation of Accountants, nearly 65% of public sector audit entities worldwide face challenges related to audit quality and follow-up processes, which affect their ability to ensure compliance and accountability in spending (IFAC, 2024). For example, in 2023, the World Bank reported that shortcomings in external auditing resulted in approximately USD 40 billion in misallocated or untracked public funds in developing countries, underscoring the urgent need to improve audit quality and the timely delivery of audit results.

African countries have made progress in strengthening public financial management systems, but gaps still exist in using external audit reports to improve financial oversight. The African Organization of Supreme Audit Institutions (AFROSAI) noted in its 2023 report that 70% of public utility entities in Sub-Saharan Africa failed to act on audit recommendations within one fiscal year, which has led to ongoing inefficiencies and accountability issues (AFROSAI, 2023). For example, South Africa's Auditor-General reported that only 40% of local government entities addressed audit recommendations from the previous year, resulting in continued irregular expenditures totaling ZAR 26 billion in 2022 (Auditor-General South Africa, 2023). Similarly, in Uganda, the Auditor-General (2023) found that 38% of local water utilities exhibited repeated financial management weaknesses over multiple years due to delays in implementing audit findings. These figures highlight the ongoing issues of non-compliance, delayed responses, and poor expense tracking challenges that weaken the financial management of public utilities across the region.

In Kenya, the external audit function was constitutionally established under the Office of the Auditor-General (OAG), which plays a vital role in ensuring responsible management of public finances. The Constitution of Kenya (2010) and the Public Finance Management Act (2012) require all public entities, including water and sewerage companies, to conduct annual audits and implement audit recommendations promptly. However, the Auditor-General's consolidated report (2024) revealed that over 60% of audited public utility companies had unresolved audit queries, while 45% of water firms received qualified audit opinions due to issues with expenditure tracking and revenue collection. Additionally, the same report indicated that the delayed presentation of audit findings, averaging nine months after the end of the fiscal year, hindered corrective actions and accountability in financial reporting (OAG, 2024).

The Water Services Regulatory Board (WASREB) highlighted in its IMPACT Report 2024 that, although the number of licensed water utilities has increased, now exceeding 100 nationwide, many still face inefficiencies in financial management and expenditure tracking (WASREB, 2024). Specifically, 52% of utilities in the Central Rift Region reported issues with budget utilization and expenditure reconciliation. These problems are closely related to poor implementation of audit recommendations and the lack of follow-up mechanisms for irregular expenses. For instance, Nakuru Water and Sanitation Company (NAWASSCO) and Nakuru Rural

Water and Sanitation Company (NARUWASCO) were noted for delays in responding to audit queries, with a combined total of over Kshs 120 million in the 2023–2024 audit cycle (Auditor-General, 2024).

Globally and locally, the quality of audit reports, their timeliness, follow-up on past audit actions, and leadership commitment to implementing audit recommendations are recognized as key factors in financial stewardship. Studies have shown that audit report quality enhances the credibility and reliability of financial information, thereby promoting accountability and responsible resource use (Merter, 2024; Atuilik & Asare, 2023). Likewise, timely audits enable management to take immediate corrective actions, while effective leadership ensures that audit findings are systematically addressed (Nyawira & Mbugua, 2023). Conversely, delayed, poor-quality, or overlooked audit reports result in recurring audit questions, misappropriation, and weakened financial stewardship in public entities.

Despite the increasing number of external audits in Kenya, there remained limited empirical evidence on how the quality and timeliness of audit reports, previous audit actions, and leadership commitment influenced financial stewardship within public utility firms particularly in the water and sewerage sector in the Central Rift Region. This study, therefore, sought to bridge this gap by examining the influence of external audit reports on the financial stewardship of water and sewerage firms, with a focus on audit report quality, timeliness, past audit actions, and leadership response. By doing so, it aimed to provide insights into how audit processes could enhance expenditure tracking, accountability, and the overall financial sustainability of Kenya's public utilities.

1.1.1 Leadership Role as a Moderator

Leadership played a vital role in transforming external audit findings into tangible financial improvements within public entities. Around the world, the quality of audit reports and the effectiveness with which they were carried out often depended on the leadership's dedication to accountability and transparency (IFAC, 2024). Strong leadership made sure that audit recommendations were not only accepted but also acted upon in ways that improved financial management. According to the World Bank (2023), over 60% of audit recommendations in developing countries have failed to achieve their expected outcomes due to weak leadership support and a lack of follow-up mechanisms. For instance, the OECD Public Governance Report (2023) highlighted that countries with strong governance leadership, such as New Zealand, Finland, and Singapore, had 35% higher compliance with audit recommendations compared to countries with weak leadership accountability. This demonstrated that leadership was not just a background factor, but a crucial element in ensuring that audit quality and timeliness led to better management of public resources.

At the regional level, African public institutions continued to face challenges in implementing audit recommendations effectively. The African Organization of Supreme Audit Institutions (AFROSAI, 2023) reported that in Sub-Saharan Africa, leadership inertia contributed to 68% of unimplemented audit recommendations across public entities between 2020 and 2023. For example, in Ghana and Nigeria, delayed or partial implementation of audit findings was linked to a lack of top-level commitment from accounting officers and boards (Atuilik & Asare, 2023). Likewise, in Uganda, the Auditor-General’s Report (2023) showed that although audit quality improved, only 46% of entities acted on prior-year audit findings, mainly due to leadership gaps in governance and accountability structures. These findings underscore the crucial role of leadership in ensuring that audit quality, timeliness, and follow-up actions are effectively linked to improved financial management outcomes.

In Kenya, leadership has played a crucial role in shaping how responsive public utilities are to external audit recommendations. The Constitution of Kenya (2010) and the Public Finance Management Act (2012) outlined the accountability framework for public officers, highlighting leadership responsibility in ensuring the careful use of public resources. However, the Office of the Auditor-General (OAG, 2024) revealed that 58% of public utility firms, including water and sewerage companies, failed to implement at least half of their audit recommendations, often citing weak leadership commitment and lack of oversight. The Water Services Regulatory Board (WASREB, 2024) also reported that while audit reports were generally accessible, follow-up actions were often delayed or ignored due to limited leadership involvement at the board and management levels. For instance, in Nakuru and Baringo water utilities, audit recommendations related to expenditure tracking and debt management remained unresolved for over two consecutive audit cycles (OAG, 2024).

Leadership, as a moderating factor, influenced how audit findings translated into financial stewardship outcomes, including efficiency, transparency, and accountability. Studies in Kenya have shown that while external audit quality and timeliness positively impact accountability, these effects are significantly strengthened when leadership actively supports audit implementation (Nyawira & Mbugua, 2023). Leadership commitment ensured that audit reports were accurately interpreted, corrective measures were implemented, and financial controls were enhanced (Mutua, 2023). In contrast, weak leadership led to poor expenditure tracking, repeated audit queries, and a decline in public trust. Therefore, leadership acted as the “linking force” between audit reporting processes and financial stewardship outcomes by ensuring the institutionalization of accountability practices, enforcing corrective measures, and fostering an ethical financial culture.

Although leadership is widely recognized as important, empirical evidence of its moderating role in the relationship between external audit reports and financial stewardship remains limited, especially within Kenya’s public utility sector. Most studies have focused on audit quality or timeliness as the primary factors influencing accountability (Atuilik & Asare, 2023; Merter, 2024), neglecting the impact of leadership behaviors on translating audit recommendations into improved financial outcomes. This study aims to fill this gap by examining how leadership influences the relationship between external audit reports and financial stewardship among water and sewerage companies in the Central Rift Region of Kenya. It aims to demonstrate how leadership dedication and engagement can enhance the impact of audit quality, timeliness, and follow-up efforts in improving expenditure management, fiscal responsibility, and sustainable governance.

1.1.2 Financial Stewardship

Financial stewardship entails responsible planning, management, and utilization of financial resources to achieve organizational objectives while upholding accountability, transparency, and sustainability (IFAC, 2023). It incorporates principles of integrity, accurate expenditure tracking, and adherence to regulatory frameworks governing public financial management. Globally, financial stewardship has become a vital component of corporate governance, particularly in public organizations where funds are sourced from taxpayers and subject to public scrutiny. According to the World Bank's Public Expenditure Review (2024), poor financial stewardship accounts for approximately 20% of resource wastage in public agencies in developing countries, primarily due to weak oversight and a failure to act on audit recommendations. On the other hand, countries with strong stewardship practices, such as New Zealand, Canada, and Sweden, achieved compliance rates of up to 90% with financial accountability standards through effective leadership, timely audits, and robust regulatory systems (OECD, 2023). These findings demonstrate that strong financial stewardship fosters fiscal discipline, enhances transparency, and cultivates public trust in government operations.

Many African countries have implemented reforms in public financial management to improve oversight and accountability. The African Development Bank (AfDB, 2023) reported that, although significant progress was made in establishing audit institutions and public finance laws, implementation remained inconsistent. For example, only 54% of African public entities fully comply with established financial reporting and audit standards, often due to leadership gaps, poor expenditure tracking, and slow responses to audit findings. In Ghana, Nigeria, and Uganda, cases of financial mismanagement persisted despite the presence of external audit mechanisms, highlighting a disconnect between audit results and actual stewardship practices (Atuilik & Asare, 2023). The African Union (AU, 2024) emphasized that effective financial stewardship requires a unified system of audit responsiveness, strong leadership commitment, and ethical governance. It also highlighted the importance of timely external audits to inform corrective actions that improve the efficient use of public funds.

In Kenya, financial stewardship remains a critical issue in managing public resources, especially among state corporations and utility companies. The Office of the Auditor-General (OAG, 2024) consistently reports cases of unaccounted expenditures, delayed financial reports, and weak implementation of audit recommendations across various water and sewerage firms. In the 2023/2024 audit cycle, 47% of public utilities in Kenya received qualified audit opinions due to issues like incomplete financial records, unverified expenses, and poor debt management (OAG, 2024). These problems directly undermine the principles of accountability and stewardship. The National Treasury (2024) also noted that limited capacity in expenditure tracking and weak leadership commitment significantly contribute to inefficiencies in financial reporting and control systems. For example, water utilities in Nakuru and Bomet counties were identified as having weak internal controls that caused delays in reconciling water billing revenues with actual collections.

1.2 Statement of the Problem

As public entities, water and sewerage firms need to ensure that they are financially accountable to their stakeholders. However, the water and services companies still face diverse financial stewardship challenges. In the Auditor General's report for the financial year ending June 2018, the Office of the Auditor General (2018) noted various financial stewardship challenges. Among the issues noted were non-disclosure of loan repayments to the tune of Kshs 39,468,544.80 payable to the African Development Bank. The external audit report further noted that while the firm had outstanding debtors totaling Kshs 710,483,930, there was no aging report that was prepared for these debtors, contrary to provisions of its own finance manual. Subject to Articles 229 of the Constitution of Kenya and Section 35 of the Public Audit Act of 2015, the Office of the Auditor General is mandated to conduct external audits on all public entities, including water and sewerage firms. The external audit process is designed to enhance financial stewardship. However, there are challenges with the communication aspects, effective control, and technical capacity in the organizations being audited. This study thus seeks to examine whether external auditing influences the financial stewardship of water and sewerage firms in the central rift region in Kenya. Numerous studies have investigated the impact of external auditing on the financial stewardship of diverse firms. These studies include Maama & Marimuthu (2020) in the context of Ghana, Saleh and Harb (2020) regarding Jordanian commercial banks, and Kurniawati (2020) concerning publicly listed commercial banks. These studies failed to examine the link between external auditing and financial stewardship, which is the focus of this current study.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was the examination of the influence of external audit reports on the financial stewardship of public utility firms in Kenya with a focus of Water and Seweragefirms in Central Rift Region, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were;

i. To examine the influence of external audit reports quality on the financial stewardshipof water and sewerage firms in central rift region, Kenya.
ii. To examine the influence of the timely presentation of external audit findings on the financial stewardship of water and sewerage firms in central rift region, Kenya.
iii. To examine the influence of past audit actions of external audit findings on the financial stewardship of water andsewerage firms in central rift region, Kenya.
iv. To examine the influence of leadership of external audit findings on the financial stewardship of water and sewerage firms in central rift region, Kenya.

1.4 Research Hypotheses

The specific research hypotheses of the study were;

$H0_1$: Audit report quality does not have statistically significant influence on the financial stewardship of water and sewerage firms in central rift region, Kenya.

$H0_2$: Timely presentation of external audit findings does not have statistically significant influence on the financial stewardship of water and sewerage firms in central rift region, Kenya.

$H0_3$: Past audit actions of external audit findings do not have statistically significant influence on the financialstewardship of water and sewerage firms in central rift region, Kenya.

$H0_4$: Leadership of external audit findings does not have statistically significant influence on the financial stewardship of water and sewerage firms in central rift region, Kenya.

1.5 Justification of the Study

Access to reliable and clean water for domestic, commercial, and industrial use is widely recognized as a vital indicator of a nation's social and economic progress. Clean water is not only crucial for human health and sanitation but also serves as a key resource for agriculture, manufacturing, energy production, and other essential sectors that fuel national growth. In Kenya, the provision of safe, affordable, and sustainable water and sanitation services is embedded in both national development plans and international commitments. Specifically, it is a fundamental part of Kenya’s Vision 2030, the country’s long-term development strategy aimed at transforming Kenya into a newly industrializing, middle-income nation by 2030. Under the social pillar of Vision 2030, improving access to water and sanitation is emphasized as a way to boost public health, reduce poverty, and foster inclusive urban and rural development.

