

## ABSTRACT

Risk based internal auditing being a methodology that links internal auditing to an organization's overall risk management framework, provides risk management process, annual audit planning, internal audit capacity and internal auditing standards which improves the efficiency of the internal control system of an organization thereby improving the overall financial performance. Existing literature demonstrate that RBA has capacity of risk identification and reduction i.e. its adoption had several achievements amongst which were identification and resolving of civil servant payroll weaknesses to eliminate ghost staff thereby streamlining payments in a cost saving manner. It also increased law courts' revenue collection of between 33% and 166% in 2007. Having been implemented by public institutions, including public sugar companies in Kenya, it requires analysis of its contribution in maintaining efficiency and effectiveness. Whereas public sugar companies apply risk based auditing as a tool of internal control system and financial performance, available information reveal that a number of the sugar companies still face critical challenges with internal control system and financial performance. The purpose of this study was to analyze the effect of risk based internal auditing on financial performance in public owned sugar companies in Kenya. Specifically the study sought to establish the effect of risk management on financial performance, to determine the effect of annual risk based planning on financial performance and to analyze the effect of internal audit capacity on financial performance. Agency theory was among the theories that guided the study. This study adopted correlation research design which provides for description, correlation and regression as it's expected by the focused relations. The target population for the study constituted 50 respondents, comprising finance officers, deputy finance officers and internal auditors in the selected public owned sugar companies in Kenya. A pilot study was carried out on 5 respondents at a scale of 0.7 leaving 45 respondents for the main study and was used to test reliability of the research instrument. The study administered questionnaires to all the respondents since it was the most appropriate tool to gather information. Bi-variate correlation analysis was used to test hypothesis and regression analysis model to establish the relationship between the effects of RBIA elements on financial performance of selected 4 public owned sugar companies in Kenya. Level of association was factored i.e. independent and dependent variables in the study. The study may also be significant in that it may be a reference for other scholars interested in the general body of knowledge and form a basis for further research. The study established that risk management had a significant positive correlation (0.678,  $p < 0.01$ ) with financial performance. The study also found out annual risk based planning had a significant positive relationship (0.597,  $p < 0.01$ ) with financial performance. Finally, the study also established that. This was also supported by regression results which showed a significant positive influence (0.677,  $p < 0.01$ ) between internal audit capacity and financial performance. As such the null hypothesis that there is no significant positive relationship between risk base financial audit and financial performance was rejected. The study concluded that there was a significant positive relationship between risk based financial audit and financial performance. The study recommended that other researcher should focus on non-financial factors and their relationship with financial performance