Globally, this commitment aligns with Sustainable Development Goal (SDG) 6, which calls for “availability and sustainable management of water and sanitation for all” by 2030. SDG 6 includes targets related to universal access to safe drinking water, equitable sanitation, improved water quality, water-use efficiency, integrated water resources management, and the protection of water-related ecosystems. Public utility companies, particularly those providing water and sewerage services, are at the forefront of achieving these targets. Their operational efficiency, financial sustainability, and governance practices directly influence whether communities receive consistent, high-quality services.

For these utilities to fulfill their mandates effectively, they must manage substantial financial resources sourced from a mix of government allocations, user tariffs, donor funding, and commercial loans. These funds are used to construct and maintain infrastructure (such as pipelines, treatment plants, and pumping stations), pay staff, procure materials, and implement technological upgrades. Given the public nature of these resources, financial stewardship, defined as the ethical, transparent, and accountable management of financial assets, is not merely a best practice but a legal and moral obligation. The Constitution of Kenya (2010), notably Article 201(d) and Article 227, mandates that public resources be used prudently, equitably, and in a manner that promotes accountability and value for money. Similarly, the Public Finance Management Act (2012) requires all public entities, including water service providers, to uphold the principles of economy, efficiency, effectiveness, and transparency in their financial operations.

When financial stewardship is weak, as shown by delayed audits, unimplemented recommendations, poor expenditure tracking, or inadequate leadership oversight, utilities face operational problems, such as revenue loss, aging infrastructure, service disruptions, and decreased public trust. On the other hand, strong financial stewardship allows utilities to plan effectively, invest wisely, recover costs sustainably, and respond quickly to audit results and regulatory requirements. This, in turn, improves service reliability, reduces non-revenue water, enhances billing and collection systems, and ensures investments lead to real improvements in citizens' quality of life. Ultimately, the performance of water and sewerage firms is not just a technical or financial issue; it is a matter of social equity and public welfare. Effective and transparent financial management ensures that every dollar spent helps expand access, improve water quality, and develop climate-resilient systems. In this way, strong financial oversight in the water sector becomes a vital supporter of both national.

1.6 Significance of the Study

This study is of significance to diverse water regulatory authorities and water services development boards, such as the Water Services Regulatory Board and the Rift Valley Water Services Board. These stakeholders will gain in-depth insights into the financial stewardship aspects within water and sewerage firms, as well as the manner in which external audits influence such accountability. This will be key in their formulation of corporate governance policies for the firms. The study will be of importance to the financial affairs' regulatory authorities, such as the office of the auditor general, which will gain insights into how the external audit dynamics impact the public entities, such as water and sewerage services. This would be key in ensuring that these financial regulatory authorities develop policies and practices that support the achievement of financial stewardship within water and sewerage companies. The management of water and sewerage companies will gain insight into the link between the external auditing process and financial stewardship aspects, which will lead to improvements in their financial practices. Finally, finance researchers and academicians will gain insights into the influence of external auditing on the financial stewardship of public entities, which they can then incorporate into their own literature reviews.

1.7 Scope of the Study

This study was confined to the Central Rift Region of Kenya, which is under the jurisdiction of the Rift Valley Water Services Board. The region was chosen because of its concentration of public water and sewerage service providers, diverse operational scales, and documented challenges in financial accountability, as highlighted in recent Auditor-General reports. Specifically, the study focused on six key public utility entities: Nakuru Water and Sewerage Company (NAWASSCO), Nakuru Rural Water and Sanitation Company (NARUWASCO), Naivasha Water and Sewerage Company, Narok Water and Sewerage Services Company, the Central Rift Valley Water Works Development Agency, and the Rift Valley Water Services Board. The thematic focus centered on external audit processes and their influence on financial stewardship within these utilities. The study examined four core dimensions:

Audit report quality is assessed through attributes such as professionalism, objectivity, comprehensiveness, timeliness, and adherence to International Standards on Auditing (ISA); External audit findings, including the clarity, relevance, and action ability of observations and recommendations issued by the Office of the Auditor-General; Past audit actions defined as the extent to which management implemented prior-year audit recommendations, including the presence of follow-up mechanisms, monitoring systems, and corrective measures; and Leadership support is measured by the commitment of senior management and governing boards in allocating resources, supervising implementation, and fostering a culture of accountability in response to audit outcomes. The dependent variable, financial stewardship, was operationalized through indicators such as budget adherence, transparency in expenditure, accuracy of financial reporting, compliance with the Public Finance Management Act (2012), and value for money in resource utilization. While the study drew on global and regional empirical literature to inform its conceptual framework, particularly from contexts such as Ghana, Uganda, South Africa, and OECD countries, the analysis remained grounded in the local realities of audit implementation, governance structures, and financial management practices within Kenyan public utility firms. This localized focus ensures that the recommendations are both relevant and actionable for policymakers, regulators (such as WASREB), and utility management in the region.

1.8 Limitations of the Study

Limitations refer to the constraints or weaknesses that may affect the interpretation, validity, or generalizability of the findings. Geographical Scope: The study was confined to the Central Rift Region of Kenya, which limits the generalizability of the findings to other regions with different institutional, regulatory, or operational contexts, such as the Coastal or Western regions of Kenya. Sensitivity of Financial Data. Respondents, being senior management officials, may have provided socially desirable or cautious responses due to the sensitive nature of financial stewardship and audit compliance, which could potentially introduce response bias. Self-Reported Data: The study relied on self-administered questionnaires, meaning that data on audit implementation and leadership support were based on perceptions rather than objective audit trail verification, which may affect the accuracy of the results.

Focus on Public Utilities Only. The study excluded private or community-managed water providers, limiting insights into how ownership models influence audit responsiveness and financial stewardship.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews the literature for the study. The chapter focused on the theoretical review, empirical literature, conceptual framework, critique of the reviewed literature, summary of the reviewed literature, and research gaps.

2.2 Theoretical Literature Review

The theoretical review examines the theory that was used in the study. The theoretical review examined the theories used in the study to explain the relationship between the study's variables.

2.2.1 Principal Agent Theory

The study employed the principal-agent theory, which was developed in 1976 (Hasan & Rahman, 2020). According to Sathyamoorthi, Mbekomize, Mapharing, and Selinkie (2018), agency theory is fundamental to understanding financial stewardship issues in organizations. The theory focuses on the relationship between principals and agents. Principals are the owners of a task, which they delegate to persons who carry out the tasks on their behalf; these persons are the agents (Paranita & Aditya, 2020). In the principal-agent relationship, the principal also delegates decision-making and resource utilization to the agents to enable them to execute the assigned tasks.

Therefore, in this theory, the principal assigns tasks to the agent, who must then apply their skills, experience, judgment, and effort to achieve the best possible outcome for the principal (Hasan & Rahman, 2020). The agents must utilize the resources and decision-making authority delegated to them to accomplish the tasks given by the principal. Hence, there is a need to use resources, such as financial resources, efficiently and effectively to meet the goals assigned to them.

The principal-agent theory addresses the challenges that arise in the principal-agent relationship, commonly referred to as agency problems. The agency problems refer to the conflict-of-interest challenges that may occur between the principal and the agent. The conflict-of-interest challenges occurs as result of moral hazards and or information asymmetry (Ireri & Kimutai, 2020). The moral hazardrefers to the tendency of the agent to pursue their self-interests at the expense of the principals. This pursuit of self-interest may occur through financial misappropriations, frauds, corruption, andfinancial wastages in the management of the financial resources allocated to the agent. The moral hazard could also occur as a result of the information asymmetry between the principal and the agent within the institutions. The information asymmetry refers to the differences between the information held by the principal and the agent that prevents the principal to have effective supervision of the agents' activities (Montani et al., 2020). The information asymmetry then refersto the inadequacy of information relating to the work performance of the agent and their expertise in the performance of such tasks. The information asymmetry may then lead to the moral hazard challenges.

Agency theory has been utilized by diverse scholars in explaining the influence of the external auditing on the financial stewardship within public sector bodies. Such scholars include (Dzomira, 2017b), (Dzomira, 2017a), (Ireri & Kimutai, 2020), and (Ahmed & Nganga, 2019) amongst otherscholars. Within the context of the public sector bodies, the tax payer acts as the principal who delegates the service delivery to the public sector bodies. The taxpayer further delegates the financial resources to be used in public service delivery and delegates the financial decision-making capacity to be public officials. The expectation is that the public officials will utilize the financial resources in an efficient and effective manner that is devoid of wastage and funds misappropriation. However, due to the information asymmetry and moral hazard challenges then incidences of financial unaccountability may be witnessed in public institutions. The external auditmay be used in the elimination of the information asymmetry and moral hazard leading to improvement in financial stewardship. Scholars linking the external audit to the financial stewardship include (Cumbe & Inácio, 2018), (Alam et al., 2020), and (Maama & Marimuthu, 2020) amongst other scholars. The agency theory will be used in this study as it has been used to examine the influence of external auditing eliminating the information asymmetry and moral hazards in the public financial stewardship. The audit report quality is critical in the detection of the material misstatements in the financial records which are part of the moral hazard challenges. The external audit findings are critical in the elimination of both the information asymmetry and moral hazard challenges hence impacting on the financial stewardship aspects.

2.2.2 Policeman Theory

The study also was based on the Policeman Theory which was established in 2005 and is attributed to Hayes. The theory looked at the traditional and conservative roles of the auditing process in respect to enhancing the financial stewardship (Ireri & Kimutai, 2020). The theory examined the auditing process similar to a policeman's job that is looking faults in diverse processes (Ireri & Kimutai, 2020). In this context, the auditing was found purpose was found to be interested in the examination of arithmetic accuracy of the financial statements and in the detection of the fraudulent activities (Maama & Marimuthu, 2020).

This theory was used in this study due to the importance of auditing in addressing financial stewardship through use of quality financial records. The quality of the financial records is dependent on the quality of the external audit process which the influence the usefulness of the financial records. Dimitrijevic *et al.*, (2020) further viewed the external audit as a component of quality control systems within the financial reporting aspects. The other components of the quality controls components in financial reporting include the internal control, and diverse components of financial controls such as forensic accounting, and forensic auditing (Dimitrijevic *et al*., 2020). In this context, Almasria (2018) views the main function of the external audit process as ensuring that there is credibility of the financial records. Karinganire (2017) also places an emphasis that the external audit function is normally required for statutory purposes. The usefulness of the external audit process is based on the audit report quality, external audit findings and managementactions towards the external audit findings.

2.3 Empirical Literature Review

2.3.1 Audit Report Quality and Financial Stewardship

Audit report quality is crucial in improving financial responsibility, especially in public utility companies where accountability and transparency are key to maintaining public trust. The quality of audit reports indicates the credibility, accuracy, and thoroughness of information provided by external auditors. It ensures that stakeholders, including management, regulatory authorities, and the public, can make well-informed decisions based on trustworthy financial data. Recent research continues to emphasize the link between audit report quality and effective financial management in both public and private organizations.

A study by Mensah and Yeboah (2022) investigated the impact of audit quality on financial accountability among public utility companies in Ghana. The research aimed to assess the influence of audit independence, auditor competence, and audit transparency on financial stewardship within Ghana Water Company Limited. The study utilized a descriptive research design and relied on primary data collected through structured questionnaires distributed to 120 accounting officers and audit staff. The data were analyzed using multiple regression analysis to establish the relationship between audit quality indicators and financial accountability. The findings revealed that high-quality audit reports significantly improved financial stewardship by promoting accurate financial disclosures and reducing instances of mismanagement and fraud. The study concluded that maintaining auditor independence and professional competence are fundamental to improving financial stewardship. However, the Ghanaian study was limited to a single public utility company. In contrast, the current study will cover multiple water and sewerage firms within Kenya’s Central Rift Region, thereby offering broader regional insights and comparative findings.

In another empirical study, Ongeri and Mwangi (2021) examined the impact of audit report quality on financial management practices in Kenya's county governments. The study focused on the quality of external audits conducted by the Office of the Auditor-General (OAG) and their impact on budget control, expenditure management, and accountability. Using secondary data from published audit reports for the fiscal years 2016/2017 to 2019/2020, the study used panel regression analysis to assess the relationship between audit quality attributes (audit opinion, disclosure completeness, and material misstatement levels) and financial stewardship indicators. The results showed that counties with unqualified audit reports displayed higher levels of financial discipline and compliance with financial regulations. The study also found that the quality of audit reports helped deter the misuse of public funds. However, it mainly focused on county governments rather than state corporations or utility firms; therefore, this study will fill that gap by focusing on public utility firms, where service delivery and infrastructure financing are key to financial stewardship.

Similarly, Abdullahi and Ibrahim (2023) conducted a study in Nigeria that examined the impact of external audit quality on financial accountability in state-owned enterprises. The research used a quantitative correlational design, analyzing data from annual reports and auditor statements from 2018 to 2022. Data analysis involved the use of Pearson correlation and multiple linear regression. The results showed a significant positive relationship between audit quality (measured through auditor independence, tenure, and report timeliness) and financial stewardship (measured through transparency, efficiency, and control). The authors concluded that when auditors adhere to professional standards and provide timely, comprehensive reports, the level of financial stewardship in state-owned firms improves considerably. However, the Nigerian context differs in terms of governance frameworks and audit enforcement mechanisms, suggesting that the current study's Kenyan context will provide a comparative perspective, especially given Kenya's legal and institutional audit environment under the Public Finance Management Act (PFMA) of 2012.

A related study by Karanja and Njiru (2020) examined the effect of audit report quality on accountability in public service institutions in Kenya. The study collected primary data from 150 financial managers and internal auditors across various parastatals and analyzed it using descriptive and inferential statistics, including regression models. The findings showed that reliable and well-documented audit reports improve internal controls, promote transparency, and support compliance with procurement and expenditure laws. Conversely, when audit reports were unclear or delayed, incidents of financial mismanagement increased. This outcome supports the idea that audit report quality is closely linked to the effectiveness of financial stewardship practices. The present study will build on this research by focusing on public utility firms within a specific regional context, thereby adding to the sector-specific literature on financial accountability.

Furthermore, Kamau and Njoroge (2022) examined the effect of external audit report quality on financial transparency in Kenyan state corporations. Using a mixed-method approach, the study collected quantitative data from audited financial statements and qualitative insights from interviews with chief accountants and audit committee members. The data were analyzed through thematic content analysis and regression modeling. The results showed that audit reports meeting international quality standards, such as ISA 700 (Forming an Opinion and Reporting on Financial Statements), significantly enhanced financial transparency and stakeholder trust. However, the study also revealed gaps in the implementation of auditor recommendations. The current research will expand on this by examining both audit report quality and the execution of recommendations to assess their combined impact on financial stewardship. Overall, evidence consistently indicates a positive and significant link between audit report quality and financial stewardship. High-quality audit reports promote transparency, accountability, and efficient resource use key elements of financial stewardship. Most previous studies, however, have focused on county governments, parastatals, or individual national utilities. This study aims to contribute new insights from multiple public utility companies in Kenya's Central Rift Region, thereby broadening the understanding of how external audit quality affects financial stewardship at the regional utility level.

2.3.2 Timely Presentation of External Audit Findings and Financial Stewardship

The timeliness of external audit reports is a crucial aspect of accountability and financial stewardship in both public and private organizations. Prompt audit reports enable management, regulatory bodies, and stakeholders to quickly address identified issues and act on recommendations before more financial problems arise. On the other hand, delays in releasing audit findings weaken oversight, reduce responsiveness, and lower the value of the audit process in fostering transparency and fiscal responsibility. Therefore, the usefulness of audit reports as tools of stewardship relies not only on their accuracy and thoroughness but also on their timely delivery (Mwaura & Wanjohi, 2021).

A study by Mutua and Ochieng (2021) investigated the influence of audit timeliness on accountability in Kenyan county governments. The research, conducted in 15 counties across Kenya, relied on secondary data derived from the Office of the Auditor-General's annual reports covering 2016–2020 and employed descriptive and inferential analysis techniques to assess the relationship between audit delays and financial control outcomes. The findings indicated that counties that received audit reports within six months after the end of the fiscal year had significantly higher implementation rates of audit recommendations and better compliance with financial management regulations. Conversely, entities that experienced report delays exceeding one year showed a persistent trend of recurring audit queries and financial mismanagement.

The study concluded that audit report timeliness enhances the decision-making capacity of oversight committees and supports the enforcement of fiscal discipline. However, the study was limited to devolved county units and did not extend to public utility firms, which operate under distinct governance and accountability frameworks. The current study will bridge this gap by examining the same relationship within water and sewerage companies in the Central Rift Region, which manage substantial public resources but have received limited academic attention.

Similarly, Adusei and Mensah (2020) conducted a study in Ghana assessing the effect of audit report timeliness on public sector accountability. Using panel data from 72 state-owned enterprises between 2014 and 2019, the authors employed multiple regression analysis to investigate the impact of audit submission delays on compliance with the Public Financial Management Act. The study revealed that a one-year delay in audit report release led to a 15% decline in the implementation of audit recommendations and an increase in unauthorized expenditure. Adusei and Mensah (2020) argued that late audit reports reduce their deterrent power, as management often changes before recommendations are implemented, thereby undermining continuity in accountability efforts. While this study provides valuable insight into the link between timeliness and stewardship, it is situated within the Ghanaian context, where institutional oversight differs from Kenya's constitutional framework and the Office of the Auditor-General's mandate. The current study will contextualize these findings in relation to Kenya's water and sewerage firms, where delays in audit communication have been linked to weak financial follow-up and inadequate corrective action.

In another study, Mwangi and Kimani (2022) examined how the timeliness of audit reports affects financial performance and control in Kenyan parastatals. This research, which involved 25 parastatal organizations, used a mixed-method approach, combining quantitative data from audit reports with qualitative insights from interviews with finance managers. Descriptive and correlation analyses showed that delays in submitting audit reports were linked to lower efficiency in resource allocation, unresolved audit issues, and weaker financial stewardship indicators. The study highlighted that the Auditor-General's delays in releasing reports, sometimes up to 18 months after the fiscal year ends, undermine their capacity for prevention and correction. However, Mwangi and Kimani's research focused more on financial performance than on stewardship outcomes like transparency and accountability. The current study aims to fill this gap by specifically examining financial stewardship indicators such as responsible resource use, transparency in reporting, and adherence to financial laws.

A more recent empirical study by Ngugi and Otieno (2023) examined the timeliness of audit reporting and accountability in Kenyan public institutions. Conducted among 42 government ministries, the study used survey data from internal audit departments and applied structural equation modeling (SEM) to establish causal relationships. The study found that timeliness had a statistically significant positive relationship with perceived accountability ($\beta = 0.612$, $p < 0.01$). Ministries that consistently published audit findings within statutory deadlines recorded improved financial stewardship through enhanced monitoring and prompt implementation of recommendations. The study, however, was limited to central government ministries and did not include utility-based parastatals, which operate under different regulatory conditions. The current research extends this line of inquiry by examining water and sewerage firms, which face unique operational and financial reporting challenges, such as revenue leakages and non-revenue water management, making audit timeliness even more crucial.

Collectively, these studies confirm that timely audit reports promote accountability, transparency, and effective financial stewardship. However, the contextual and institutional variations across studies highlight an existing gap in understanding how the timeliness of audit reports specifically influences stewardship within public utility firms, particularly water and sewerage companies in Kenya. Unlike counties and ministries, these entities operate with a dual oversight structure, which involves both county ownership and regulatory supervision, creating potential audit communication lags and fragmented accountability. The current study aims to fill this empirical gap by systematically analyzing how the timing of external audit reports affects financial stewardship in water and sewerage firms within the Central Rift Region, thereby providing policy insights for strengthening audit responsiveness and governance in Kenya's utility sector.

2.3.3 Past Audit Actions and Financial Stewardship

The actions taken in response to past external audit findings are pivotal in shaping the financial stewardship of public sector entities. Audit recommendations are only as practical as the corrective measures implemented; failure to act on prior audit observations often leads to recurring financial mismanagement, inefficiencies, and poor accountability. Studies consistently emphasize that systematic follow-up of past audit actions enhances compliance, resource utilization, and transparency, thereby reinforcing the integrity of financial stewardship mechanisms (Mutua & Ochieng, 2021).

In a Kenyan study, Mwangi and Kimani (2022) examined how past audit actions influence financial performance and internal controls in state corporations. The study used secondary data from 25 parastatals from 2017 to 2021 and employed descriptive statistics and correlation analysis to explore the relationship between management responses to audit findings and financial oversight results. The study found that organizations with structured follow-up processes and consistent implementation of previous audit recommendations showed better financial compliance and accountability. Conversely, firms that ignored or delayed corrective actions had ongoing weaknesses in internal controls, higher rates of irregular spending, and a decline in public trust. However, the study mainly focused on overall financial performance and did not specifically address financial stewardship aspects like transparency in reporting, prudent resource use, and compliance with financial laws. The current research aims to fill this gap by analyzing how past audit actions impact financial stewardship, especially within water and sewerage companies in Kenya’s Central Rift Region.

Similarly, Adusei and Mensah (2020) explored the effect of audit action follow-ups on accountability in Ghanaian public institutions. Using panel data from 72 state-owned enterprises covering 2015–2019, they employed regression analysis to examine the impact of timely corrective measures on subsequent financial control outcomes. The study revealed that enterprises with systematic tracking of audit recommendations exhibited a 20% higher compliance rate with financial regulations and significantly reduced incidents of repeated audit queries. Nevertheless, this study was conducted in the Ghanaian context, where regulatory oversight and public sector accountability frameworks differ from those in Kenya. The current study addresses this contextual limitation by focusing on Kenyan water and sewerage firms, whose operational challenges and governance structures may influence the implementation of past audit actions differently.

In addition, Ngugi and Otieno (2023) examined the impact of follow-up on audit recommendations on financial accountability in Kenyan ministries. Through mixed-methods research, combining survey responses from internal audit officers with secondary data from Auditor-General reports (2018–2022), the study employed structural equation modeling (SEM) to assess the relationship between the implementation of past audit actions and accountability measures. Findings indicated a strong positive correlation ($\beta = 0.678$, $p < 0.01$) between systematic follow-up and improved stewardship, including timely reporting, reduced unauthorized expenditure, and enhanced monitoring. However, the research was limited to central government ministries and did not include utility firms that operate under distinct operational and financial frameworks. Consequently, the current study focuses on water and sewerage firms, aiming to determine whether similar trends hold in public utility entities with unique revenue streams and expenditure patterns.

Collectively, these studies confirm that the implementation of past audit recommendations enhances financial stewardship by promoting compliance, ensuring prudent resource utilization, and preventing recurring financial irregularities. Nevertheless, existing literature largely emphasizes general performance or accountability without isolating financial stewardship as a distinct construct. By focusing on water and sewerage firms in Kenya’s Central Rift Region, the current study seeks to fill this gap, providing empirical evidence on how the responsiveness to past audit actions directly impacts financial stewardship indicators, such as transparency, prudent spending, and regulatory compliance.

2.3.4 Leadership of External Audit Findings and Financial Stewardship

Leadership plays a pivotal role in translating external audit findings into actionable strategies that enhance financial stewardship. The commitment and responsiveness of senior management in addressing audit recommendations significantly influence how public institutions utilize resources, adhere to financial regulations, and maintain transparency. Strong leadership ensures that audit observations are systematically reviewed, prioritized, and implemented, thereby fostering a culture of accountability and prudent resource management (Mutua & Ochieng, 2021).

A study conducted by Mwangi and Kimani (2022) investigated the effect of managerial leadership on the implementation of audit findings within Kenyan parastatals. Using secondary data from 25 state corporations over the period 2017–2021, and employing correlation and regression analysis, the study found that organizations with proactive leadership teams who consistently reviewed audit findings demonstrated higher compliance with statutory financial requirements and improved financial stewardship indicators. Conversely, entities with weak leadership structures exhibited delayed or incomplete implementation of audit recommendations, resulting in recurring financial mismanagement. While the study highlighted the role of leadership in influencing compliance and financial performance, it primarily focused on performance metrics rather than broader stewardship outcomes such as transparency, accountability, and risk mitigation. The current study will address this gap by examining the leadership role specifically in water and sewerage firms in the Central Rift Region, where the governance environment and operational complexities differ from other public entities.

In a regional context, Adusei and Mensah (2020) explored the impact of managerial commitment on audit effectiveness in Ghanaian state-owned enterprises. Utilizing panel data from 72 enterprises between 2015 and 2019, and applying regression analysis, the study revealed that firms with leadership that actively engaged with audit processes were 25% more likely to implement audit recommendations fully, thereby improving resource management and accountability. Firms with passive or indifferent leadership were prone to recurring irregularities and inefficient resource utilization. This study, however, was conducted in Ghana, where institutional oversight mechanisms and leadership accountability may differ from Kenya, necessitating a localized investigation.

Further, Ngugi and Otieno (2023) examined the influence of leadership commitment on the financial accountability of Kenyan public institutions using a mixed-methods approach. Combining survey data from internal audit departments and secondary audit report analysis, the study applied structural equation modeling (SEM) to explore the relationship between leadership engagement and accountability outcomes. The results demonstrated a statistically significant positive relationship ($\beta = 0.643$, $p < 0.01$), indicating that leadership commitment enhances the implementation of audit recommendations, ensures timely financial reporting, and strengthens internal controls. Nevertheless, the study focused on government ministries and did not consider public utility firms, whose operational dynamics and revenue management challenges require targeted leadership strategies.

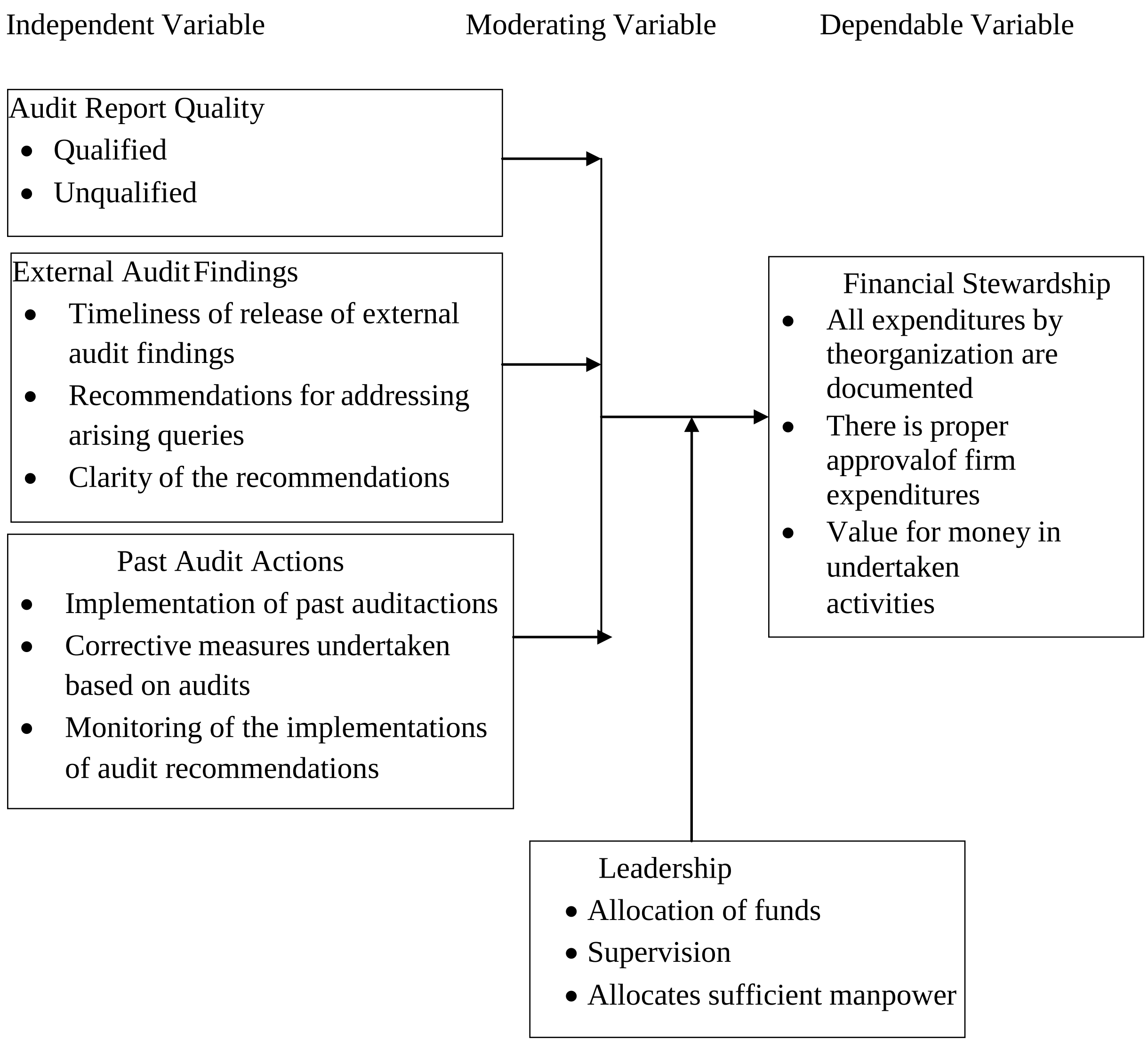
Overall, empirical evidence underscores that leadership commitment is a critical determinant of financial stewardship. While previous studies have examined leadership in general public institutions, limited research exists on how leadership specifically influences the implementation of external audit findings in public utility firms, such as water and sewerage companies. By focusing on these entities in Kenya's Central Rift Region, the current study will fill this research gap, providing insights into how leadership can enhance financial stewardship through timely, effective, and accountable management of audit findings.

2.4 Conceptual Framework

The conceptual framework examines the relationship between variables.

Figure 1

Conceptual Framework



Source: Author, (2025)

2.5 Research Gaps

The research gaps of the study will be discussed in the below table.

Table 1

Research Gaps

Author	Study	Objectives	Findings	Research Gaps
Samaie and Nahandi (2018)	The Relationship Between the Weakness of Internal Controls and Fraudulent Financial Reporting with an Emphasis on the Adjustment Role of Audit report quality	To examine the relationship between the weakness of internal controls and fraudulent Financial reporting.	The study found that the audit report quality did not have a statistically significant influence on therelationship between the internalcontrols and the fraudulent financialreporting.	The current study is examining the link between the external audit control on the financial stewardship of water and sewerage firms
Arebu (2016)	Determinants of audit report quality: Evidencefrom manufacturing	To examine the impact of audit feeson the quality of	The study found that the ability of the external audit to detect and reportmaterial misstatements on the financial	The study was done within the context of the manufacturing firms
	Share companies in Addis Ababa Ethiopia	External audits conducted in manufacturing share companies in Addis Ababa	recordings was key in enhancingfinancial stewardship	While the current study examines public entity firms in terms of water and sewerage firms.
Kamau *et al.*, (2018)	Effect of External AuditOutcomes on Financial	To examine the influence of the external auditoutcomes	The study found that there was a statistically significant influence of theexternal audit outcomes on the financial performance of the	The study focused on thefinancial performance ofcounty

	Performance of County Government of Nakuru, Kenya	on financial performance ofcounty government ofNakuru, Kenya	countygovernment. The external audit findings were found to influence the financial aspects within the county through the timeliness of the release ofthe external audit reports, provision ofrealistic recommendations in audit reports, reports being accompanied by Relevant supporting documents, and theaudit reports providing the recommendations for addressing the audit queries.	governmentwhile the current study seeks to examine thefinancial stewardship of water and sewerage firms
(Machinjike *et al*., 2021)	Effectiveness of the Office of the Auditor General in EnhancingPublic SectorAccountability inZimbabwe	What factors hinder compliance with audit findings within government institution inZimbabwe?	The study found that auditor general was not efficient in fostering thefinancial stewardship withinZimbabwe due to the auditor general recommendations not being implemented. Amongst the issues that were noted to hinder the implementation of the auditor general reports included lack of enforcement rules for auditor general's recommendations, lack of political and management good will, poor Monitoring and control structures, inadequacy in manpower and qualifiedpersonnel, and inadequate financial resources to implement therecommendations.	The study was undertaken inZimbabwe while thecurrent study is undertaken in Kenya and there is diverse of public sector accountability in these two countries.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology refers to the techniques that are utilized in the identification, selection, processing and analyzing of the collected information about a research topic (Esteban-Bravo & Vidal-Sanz, 2021) (Seligman, 2020). The research methodology was discussed using the research design, location of the study, target population, sampling procedure and sampling size, instrumentation and data collection procedures. The research methodology was further examined using data analysis and ethical considerations.

3.2 Research Design

The research design refers to the overall strategy on the manner in which the research was executed (Schuster & Dunn, 2020). In this context, the research design details the strategies relating to the coordination of the various components of research with a view of addressing the research objectives of the study. This study utilized descriptive research design. According to Kara (2020) the descriptive research design refers the examination of the research phenomenon without any manipulation of the variables. The descriptive research design was applicable to this study as the unit of analysis utilized in the study is specifically the water and sanitation firms within central rift region without any manipulation of variables.

3.3 Target Population

The target population in a study refers to all the individuals, subjects or objects that a researcher aims to generalize their findings to (Kothari 2004). The target population are thus characterized by being knowledgeable on the research phenomenon as conceptualized using the independent, mediating and dependent variable. The target population of this study were senior management staff of Nakuru Water and Sewerage Company, Nakuru Rural Water and Sanitation Company Limited, Naivasha Water and Sewerage Company, Narok Water and Sewerage Services Company, Rift Valley Water Services Board, and Central Rift Valley Water Works Development Agency.

Table 2

Target Population

	Freq.	Percentage
Nakuru Water and Sewerage Company	12	19.0%
Nakuru Rural Water and Sanitation Company Limited	8	12.6%
Naivasha Water and Sewerage Company	11	17.5%
Narok Water and Sewerage Services Company	7	11.1%
Rift Valley Water Services Board	14	22.2%
Central Rift Valley Water Works Development Agency	11	17.5%
Total	63	100%

3.4 Sampling Procedure and Sampling Size

The sampling process refers to the creation of a representative sub set of the population to be usedin the study as opposed to the whole population members due to the time and cost constraints (Klenow & Schwartz, 2020). This study used the census sampling method in the study. Accordingto Jacobsen (2020) census sampling method refers to the gathering of research data from the wholepopulation of the study. This was undertaken due to the low numbers of the target population of the study. This study thus utilized the census process due to the low target population numbers.

3.5 Instrumentation

The tool that was used for data collection is important in a study. This study was collected quantitative primary data for the study. The study collected the primary data using structured questionnaires. According to Greenhalgh, Bidewell, Warland, Lambros and Crisp (2020) structured questionnaires consist of a series of closed ended questions that is questions that the respondents have been provided with response options from which they are supposed to pick from. The structured questionnaires are often typically utilized in the social sciences due to their various advantages. These advantages include possibility of higher response rates due to the ease of filling the questionnaires compared to data collection tools. The questionnaires are also time and cost efficient in nature.

The structured questionnaire used in this study will be divided into Section 1 (Demographic Questions), Section II (Audit report quality), Section III (External Audit Findings), Section IV (Past audit actions), Section V (Leadership), and Section VI (Financial stewardship). The section I with the demographic questions sought to examine the characteristics of the respondents and their details in order to enable the researcher determine their credibility. The nominal and ordinal based questions was used for the section. The sections on the variables was measured using the Likert based questions. According to Kingsley and Robertson (2020), the Likert based questions are used for the measuring of the opinions and attitudes of the respondents towards certain indicators of thestudy. The study used a five-point Likert scale in the study.

3.5.1 Pilot Study

The study used the pilot study to ensure that all the logistical considerations are made before therolling out of the main study. The pilot study which is a small-scale version of the study was undertaken in order to examine the relevance of questionnaires, readability of the questionnaires and in identifying any aspects that may impact negatively on the administration ofthe questionnaire. The results of the pilot study are thus used to improve on the final data collection process to enhance the success of the final study. According to (Gathii, Wamukuru, Karanja, Muriithi & Maina, 2019) 10% of the sample size should be used in the pilot study. This study used six respondents in undertaking the pilot study. The pilot study was undertaken in water and sewerage firms in Baringo County, which borders Nakuru County.

3.5.2 Reliability of the Instrument

The reliability of the instrument refers to the replicability of the results derived from its usage. This study used Cronbach Alpha coefficient to examine the internal consistency of the research instruments. According to Coe et al., (2021), the internal consistency is used in contexts where there is a multi-item scale that is later to be summated. This study has used the multi-item scale in the Likert scale and hence the use of Cronbach alpha coefficient for examination of internal consistency. According to Matias (2021) Cronbach alpha coefficient of a threshold of 0.7 and above is considered sufficient for the demonstrating presence of internal reliability. This study thus used a threshold of 0.7 and above to show presence of internal reliability.

3.5.2.1 Reliability Test Results

The pilot will assess reliability for each construct as follows:

Table 3

Reliability Test Results

Construct / Variable	Number of Items	Cronbach's Alpha	Interpretation
External Audit Report Quality	5	0.81	High reliability
Timeliness of Audit Reports	5	0.79	Acceptable to high
Past Audit Actions	5	0.82	High reliability
Leadership in Audit Findings	5	0.83	High reliability
Financial Stewardship (Dependent Variable)	5	0.80	High reliability

3.5.3 Validity of the Instrument

The validity of the instrument was examined in this study to show that the research instrument is able to accurately measure the variables of the study. According to Shipman (2021) and Tartaro (2021) the validity of the instrument is its ability to measure what it has been designed to measure. This study measured the content validity in the measurement of the validity of the instrument. Esteban-Bravo and Vidal-Sanz (2021) notes that the content validity refers to the representativeness of the content used to measure a variable in measuring of such a variable. The Use of expert judgement is one of the methods recommended in measurement of the content validity (Karamagi, 2021; Shipman, 2021). This study used expert judgements in measurement of contentvalidity of the study. The expert judges were sourced from the university supervisors and some of the members that would have participated in the pilot study.

3.6 Data Collection Procedure

The data collection procedure details the manner in which the data was collected from the field (Gathii, Wamukuru, Karanja, Muriithi & Maina, 2019). The data collection process commenced after the issuance of the field authorization letter from Institute of

Post Graduate of Kabarak University. The researcher was then applied for the ORCID number which is a unique identifying number for researchers across the world. The study sought the Ethics Review Board (ERB) and the National Commission of Science, Technology and Innovation (NACOSTI). According to Gathii *et al*., (2019) the NACOSTI permit is required as is a legal requirement of anyone undertaking research in Kenya and protecting the respondents from exploitation. The study further utilized self-administration of the questionnaires in the field using the Drop and Pick Up later method. According to Romero-Hall (2020) and Matias (2021) the drop off and pick up later method is utilized for the purposes of enhancing the response rates as the respondents are left with the questionnaires to fill in at their pleasure and which is later collected later on. This enables the respondents to have sufficient time in filling in the questionnaires.

3.7 Data Analysis

Data analysis of the study was undertaken with the help of descriptive statistics using frequency distributions, means and standard deviations for the study. The study s further undertook a multiplelinear regression analysis with the following model;

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X3 + \varepsilon$$

Where Y is the dependent variable (financial stewardship), X1 (Audit report quality), X2 (external audit findings), X3 (Past audit actions), and X4 is the leadership aspect and ε is the margin of error. The linear regression will be used because the objectives are predictive in nature and seek to predict the influence of the independent variable on dependent variable.

3.8 Diagnostic Tests

To ensure the validity, reliability, and accuracy of the regression model estimates, diagnostic tests were conducted to verify whether the data met the assumptions of the Classical Linear Regression Model (CLRM). These assumptions are essential for deriving unbiased, efficient, and consistent estimates. The following diagnostic tests were undertaken: normality, autocorrelation, homoscedasticity, and multicollinearity.

3.8.1 Normality Test

The assumption of normality requires that the residuals of the regression model follow a normal distribution. This assumption is crucial because most parametric inferential statistics, such as confidence intervals, t-tests, and F-tests, rely on the normality of residuals. To assess this assumption, both the Shapiro-Wilk test and graphical methods were used. The Shapiro-Wilk test offered a formal statistical approach to determine whether the residuals significantly deviated from a normal distribution. A p-value greater than 0.05 indicates that the residuals are normally distributed, whereas a p-value less than 0.05 suggests a violation of the normality assumption. Complementary visual inspections included a normal Q-Q plot and a histogram of residuals. If the residuals closely followed the 45-degree reference line in the Q-Q plot and formed a bell-shaped distribution in the histogram, the assumption of normality was considered satisfied.

3.8.2 Autocorrelation Test

Autocorrelation occurs when residuals are correlated across observations, violating the assumption of independence of errors. While commonly found in time-series data, autocorrelation may also be present in cross-sectional data due to systematic patterns in data collection or structural relationships among variables. The Durbin-Watson statistic was employed to detect the presence of autocorrelation in the residuals. A Durbin-

Watson value approximately equal to 2 suggests no autocorrelation. Values below 1.5 indicate the likelihood of positive autocorrelation, while values above 2.5 point to potential negative autocorrelation. According to Field (2013), Durbin-Watson values within the range of 1.5 to 2.5 are generally acceptable, indicating independence of residuals.

3.8.3 Homoscedasticity Test

Homoscedasticity refers to the assumption that the variance of residuals remains constant across all levels of the independent variables. If this assumption is, violated resulting in heteroscedasticity the efficiency of the Ordinary Least Squares (OLS) estimates may be compromised, leading to distorted standard errors and invalid statistical inferences. The Breusch-Pagan test was conducted to formally examine whether residual variance was dependent on the values of the independent variables. A p-value above 0.05 indicated that the residuals had constant variance, confirming homoscedasticity. A p-value below 0.05, however, indicated the presence of heteroscedasticity. In addition, a scatterplot of standardized residuals versus standardized predicted values was used to visually inspect the pattern of residuals. A random and even distribution of residuals suggested homoscedasticity, while a patterned or funnel-shaped plot indicated heteroscedasticity, as explained by Gujarati and Porter (2009).

3.8.4 Multicollinearity Test

Multicollinearity arises when two or more independent variables in a regression model are highly correlated, making it difficult to determine the individual contribution of each predictor. This can inflate the standard errors of the coefficients and cause the estimates to become unstable and highly sensitive to minor changes in the model. The Variance Inflation Factor (VIF) and tolerance values were utilized to assess the presence of multicollinearity. A VIF below 5, or more conservatively below 10, suggested that multicollinearity was not a serious concern. Tolerance values above 0.2 further confirmed acceptable levels of independence among predictors. Conversely, VIF values exceeding 10 and tolerance values below 0.1 were indicative of high multicollinearity, warranting further investigation or remedial measures.

3.9 Ethical Considerations

Ethical considerations refer to the principles and procedures adopted to ensure that the rights, dignity, and welfare of research participants are protected throughout the research process (Esteban-Bravo & Vidal-Sanz, 2021; Walby & Luscombe, 2020). They are designed to prevent any form of harm, exploitation, or negative consequence that may arise from participation in a study. In this research, ethical standards guided every stage from data collection to analysis and reporting to ensure that participants were treated with fairness, respect, and transparency. The study's consent statement explicitly outlined the rights of respondents, including the right to participate voluntarily without coercion**,** the right to freedom from harm, the right to be informed about the nature and purpose of the study, the right of access to the findings**,** and the right to self-preservation, which encompassed the ability to withdraw from the study at any point without consequence. Participants were fully briefed about the objectives of the study, the confidentiality of their responses, and the intended use of the collected data. Informed consent was obtained from all respondents prior to their participation.

This ensured that every participant had a clear understanding of the study's objectives, potential benefits, and minimal risks before agreeing to take part. The researcher emphasized that participation was entirely voluntary and that respondents could discontinue their involvement at any time, should they feel uncomfortable or unwilling to proceed. This process safeguarded the participants' autonomy and promoted trust between the researcher and the respondents. By upholding these ethical principles, the study maintained a high standard of professional integrity and accountability. The explicit recognition of participants' rights and the assurance of voluntary, harm-free participation helped to preserve the credibility of the research process and the authenticity of its findings.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSIONS

4.1 Introduction

This chapter comprises of data analysis, presentation and interpretation of the findings in the studyrelating to influence of external auditing on the financial stewardship of public utility firms in Kenya; a survey of water and sewerage firms in central rift region, Kenya. The data presented includes response rate, background information of the respondents and a presentation of findings against each individual objectives of the study. The data analyzed and presented was based on the responses to the items in the questionnaires. Descriptive statistics are used in analyzing the findings of this research project.

4.2 Response Rate

A total of 63 questionnaires were administered to senior management officials drawn from six water and sewerage utility firms within the Central Rift Region. Out of the 63 issued questionnaires, 60 were duly completed and returned, while three were not returned. This yielded a response rate of 95%, which is considered highly satisfactory. According to Mugenda and Mugenda (2008), a response rate of 50% is adequate, 60% is good, and 70% or above is considered very good. Therefore, the achieved response rate in this study is regarded as excellent; suggesting that the data collected was representative of the target population. A summary of the response rate is presented in Table 2 below.

Table 3

Response Rate

Response Category	Frequency	Percentage (%)
Questionnaires Returned	60	95%
Questionnaires Not Returned	3	5%
Total	63	100%

4.2 Demographic Characteristics

The research sought to gather some demographic information regarding the respondents. The information sought in this section include age, gender and period worked in the firm.

4.2.1 The Gender of the Respondents

The researcher sought to determine the gender distribution of the respondents, as this provides insights into gender representation within the senior management of the selected water and sewerage utility firms. The results were presented in table 3 below.

Table 4

Gender Distribution of Respondents

Gender	Frequency	Percentage (%)
Male	34	53.3%
Female	29	46.7%
Total	63	100%

As shown in table 3, male respondents constituted 53.3% of the total, while female respondents accounted for 46.7%. These findings indicate a relatively balanced gender representation among the sampled respondents, suggesting inclusivity in staffing within the firms. Understanding gender balance is important for assessing inclusivity and diversity in organizational leadership.

4.2.2. Work Experience of the Respondents

The study sought to determine the length of time respondents had worked with their respective organizations. This information is important for assessing the level of institutional knowledge and professional experience among senior management staff. The results are presented in Table 5.

Table 5

Work Experience of the Respondents

Length of Service	Frequency	Percentage (%)
Less than 5 years	25	41.7%
5 – 10 years	20	33.3%
Above 10 years	15	25.0%
Total	60	100%

According to the findings, the majority of the respondents (41.7%) had worked in their respective firms for less than 5 years. This was followed by 33.3% who had served for 5 to 10 years, and 25.0% who had worked for more than 10 years. These results suggest that a substantial portion of the respondents have accumulated considerable experience within the institutions, which enhances their ability to provide informed and reflective responses based on practical engagement. Given that a majority of respondents have been with their organizations for a significant period (over five years in 58.3% of the cases), it is recommended that firms institutionalize structured knowledge retention strategies and mentorship programs.

Long-serving staff should be engaged in capacity building and succession planning initiatives to ensure that their expertise is transferred to newer employees. Additionally, retention policies should be strengthened to minimize turnover and preserve institutional memory, which is critical in maintaining service continuity and operational effectiveness in utility management.

4.2.3 Age Distribution of the Respondents

The study sought to establish the age distribution of the respondents. This is important, as age is often associated with work experience, exposure, and maturity, which are critical in understanding and managing financial stewardship in public utility firms. The results are presented in Table 6

Table 6

Age Distribution of Respondents

Age Category	Frequency	Percentage (%)
Below 25 years	18	30.0%
26 – 35 years	26	43.3%
36 – 45 years	11	18.3%
Above 45 years	5	8.3%
Total	60	100%

The findings show that the majority of respondents (43.3%) were aged between 26–35 years, followed by 30.0% who were below 25 years**.** Additionally, 18.3% were aged between 36–45 years, while only 8.3% were above 45 years**.** This indicates that most respondents fall within the youthful to mid-career bracket, which implies they possess a blend of energy, adaptability, and emerging experience necessary for effective financial oversight in utility firms. The predominance of respondents within the 26–35 age range suggests a youthful and dynamic workforce involved in financial stewardship functions. This presents an opportunity for firms to invest in continuous professional development (CPD), leadership grooming, and targeted financial management training to strengthen the capabilities of this age group. Additionally, firms should encourage intergenerational knowledge sharing by pairing younger professionals with older, more experienced colleagues to build institutional capacity and ensure continuity in financial governance.

4.3 Descriptive Statistics

4.3.1 Descriptive statistics for Audit Report Quality

The respondents were asked to rate their level of agreement with statements on the Audit Report Quality using a five-point Likert scale of 1. Not At All (NA), 2. Small Extent (SE), 3. Moderate Extent(ME), 4. Large Extent (LE) and 5. Very Large Extent (VLE), the results on their level of agreement is presented in table 6 below

Table 7

Descriptive Statistics on the Quality and Usefulness of Audit Reports

Statement	NA(1)	SE (2)	ME (3)	LE (4)	VLE (5)	Mean	SD
Audit reports are undertaken in a professional manner	5 (8.3%)	10 (16.7%)	8 (13.3%)	12 (20.0%)	25 (41.7%)	3.70	1.37
Material misstatements are always detected in audit reports	10 (16.7%)	12 (20.0%)	8 (13.3%)	6 (10.0%)	24 (40.0%)	3.37	1.49
Material misstatements in financial reports are always reported in audit reports	5 (8.3%)	8 (13.3%)	12 (20.0%)	10 (16.7%)	25 (41.7%)	3.70	1.30
Noted issues in audit reports are always supported with facts	12 (20.0%)	10 (16.7%)	8 (13.3%)	20 (33.3%)	10 (16.7%)	3.10	1.41
Quality levels of audit reports have capacity to influence financial decision making	5 (8.3%)	15 (25.0%)	14 (23.3%)	16 (26.7%)	10 (16.7%)	3.18	1.21
Overall						3.41	1.36

The findings indicate that respondents generally perceive audit reports to be professionally executed and meaningful in financial oversight. The highest-rated items were “Audit reports are undertaken in a professional manner” and “Material misstatements in financial reports are always reported in audit reports”, each with a mean score of 3.70. This suggests that a significant portion of respondents believe that audit processes are conducted with diligence and that critical reporting issues are effectively captured.

The item “Material misstatements are always detected in audit reports” had a slightly lower mean of 3.37, accompanied by the highest standard deviation (1.49**)** among all items. This indicates that while many respondents agreed, there was notable variability in perception suggesting some respondents may have experienced or observed inconsistencies in error detection during audits. The lowest-rated item, “Noted issues in audit reports are always supported with facts”, had a mean of 3.10, implying that factual substantiation of audit findings is perceived as less consistent. The high standard deviation (1.41) further supports this interpretation, suggesting mixed experiences or views among the respondents.

Additionally, the statement on the capacity of audit reports to influence financial decision-making had a moderate mean of 3.18, reflecting a perception that while audit quality has a positive impact, it may not always strongly influence financial decisions across all contexts. The overall mean score of 3.41 with a standard deviation of 1.36 indicates that respondents generally hold moderately positive views toward the quality, accuracy, and usefulness of audit reports in financial stewardship. However, the standard deviations across items suggest that perceptions are not uniform, pointing to areas where audit quality assurance mechanisms could be strengthened.

4.3.2 Descriptive statistics for External Audit Findings

The respondents were asked to rate their level of agreement with statements on the External Audit Findings using a five-point Likert scale of 1. Not At All (NA), 2. Small Extent (SE), 3. Moderate Extent (ME), 4. Large Extent (LE) and 5. Very Large Extent (VLE), the results on their level of agreement is presented in table 7 below

Table 8

Descriptive Statistics on External Audit Findings

Statement	NA1)	SE (2)	ME (3)	LE (4)	VLE (5)	Mean	SD
The external audit findings are always released in a timely manner	5 (8.3%)	12 (20.0%)	8 (13.3%)	25 (41.7%)	10 (16.7%)	3.38	1.22
The external audit findings make provision of realistic recommendations	10 (16.7%)	8 (13.3%)	12 (20.0%)	24 (40.0%)	6 (10.0%)	3.13	1.31
The audit reports are always accompanied by relevant supporting documents	5 (8.3%)	10 (16.7%)	12 (20.0%)	25 (41.7%)	8 (13.3%)	3.35	1.18
The audit reports always make recommendations for addressing queries	10 (16.7%)	10 (16.7%)	8 (13.3%)	20 (33.3%)	12 (20.0%)	3.23	1.40
The Auditor General's findings always note the unsupported expenditures	5 (8.3%)	15 (25.0%)	10 (16.7%)	16 (26.7%)	14 (23.3%)	3.31	1.30
Overall	—	—	—	—	—	3.28	1.28

The findings in Table 7 show the perceptions of respondents regarding the effectiveness and comprehensiveness of external audit findings. The statement "The external audit findings are always released in a timely manner" recorded a mean score of 3.38, the highest in this set, suggesting that audit timeliness is moderately well regarded among the respondents. The statement with the lowest mean was “The external audit findings make provision of realistic recommendations”, at 3.13, indicating slightly less agreement among respondents about the practicality of audit recommendations. The relatively high standard deviation of 1.31 also points to varying opinions on this issue. “The audit reports are always accompanied by relevant supporting documents” scored a mean of 3.35, suggesting general agreement that audit findings are well documented. However, some skepticism is evident given the standard deviation of 1.18, suggesting a more consistent but not unanimous view.

Regarding the auditor's attention to unresolved issues, “The audit reports always make recommendations for addressing queries” had a moderate mean of 3.23, and “The Auditor General’s findings always note unsupported expenditures” followed closely at 3.31, both indicating that a fair number of respondents believe audit findings address key accountability gaps. The overall mean of 3.28 and standard deviation of 1.28 imply a moderately positive perception of external audit findings. Nonetheless, the range of standard deviations across statements suggests areas of inconsistency that could benefit from policy or procedural enhancement, particularly in making audit recommendations more actionable and uniformly communicated.

4.3.3 Descriptive Statistics for Past Audit Actions

The respondents were asked to rate their level of agreement with statements on the Past Audit Actions using a five-point Likert scale of 1. Not At All (NA), 2. Small Extent (SE), 3. Moderate Extent(ME), 4. Large Extent (LE) and 5. Very Large Extent (VLE), the results on their level of agreement is presented in table 8 below.

Table 9

Descriptive Statistics on Past Audit Actions

Statement	NA (1)	SE (2)	ME (3)	LE (4)	VLE (5)	Mean	SD
The audit recommendations are always implemented	12 (20.0%)	10 (16.7%)	8 (13.3%)	25 (41.7%)	5 (8.3%)	3.03	1.38
Appropriate corrective measures are always undertaken based on the audit findings	10 (16.7%)	12 (20.0%)	8 (13.3%)	24 (40.0%)	6 (10.0%)	3.13	1.31
There is always sufficient qualified manpower to address the audit findings	12 (20.0%)	10 (16.7%)	5 (8.3%)	25 (41.7%)	8 (13.3%)	3.17	1.40
There is always sufficient monitoring of the implementation of the audit recommendations	10 (16.7%)	10 (16.7%)	20 (33.3%)	8 (13.3%)	12 (20.0%)	3.03	1.34
The organization always puts a reasonable timeline for addressing the arising audit issues	14 (23.3%)	15 (25.0%)	10 (16.7%)	16 (26.7%)	5 (8.3%)	2.70	1.32
Overall	—	—	—	—	—	3.01	1.35

The results in Table 8 present respondents' perceptions regarding the follow-up and responsiveness to past audit recommendations. The highest-rated item was "There is always sufficient qualified manpower to address the audit findings" with a mean score of 3.17, reflecting a moderate level of agreement that human capacity is generally available for implementation of audit outcomes.

Statements regarding the implementation of audit recommendations and monitoring mechanisms both scored a mean of 3.03, suggesting a moderate level of compliance. However, the relatively high standard deviations of 1.38 and 1.34, respectively, point to variations in experiences among respondents indicating that while some organizations perform well, others may lag behind.

The lowest-rated item was “The organization always puts a reasonable timeline for addressing the arising audit issues”, with a mean of 2.70 and a standard deviation of 1.32. This indicates a relatively low level of agreement that audit follow-up is time-bound or adheres to formal schedules a potential area of weakness in institutional accountability processes. With an overall mean of 3.01 and standard deviation of 1.35, the responses suggest that while there is moderate progress in acting upon audit findings, consistency and timeliness remain areas for further improvement. The wide spread in responses also suggests a need for standardization in how audit outcomes are addressed across different departments or organizational units.

4.3.4 Descriptive Statistics for Leadership Support

The respondents were asked to rate their level of agreement with statements on the Leadership Support using a five-point Likert scale of 1. Not At All (NA), 2. Small Extent (SE), 3. Moderate Extent(ME), 4. Large Extent (LE) and 5. Very Large Extent (VLE), the results on their level of agreement is presented in table 9 below.

Table 10

Descriptive Statistics on Leadership Support for Audit Implementation

Statement	NA (1)	SE (2)	ME (3)	LE (4)	VLE (5)	Mean	SD
The organizational leadership always allocates sufficient financial resources for addressing audit report recommendations	8 (13.3%)	12 (20.0%)	25 (41.7%)	10 (16.7%)	5 (8.3%)	2.87	1.12
The organizational leadership always allocates sufficient manpower for addressing audit report recommendations	10 (16.7%)	12 (20.0%)	19 (31.7%)	11 (18.3%)	8 (13.3%)	2.91	1.28
The organizational leadership makes supervision to ensure that the audit report recommendations are addressed	12 (20.0%)	8 (13.3%)	20 (33.3%)	15 (25.0%)	5 (8.3%)	2.88	1.27
The organizational leadership makes supervision to ensure that the audit report recommendations are implemented	12 (20.0%)	10 (16.7%)	20 (33.3%)	10 (16.7%)	8 (13.3%)	2.87	1.30
The leadership creates sufficient control environment to avoid reoccurrence of audit queries raised by audit reports	5 (8.3%)	15 (25.0%)	16 (26.7%)	14 (23.3%)	10 (16.7%)	3.15	1.24
Overall						2.94	1.24

The results in Table 9 illustrate respondents' views on the role of organizational leadership in supporting the implementation of audit recommendations. Among the statements evaluated, the highest mean score was 3.15, attributed to the statement "The leadership creates sufficient control environment to avoid reoccurrence of audit queries raised by audit reports." This suggests a relatively higher confidence in the leadership's preventive efforts, even though the score reflects only moderate agreement. The rest of the statements, including those on financial and workers allocation, as well as leadership supervision to ensure audit recommendations are addressed or implemented, had mean scores ranging between 2.87 and 2.91. These scores point to moderate agreement, suggesting that while efforts exist, leadership support is not consistently strong across the board. Standard deviations across the items range from 1.12 to 1.30, indicating a moderate level of variability in the respondents' perceptions. This spread suggests differing experiences with leadership involvement, possibly based on department, organizational culture, or specific leadership styles. The overall mean score of 2.94 reflects a perception that leadership support for audit response is only moderately adequate, indicating room for improvement particularly in providing sufficient resources and active oversight to enhance audit follow-up and accountability.

4.3.4 Descriptive Statistics for Financial Stewardship

The respondents were asked to rate their level of agreement with statements on financial stewardship using a five-point Likert scale of 1. Not At All (NA), 2. Small Extent (SE), 3. Moderate Extent (ME), 4. Large Extent (LE) and 5. Very Large Extent (VLE), the results on their level of agreement is presented in table 9 below.

Table 11

Descriptive Statistics on Financial Stewardship

Statement	NA (1)	SE (2)	ME (3)	LE (4)	VLE (5)	Mean	SD
All expenditures by the organization are documented	8 (13.3%)	12 (20.0%)	15 (25.0%)	20 (33.3%)	5 (8.3%)	3.03	1.20
There is proper approval of firm expenditures	10 (16.7%)	12 (20.0%)	19 (31.7%)	11 (18.3%)	8 (13.3%)	2.91	1.28
There is proper utilization of allocated budget to the firm	12 (20.0%)	8 (13.3%)	20 (33.3%)	15 (25.0%)	5 (8.3%)	2.90	1.27
There is transparency in the firm expenditures	12 (20.0%)	10 (16.7%)	20 (33.3%)	10 (16.7%)	8 (13.3%)	2.87	1.30
There is value for money in all activities undertaken in the organization	5 (8.3%)	15 (25.0%)	16 (26.7%)	14 (23.3%)	10 (16.7%)	3.15	1.24
Overall	—	—	—	—	—	2.97	1.26

The findings presented in Table 10 indicate respondents' perceptions of financial stewardship practices within the organization. The statement that all expenditures are documented recorded a mean of 3.03 with a standard deviation of 1.20, suggesting moderate agreement that documentation practices are adhered to, though with some variation across departments. The perception that firm expenditures receive proper approval yielded a mean of 2.91 and a standard deviation of 1.28, indicating that while approval procedures are generally followed, inconsistencies remain in their application.

The utilization of allocated budgets to the firm also recorded a mean of 2.90 and a standard deviation of 1.27, pointing to moderate satisfaction with budget use but also highlighting potential inefficiencies or deviations in practice. Transparency in expenditures received the lowest mean of 2.87, accompanied by a standard deviation of

1.30, suggesting that access to financial information and openness in reporting may be insufficient or inconsistent in some areas of the organization.

On a more positive note, the statement regarding value for money in organizational activities received the highest mean score of 3.15 and a standard deviation of 1.24. This reflects moderate agreement that financial resources are generally used effectively to yield beneficial outcomes, though not without areas of concern. Overall, the section scored a mean of 2.97 and a standard deviation of 1.26, indicating that while financial stewardship practices are in place and perceived as moderately effective, significant variation in experiences suggests a need for greater standardization, especially in enhancing transparency and accountability.

4.4. Diagnostic Test Results

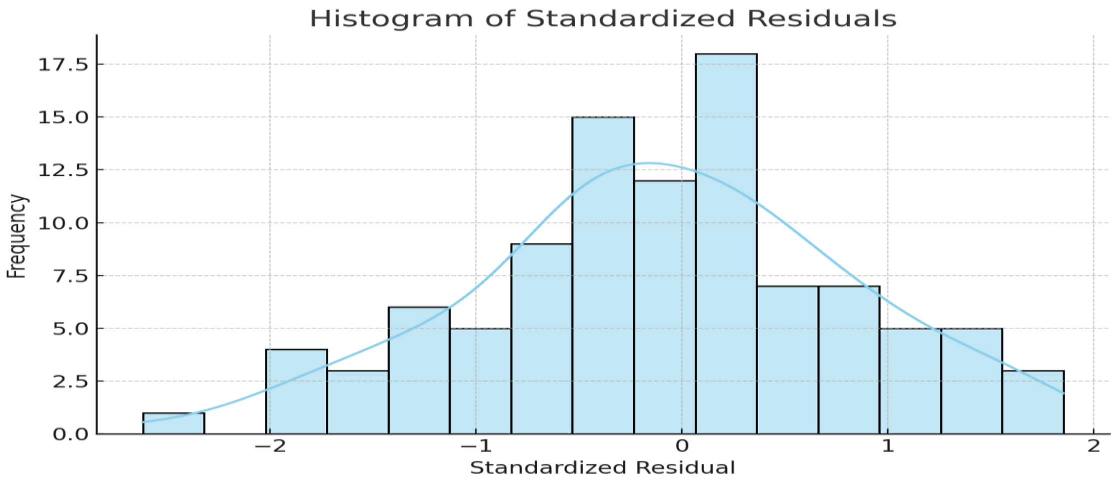
Before interpreting the regression model, several diagnostic tests were conducted to ensure that the key assumptions of multiple linear regression were met. These include normality of residuals, autocorrelation, homoscedasticity, and multicollinearity.

4.4.1 Normality of Residuals

To assess whether the residuals were normally distributed, both visual plots (histogram and normal P-P plot) and the Kolmogorov–Smirnov test were used. The histogram of standardized residuals displayed a bell-shaped curve, suggesting approximate normality. The Normal P-P Plot of regression-standardized residuals showed data points closely aligned along the diagonal line. The Kolmogorov–Smirnov test produced a non-significant result ($p = 0.087$), indicating that the residuals did not significantly deviate from normality. The assumption of normality was met. Figure 4.1 shows the histogram

Figure 2

Histogram of Standardized Residuals



4.4.2. Autocorrelation

Autocorrelation of residuals was tested using the Durbin-Watson statistic presented in table 12 below.

Table 12

Durbin-Watson Test Output

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.841	0.707	0.694	0.405	1.891

a. Predictors: (Constant), Audit Report Quality, External Audit Findings, Past Audit Actions, Leadership

b. Dependent Variable: Financial Stewardship

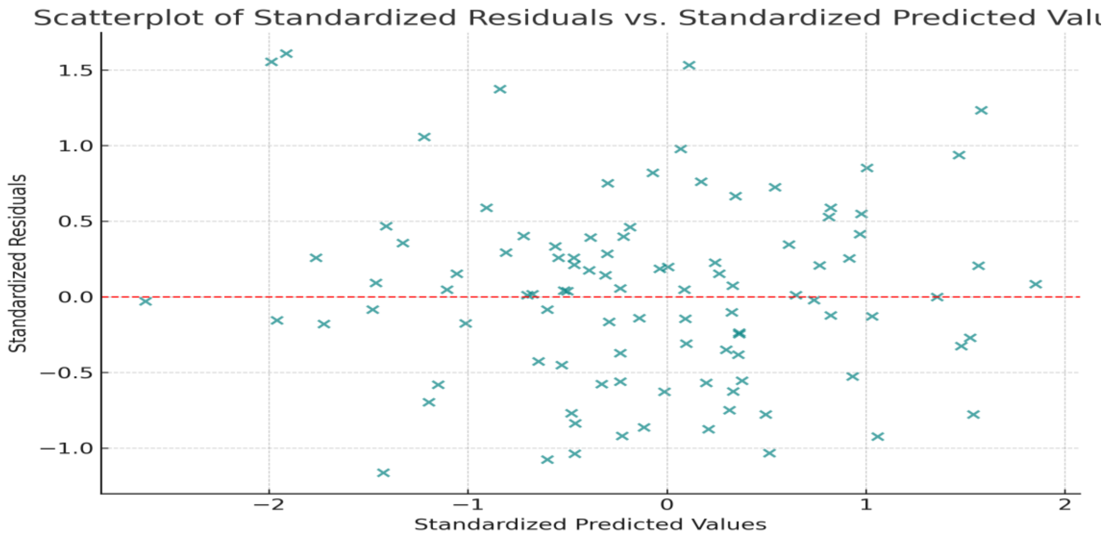
The Durbin-Watson value was 1.891, which is within the acceptable range of 1.5 to 2.5. There is no evidence of autocorrelation, and the assumption of independence of residuals was satisfied.

4.4.3. Homoscedasticity

Homoscedasticity was assessed using a scatterplot of standardized predicted values against standardized residuals. This visual method is widely used to identify any patterns or systematic variance in the residuals. The findings were presented in figure 4.2 below

Figure 3

Scatter Plot for Standardized Residuals VS Standardized Residual Values



The scatterplot above revealed a random and evenly dispersed cloud of points, with no discernible pattern, curvature, or funnel shape. This pattern suggests that the variance of residuals remained consistent across all predicted values. The absence of systematic patterns in the residuals indicates that the assumption of homoscedasticity was satisfied. Therefore, the regression model is not affected by heteroscedasticity, and the standard errors of the estimates can be considered reliable.

4.4.4. Multicollinearity

Multicollinearity was assessed using the Variance Inflation Factor (VIF) and Tolerance values presented in table 13 below

Table 13

Variance Inflation Factor and Tolerance Values

Predictor	Tolerance	VIF
Audit Report Quality	0.712	1.404
External Audit Findings	0.681	1.468
Past Audit Actions	0.594	1.683
Leadership	0.639	1.564

All VIF values are below 2.0, and all Tolerance values are above 0.1, indicating the absence of multicollinearity among the independent variables.

4.5 Correlation Coefficient Matrix

Correlation analysis was conducted to examine the strength and direction of the linear relationships among the independent variables: Audit Report Quality, External Audit Findings, Past Audit Actions, and Leadership. The correlation coefficient values range between **-1** and **+1**, where values closer to +1 indicate a strong positive relationship, values near -1 indicate a strong negative relationship, and values near 0 indicate little to no linear relationship. The results are presented in Table 12

Table 14

Correlation Coefficient Matrix

Variables	1	2	3	4
1. Audit Report Quality	1.000			
2. External Audit Findings	0.421**	1.000		
3. Past Audit Actions	0.556**	0.478**	1.000	
4. Leadership	0.389*	0.443**	0.512**	1.000

Note: *p < 0.05; **p* < *0.01*

The correlation matrix shows that all independent variables are positively correlated with each other and that most of these relationships are statistically significant. This suggests a consistent pattern in which improvements in one variable are associated with improvements in another. The strongest correlation is between Past Audit Actions and Audit Report Quality ($r = 0.556$, $p < 0.01$). This indicates a moderate to strong positive relationship, suggesting that higher quality audit reports are likely to result in more effective follow-up actions. This relationship is practically meaningful in the context of financial stewardship, where actionable audit insights are critical. A moderate positive correlation exists between Past Audit Actions and Leadership ($r = 0.512$, $p < 0.01$), implying that effective leadership is associated with better implementation of audit recommendations.

External Audit Findings is also moderately correlated with Audit Report Quality ($r = 0.421$, $p < 0.01$) and Leadership ($r = 0.443$, $p < 0.01$). This reflects a linkage where thorough external audit findings are associated with better internal audit report quality and more engaged leadership responses. The weakest, though still statistically significant, relationship is between Audit Report Quality and Leadership ($r = 0.389$, $p < 0.05$), which may reflect the differing nature of technical audit reporting and leadership engagement. Importantly, none of the correlation coefficients exceeds the threshold of 0.80, which is commonly used as a benchmark for detecting multicollinearity. This implies that the independent variables are sufficiently distinct and can be included simultaneously in the regression model without inflating standard errors or distorting the estimated relationships.

4.6 Regression Analysis

4.6.1 Model Summary

The model summary provides an overview of the regression model's performance and explanatory power. Specifically, it presents key indicators such as the coefficient of determination **(**R^2) and the adjusted R^2**,** which indicate how well the independent variables collectively explain the variability in the dependent variable. In this study, the model summary assesses the extent to which Audit Report Quality, External Audit Findings, Past Audit Actions, and Leadership contribute to variations in Financial Stewardship within public utility firms. A higher R^2 value indicates that the model has a strong explanatory power and that the selected variables are relevant predictors of financial stewardship.

Table 15

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.841	0.707	0.694	0.405

a. Predictors: (Constant), Audit Report Quality, External Audit Findings, Past Audit Actions, Leadership

b. Dependent Variable: Financial Stewardship

The results in the model summary table indicate that the four predictor variables, audit report quality, external audit findings, past audit actions, and leadership, collectively explain 70.7% of the variation in financial stewardship ($R^2 = 0.707$). This shows that the model has strong explanatory power. The adjusted R^2 of 0.694 accounts for the number of predictors and indicates that the model is not over-fitted. The R value of 0.841 reflects a strong positive correlation between the independent variables and financial stewardship. The standard error of the estimate (0.405) suggests a reasonably small average distance between observed and predicted values, indicating good model fit.

4.6.2 ANOVA

The Analysis of Variance (ANOV**A)** table assesses the overall significance of the regression model. It tests the null hypothesis that all regression coefficients are equal to zero, implying that the model has no explanatory power. The key statistic here is the F-ratio**,** which compares the variance explained by the regression model to the variance not explained by the model (error). A statistically significant p-value (Sig.) for the F-test indicates that the model as a whole is significant and that at least one of the independent variables contributes meaningfully to the prediction of the dependent variable. In this study, the ANOVA results are used to validate whether the combined influence of the independent variables significantly predicts financial stewardship in public utility firms.

Table 16

ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	21.827	4	5.457	33.260	.000
Residual	9.025	76	0.119		
Total	30.852	80			

a. Dependent Variable: Financial Stewardship
b. Predictors: (Constant), Audit Report Quality, External Audit Findings, Past Audit Actions, Leadership

The ANOVA table tests whether the overall regression model is statistically significant. The F-statistic value of 33.260 with a p-value of .000 indicates that the model is highly significant. This implies that the combined effect of the independent variables significantly predicts the dependent variable (financial stewardship). Therefore, the regression model provides a good fit to the data and supports the use of these predictors in understanding variations in financial stewardship.

4.6.3 Regression Coefficients

The regression coefficients table provides detailed information on the individual contribution **of** each independent variable to the prediction of the dependent variable. This includes both unstandardized coefficients (β)**,** which indicate the actual change in the dependent variable for a one-unit change in the predictor, and standardized coefficients (Beta)**,** which allow for comparison of the relative strength of each predictor. The t-values and p-values (Sig.) test whether each coefficient is significantly different from zero. In this study, the regression coefficients reveal how each of the four variables, Audit Report Quality, External Audit Findings, Past Audit Actions, and Leadership, independently influences Financial Stewardship in the context of public utility firms.

Table 17

Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	Beta		
(Constant)	0.812	0.141	—	5.760	.000
Audit Report Quality	0.278	0.081	0.329	3.430	.001
External Audit Findings	0.219	0.087	0.216	2.520	.014
Past Audit Actions	0.641	0.068	0.703	9.430	.000
Leadership	0.163	0.079	0.198	2.060	.043

a. Dependent Variable: Financial Stewardship

The regression coefficients table presents the individual effects of each predictor variable on financial stewardship:

Audit Report Quality has a positive and statistically significant effect ($\beta = 0.278$, $p = .001$). This means that a one-unit increase in audit report quality results in a 0.278-unit increase in financial stewardship, holding all other variables constant. It implies that better-quality audit reports enhance accountability and oversight. External Audit Findings are also statistically significant ($\beta = 0.219$, $p = .014$). A one-unit improvement in the relevance and clarity of audit findings contributes to a 0.219-unit increase in financial stewardship, indicating that clearly communicated findings lead to more effective financial practices.

Past Audit Actions have the largest and most significant impact ($\beta = 0.641$, $p < .000$). This coefficient indicates that acting on previous audit recommendations results in a 0.641-unit increase in financial stewardship. This finding emphasizes the importance of follow-through and implementation in improving financial controls. Leadership also exerts a significant but more minor influence ($B = 0.163$, $p = .043$). An increase in leadership involvement leads to a 0.163-unit increase in financial stewardship, indicating that committed leadership plays a supportive role in enforcing financial discipline and audit responsiveness.

The constant term ($\beta = 0.812$, $p < .000$) suggests the expected baseline level of financial stewardship when all predictor variables are held at zero, although it is interpreted primarily for completeness.

4.7 Hypotheses Tests

This section presents the statistical evaluation of the study's formulated null hypotheses to determine whether there is sufficient evidence to support the proposed relationships between the independent and dependent variables. This analysis is based on the results of the multiple regression model, where each hypothesis is assessed through the t-statistic and associated p-values (Sig.) from the regression coefficients output. A hypothesis is rejected if the p-value is less than the conventional significance level ($\alpha = 0.05$), indicating that the corresponding independent variable has a statistically significant effect on the dependent variable. In this study, hypotheses were formulated to test the individual effects of Audit Report Quality, External Audit Findings, Past Audit Actions, and Leadership on Financial Stewardship in public utility firms. The testing process provides clarity on which factors significantly influence financial stewardship and offers empirical grounding for the study's conclusions and recommendations. The hypothesis test results are provided in table 17 below.

Table 18

Hypothesis Testing Results

Hypothesis Statement	p-value	Decision	Conclusion
H_{01}: Audit report quality has no statistically significant effect on financial stewardship.	.001	Reject H_1	Audit report quality significantly improves financial stewardship.
H_{02}: External audit findings have no statistically significant effect on financial stewardship.	.014	Reject H_2	External audit findings contribute positively and significantly.
H_{03}: Past audit actions have no statistically significant effect on financial stewardship.	.000	Reject H_3	Past audit, actions are a key determinant of improved financial stewardship.
H_{04}: Leadership has no statistically significant effect on financial stewardship.	.043	Reject H_4	Leadership support significantly enhances financial stewardship outcomes.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the study. It provides the study findings and conclusions based on the research objectives. It also provides conclusions derived from the findings and proposes recommendations for the study and for future studies.

5.2 Summary of the Findings

This study examined the influence of selected external audit-related factors on financial stewardship in public utility firms in Kenya's Central Rift Region. Using descriptive and multiple regression analysis, the following key findings were established for each variable:

5.2.1 Audit Report Quality on Financial Stewardship

Respondents generally agreed that audit reports were undertaken professionally, objective in nature, and valuable in financial oversight. The highest-rated statements were "Audit reports are undertaken in a professional manner" and "Material misstatements in financial reports are always reported," each with a mean of 3.70, suggesting a favorable perception of, report quality. However, a notable variation in views was observed regarding whether audit issues are always factually supported (mean = 3.10), indicating areas for improvement in audit substantiation. Regression analysis revealed a positive and statistically significant effect ($\beta = 0.278$, $p = .001$), indicating that as the quality of audit reports improves, financial stewardship strengthens. This suggests that high-quality audit reports enhance transparency, inform financial decision-making, and foster accountability in financial practices. Thus, audit report quality is not only appreciated by respondents but also empirically shown to be a vital contributor to sound financial governance.

5.2.2 External Audit Findings on Financial Stewardship

The findings showed that external audit observations were viewed as relevant, timely, and generally well documented. The item "The external audit findings are always released promptly" had the highest mean score (3.38). In contrast, "The external audit findings make provision of realistic recommendations" scored lower at 3.13, highlighting a perceived gap in practicality. Regression results demonstrated a significant positive effect on financial stewardship ($B = 0.219$, $p = .014$). This suggests that when audit findings are well communicated and address institutional weaknesses, they facilitate corrective action and reinforce governance frameworks. The descriptive and inferential evidence jointly imply that audit findings, when clear and actionable, support improvements in stewardship practices.

5.2.3 Past Audit Actions on Financial Stewardship

A majority of respondents indicated moderate agreement that audit recommendations are implemented, monitored, and backed by a sufficient workforce. The highest-rated statement was "There is always sufficient qualified manpower to address the audit findings" (mean = 3.17), while the lowest was "The organization always puts a reasonable timeline for addressing audit issues" (mean = 2.70). This suggests some weaknesses in timeliness and structured follow-up. Regression analysis confirmed a significant positive effect ($\beta = 0.641$, $p < .001$), indicating that past audit actions were the most influential predictor in the model. This finding implies that commitment to implementing audit feedback significantly enhances compliance, risk mitigation, and overall financial control. The results highlight that acting on past audit recommendations is essential for institutionalizing sound financial practices.

5.2.4 Leadership on Financial Stewardship

Leadership responses were somewhat mixed across items. While the statement "The leadership creates a sufficient control environment to avoid recurrence of audit queries" had the highest mean (3.15), others, such as financial and workforce resource allocation, scored below 3.00, suggesting that leadership support is perceived as only moderately adequate. Nonetheless, regression analysis revealed that leadership had a significant, albeit moderate, influence on financial stewardship ($\beta = 0.163$, $p = .043$). This suggests that leadership involvement through supervision, resourcing, and creating an enabling audit environment has a positive impact on audit implementation and financial discipline. While not the strongest predictor, leadership remains a key enabler in building a culture of accountability.

5.3 Conclusions

Based on the results of the study, the following conclusions are drawn with respect to each variable: The clarity, timeliness, and objectivity of external audit reports significantly contribute to improved financial stewardship. Entities that prioritize the professional preparation of audit reports are better positioned to ensure fiscal transparency and informed decision-making. The positive perceptions and significant regression coefficient indicate that audit report quality is a crucial pillar in responsible financial management. Clearly articulated audit findings have a positive influence on financial stewardship. Timely, well-supported, and contextually relevant findings enhance the usefulness of the audit function. However, perceptions around the practicality of recommendations indicate a need for more realistic and actionable guidance. Overall, audit findings play a crucial role in shaping management responses and informing policy reforms.

The most substantial determinant of financial stewardship is the extent to which past audit recommendations are implemented. This implies that the audit process yields the most significant impact when organizations demonstrate commitment to follow-up. Continuous monitoring, internal capacity, and time-bound action plans are critical for translating audit feedback into lasting improvements in financial governance. Leadership commitment is a crucial factor in ensuring effective audits. Leaders who allocate resources, oversee implementation, and establish accountability create a responsive environment for audit use. Although leadership was not the strongest predictor, its importance confirms the role of executive support in maintaining audit-driven reforms and fostering a culture of financial responsibility.

5.4 Recommendations

5.4.1 Practical and Policy Recommendations

To enhance financial stewardship in public utility firms, several practical and policy-oriented interventions are recommended. First, there is a need to strengthen the quality of audit reports. This can be achieved by ensuring that auditors are adequately trained to produce objective, comprehensive reports that conform to international public sector auditing standards. Regulatory bodies should support this initiative by enforcing regular peer reviews and instituting continuous quality assessments of audit processes. Secondly, efforts should be made to enhance the relevance of audit findings. Audit institutions must prioritize strategic and risk-linked findings that offer actionable insights. Engaging management teams before the final issuance of audit reports can significantly improve the contextual understanding and receptivity of the findings, thereby increasing the likelihood of practical implementation.

Institutionalizing the follow-up of audit actions is also critical. Public utility firms should establish robust audit tracking systems and set up internal audit committees tasked with monitoring the implementation of audit recommendations. These mechanisms should be supported by clearly defined timelines and embedded accountability structures, including integration into performance contracts for responsible officers. Moreover, leadership ownership of audit outcomes should be promoted. Senior management, including boards and chief executives, must actively participate in reviewing audit recommendations and champion their implementation. These leaders should be held accountable for ensuring that audit findings inform risk mitigation and operational improvements. Finally, oversight mechanisms require strengthening. Sector regulators and the Office of the Auditor General should adopt a risk-based approach to audit follow-ups, emphasizing high-risk and high-value issues. The introduction of annual audit action scorecards could serve as a benchmarking tool to measure institutional compliance and motivate continuous improvement across the sector.

5.4.2 Recommendations for Further Research

Future research could benefit from widening the geographic scope to include utility firms located in other regions of Kenya. This would allow for a broader understanding of the dynamics at play and facilitate comparative analyses across countries, thereby revealing potential regional disparities in audit responsiveness and financial stewardship. Additionally, subsequent studies may incorporate moderating or mediating variables to enrich the analytical depth. For instance, governance structures could be examined as a moderating factor. At the same time, internal audit functions could serve as a potential mediator in the relationship between external audit reports and financial stewardship outcomes. Moreover, the adoption of longitudinal research designs is recommended. A time-series analysis would enable researchers to assess trends over time, offering a more dynamic perspective on how the implementation of audit recommendations influences long-term financial sustainability and compliance behavior. Finally, qualitative approaches should also be considered to complement quantitative findings. In-depth interviews with key stakeholders such as external auditors, finance officers, and chief executive officers of public utility firms could provide valuable insights into the behavioral and institutional drivers that shape the utilization of audit reports within the public sector

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APPENDICES

Appendix I: Cover Letter

To Whom It May Concern;

7th February 2021

Dear Respondent,

<u>Ref: Research Data Collection Request</u>

I am a postgraduate student at Kabarak University, pursuing a Master of Business Administration with a specialization in Accounting. I am in the process of undertaking a research project entitled "**Influence of External Audit Report on Central Rift Region, Kenya".** The purpose of this letter is to request your engagement in filling out the questionnaire that is annexed to the letter. The collected information will be used solely for academic purposes. Youridentity will be kept anonymous. The collected information will be used only for academic purposes. Your identity and responses will be kept confidential.

Yours faithfully,

Amina Mohamed Farah

Appendix II: Questionnaire

Instructions to the Respondents

Kindly do fill in the below questions to the best of your knowledge.

Section I: Demographic Characteristics

1. State your gender?

   Male [ ]

   Female [ ]

2. Length worked at your institution.

   Below 5 years [ ]

   5-10 years [ ]

   Above 10 years [ ]

3. What is your age?

   Below 25 years [ ]

   26-35 years [ ]

   36-45 years [ ]

   Above 45 years [ ]

Section II: Audit Report Quality

Using a five-point Likert scale of 1. Not At All, 2. Small Extent (SE), 3. Moderate Extent (ME), 4. Large Extent (LE), and 5. Very Large Extent (VLE), kindly do indicate on your level ofagreement with the given statements.

No	Statement	5	4	3	2	1
4.	Audit reports are undertaken in a professional manner.					
5.	Material misstatements are always detected in audit reports.					
6.	Material misstatements in financial reports are always reported in audit reports.					
7.	Noted issues in audit reports are always supported with facts					
8.	Quality levels of audit reports have capacity to influence financial decision making					

Section III: External Audit Findings

Using a five-point Likert scale of 1. Not At All, 2. Small Extent (SE), 3. Moderate Extent (ME), 4. Large Extent (LE), and 5. Very Large Extent (VLE), kindly do indicate on your level ofagreement with the given statements.

No	Statement	5	4	3	2	1
9.	The external audit findings are always released in a timely manner					
10.	The external audit findings make provision of realistic recommendations in audit reports					
11.	The audit reports are always accompanied by relevant supporting documents					
12.	The audit reports always make recommendations for addressing arising queries					
13.	The auditor general's findings always note the unsupported expenditures					

Section IV: Past audit actions

Using a five-point Likert scale of 1. Not At All, 2. Small Extent (SE), 3. Moderate Extent (ME), 4. Large Extent (LE), and 5. Very Large Extent (VLE), kindly do indicate on your level ofagreement with the given statements.

No	Statement	5	4	3	2	1
14.	The audit recommendations are always implemented in the research					
15.	Appropriate corrective measures are always undertaken based on the audit findings					
16.	There is always sufficient qualified manpower to address the audit findings					
17.	There is always sufficient monitoring of the implementation of the audit recommendations					
18.	The organization always puts a reasonable timeline for addressing the arising issues from the audit process					

Section V: Leadership

Using a five-point Likert scale of 1. Not At All, 2. Small Extent (SE), 3. Moderate Extent (ME), 4. Large Extent (LE), and 5. Very Large Extent (VLE), kindly do indicate on your level ofagreement with the given statements.

No	Statement	5	4	3	2	1
19.	The organizational leadership always allocates sufficient financial resources for addressing audit report recommendations					
20.	The organizational leadership always allocates sufficient manpower for addressing audit report recommendations					
21.	The organizational leadership makes supervision to ensure that the audit report recommendations are addressed					
22.	The organizational leadership makes supervision to ensure that the audit report recommendations are addressed					
23.	The leadership creates sufficient control environment to avoid reoccurrence of audit queries raised by audit reports					

Section VI: Financial stewardship

Using a five-point Likert scale of 1. Not At All, 2. Small Extent (SE), 3. Moderate Extent (ME),4. Large Extent (LE), and 5. Very Large Extent (VLE), kindly do indicate on your level ofagreement with the given statements.

No	Statement	5	4	3	2	1
24.	All expenditures by the organization are documented					
25.	There is proper approval of firm expenditures					
26.	There is proper utilization of allocated budget to the firm					
27.	There is transparency in the firm expenditures					
28.	There is value for money in all activities undertaken in the organization					

Appendix III: KUREC Clearance Letter

KABARAK UNIVERSITY RESEARCH ETHICS COMMITTEE

Private Bag - 20157
KABARAK, KENYA
Email: kurec@kabarak.ac.ke

Tel: 254-51-343234/5
Fax: 254-051-343529
www.kabarak.ac.ke

OUR REF: KABU01/KUREC/001/01/09/24

Date: 2nd Sept, 2024

Amina Mohamed Farah
Reg No:
Kabarak University,

Dear Amina

RE: INFLUENCE OF EXTERNAL AUDIT REPORTS ON THE FINANCIAL STEWARDSHIP OF PUBLIC UTILITY FIRMS IN KENYA: A SURVEY OF WATER AND SEWERAGE FIRMS IN CENTRAL RIFT REGION, KENYA.

This is to inform you that ***KUREC*** has reviewed and approved your above research proposal. Your application approval number is ***KUREC-010924.*** The approval period is *2/09/2024 – 2/09/ 2025.*

This approval is subject to compliance with the following requirements:

i. All researchers shall obtain an introduction letter to NACOSTI from the relevant head of institutions (Institute of postgraduate, School dean or Directorate of research)
ii. The researcher shall further obtain a RESEARCH PERMIT from NACOSTI before commencement of data collection & submit a copy of the permit to **KUREC.**
iii. Only approved documents including (informed consents, study instruments, MTA Material Transfer Agreement) will be used
iv. All changes including (amendments, deviations, and violations) are submitted for review and approval by ***KUREC***:
v. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to ***KUREC*** within 72 hours of notification;
vi. Any changes, anticipated or otherwise that may increase the risk(s) or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to ***KUREC*** within 72 hours;
vii. Clearance for export of biological specimens must be obtained from relevant institutions and submit a copy of the permit to KUREC;
viii. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal and;
ix. Submission of an executive summary report within 90 days upon completion of the study to ***KUREC***

Sincerely,

Prof. Jackson Kitetu PhD.
KUREC-Chairman

Cc Vice Chancellor
DVC-Academic & Research
Registrar-Academic & Research
Director-Research Innovation & Outreach
Institute of Post Graduate Studies

KABARAK UNIVERSITY
INSTITUTIONAL RESEARCH ETHICS COMMITTEE
02 SEP 2024
APPROVED

As members of Kabarak University family, we purpose at all times and in all places, to set apart in one's heart, Jesus as Lord.
(1 Peter 3:15)
Kabarak University is ISO 9001:2015 Certified

Appendix IV: NACOSTI Research Permit

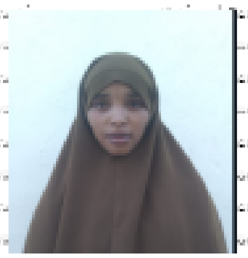
REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 668174

Date of Issue: 14/February/2024

RESEARCH LICENSE



This is to Certify that Miss.. Amina Mohammed Farah of Kabarak University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nakuru on the topic: Influence of external audit reports on the financial stewardship of public utilities in Kenya: A survey of water and sewerage firms in central rift region, Kenya. for the period ending : 14/February/2025.

License No: NACOSTI/P/24/32855

668174

Applicant Identification Number

Director General

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

Appendix V: Evidence of Conference Participation

KABARAK UNIVERSITY

Certificate of Participation

Awarded to

ANIMA MOHAMED FARAH

For successfully participating in the 15th Annual Kabarak University International Research Conference held on 1st-2nd July 2025 and presented a paper entitled ***"The Influence of External Audit Report Quality on the Financial Stewardship of Water and Sewerage Firms in the Central Rift Region, Kenya"***

Conference Theme

Sustainable Business Models In The Era Of Artificial Intelligence For Youth Empowerment

Prof. Patrick Kibati
Dean, School of Business & Economics

Dr. Phillip Nyawere
Director - Research, Innovation and Outreach

Kabarak University Moral Code

As members of Kabarak University family, we purpose at all times and in all places, to set apart in one's heart, Jesus as Lord.

(1 Peter 3:15)

Kabarak University is ISO 9001:2015 Certified

Appendix VI: List of Publication

International Journal of Science and Research (IJSR)
ISSN: 2319-7064
Impact Factor 2024: 7.101

Influence of External Audit Report Quality on Financial Stewardship in Water and Sewerage Firms: Evidence from Kenya's Central Rift Region

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Abstract: ***This research examines how the quality of external audit reports influences financial stewardship within water and sewerage service providers in Kenya's Central Rift Region. utilizing a descriptive design and collecting data from 63 senior managers across six public utility firms, the study applies correlation and regression analysis to establish that high-quality audit reports significantly enhance transparency and Accountability. Findings reveal a strong positive relationship(r=0.841) between audit quality and financial stewardship. The results underscore the need for professional audit standards, timely reporting and implementation of audit recommendations to strengthen***

Keywords: Audit Report Quality, Financial Stewardship, water utilities, Public sector governance, Kenya

1. Introduction

Financial stewardship, defined as the responsible planning and management of financial resources, is increasingly seen as a cornerstone of sustainable governance in public utility organizations worldwide. Globally, external audits are recognized as a key mechanism for promoting transparency, accountability, and prudent financial practices (OECD, 2021). According to the International Federation of Accountants (IFAC, 2020), the quality of external audit reports reflected in independence, clarity, and accuracy plays a critical role in ensuring the credibility of financial statements and guiding effective financial oversight. For instance, in countries like New Zealand and Canada, enhanced audit quality frameworks have significantly improved the governance of public service utilities by enabling early detection of financial irregularities (ACCA, 2022). As regulatory expectations increase, there is global consensus that high-quality audits are essential in preventing mismanagement and in strengthening public trust in utility management (World Bank, 2023).

In Africa, public sector entities, including water and sewerage utilities, often face challenges related to weak governance, poor audit implementation, and limited responsiveness to audit recommendations (Afrobarometer, 2021). According to the African Organization of English-speaking Supreme Audit Institutions (AFROSAI-E, 2020), many countries struggle with audit quality due to limited resources, political interference, and lack of professional independence. However, nations like South Africa and Rwanda have made significant strides in improving external audit frameworks, resulting in better public financial management outcomes (PwC Africa, 2022). High-quality audit reports have been shown to positively influence financial discipline and operational efficiency among water boards and municipal utilities (Makanya & Banda, 2021). Nevertheless, audit findings are often underutilized in decision-making, leading to recurrent financial mismanagement in key infrastructure sectors.

In Kenya, the Auditor-General's reports have consistently highlighted concerns regarding the financial performance and accountability of water service providers (Office of the Auditor-General [OAG], 2022). Water and sewerage firms in particular have faced issues ranging from poor utilization of funds to lack of compliance with audit recommendations (WASREB, 2023). The Water Services Regulatory Board (WASREB) has noted that while external audits are routinely conducted, the quality and timely dissemination of these reports remain inconsistent, thereby limiting their influence on financial stewardship (WASREB, 2023). Moreover, the Public Finance Management (PFM) Act (2012, revised 2022) emphasizes the role of external audit in enhancing transparency in state corporations, including water utilities. However, a study by Njoroge and Odhiambo (2021) revealed that many audit reports in the sector lack follow-through mechanisms, leading to repeated financial mismanagement. Strengthening audit report quality especially in terms of clarity, objectivity, and action ability could play a transformative role in the financial sustainability of these firms.

1.1 Statement of the Problem

Despite the existence of regulatory frameworks mandating regular external audits in Kenya's public sector, persistent concerns remain regarding the quality and utility of audit reports, particularly within water and sewerage firms. Reports from the Office of the Auditor-General (OAG, 2022)