FIRM CHARACTERISTICS AND QUALITY AUDIT OF FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE OPTION), SCHOOL OF BUSINESS KENYATTA UNIVERSITY

JULY, 2018
DECLARATION

I declare that this project is my original work and has not been presented by any other person for purpose of the award of degree in any institution of higher learning except where I have used other authors’ work of which acknowledgment has been made.

SIGNED …………………………… DATE ……………………………

MILDRED ALUOCH OTIENO
D53/OL/CTY/26890/2015

I confirm that this research project has been done under my supervision.

SIGNED …………………………… DATE…………………………

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DEDICATION

I dedicate this research project to my mother who has always blessed me and prayed for me to pursue my dreams since childhood. To my son Jakinda, the source of my joy and inspiration and my entire family with whose support and endurance made this research project become a success.

God Almighty bless you all abundantly.
ACKNOWLEDGEMENT

I thank God Almighty for seeing me through the entire coursework and this project without hindrances. Only His sufficient mercy and grace has brought me this far. My heartfelt gratitude goes to my dear parents who have always shown me the true value of education. I am greatly indebted to them. Also my gratitude goes to my entire family for supporting me whole-heartedly to enable I pursue this course successfully.

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OPERATIONAL DEFINITION OF TERMS

Audit firm characteristics – The exploratory features or factors an audit firm possesses that influence the quality of audit outcome.

Audit Firm Tenure - The durations or period of time an audit firm has audited a particular client.

Quality audit - The degree an audit is in conformity to the applicable standards by putting focus on the correctness of information provided in audit reports to eliminate misstatements in the financial statements.

Auditor Independence - Lack of interference with auditors work from both internal and external parties that may have personal or financial interests in the firm being audited.

Auditor Reputation - The perceived corporate image an auditing firm has created from past performance based on both practical and technology an audit firm possesses over time.

Central Depository and Settlement Corporation - A limited liability Company approved by the Capital Markets Authority to provide automated platform for trading in securities at the Nairobi Stock Exchange.

Cohen Commission (AICPA 2016) - An American commission on auditors responsibilities charged to develop both accountants and auditors responsibilities and expected performance standards.

Institute of Certified Public Accountants - An institution that governs and regulates the conduct of professional accountants.

Professional competence and due care - Acting diligently and in accordance with applicable technical and professional standards when providing professional services to deter unethrical behavior and promote quality audit through enhanced auditors capacity and capability.

Sarbanes-Oxley Act SOX Act (2012) - An Act passed by U.S. Congress in 2012 mandating strict reforms through financial disclosure aimed to protect investors from the possibility of fraudulent accounting activities.
Statistical Package for the Social Sciences - A software package used by researchers for logical batched and non-batched statistical analysis.
ABSTRACT

There have been numerous financial scandals and audit reporting failures in both public and private organizations some of which are listed in the NSE which has led Companies in various sector of the economy to experience financial distress; that is circumstances in which a company cannot meet its current obligations using operating cash flows and it is therefore faced with the need to employ corrective measures. Such distresses have been occasioned by professional misconduct while handling financial accounts and consequently raising doubts on auditing profession. Consequently, a lot of questions have been raised about the auditing profession in Kenya. Much of the concerns are about reduced quality audit and independence of auditors and especially the Big 4. This study therefore sought to establish the effect of audit firm characteristics on audit quality of firms listed in the Nairobi Securities Exchange. This study aimed to investigate the joint effect of audit firm tenure, auditor reputation, auditor independence and auditor professional competence and due care on quality audit of firms listed in the Nairobi Securities Exchange in Kenya. The study was anchored on the agency theory, role theory and audit expectation gap and the signaling effect theory. A descriptive research design was used. The researcher used primary and secondary data for a period of five years between 2011 and 2015. Primary data was collected using structured questionnaires issued to selected respondents and secondary data was derived from audited and published financial statement for the listed companies in the Nairobi Securities Exchange and the NSE, CMA and other relevant websites and recorded in a data collection sheet. A population of 67 listed firms was the object of study out of which 33 firms were selected using purposive sampling technique. This sample was approximately 50%. Inferential statistics like correlation analysis and multiple regression analysis were used to measure and analyze the results of the study which was analyzed and presented in form of statements and tables. The researcher applied high ethical standards to ensure no information is misrepresented and citations made accordingly. SPSS package version 7.0 was used to analyze the data. The findings and conclusions focused on effects the independent variables have on quality audit for selected firms listed in the NSE in Kenya. The recommendations thus enables audit firms, clients, all users of financial information and investors to have in-depth knowledge of firm characteristics that allow objective financial reporting and sound investment decision making. The study found that firms allowed quality audit work to be carried out because of strong commitment and dedication to management role and profession in the organization, that management ensured that there was no personal relationship with the auditors that would lead to familiarity threats and compromise their independence, that duration in years and rotation of auditor or lead partner greatly affect quality audit for firms and that auditors have the required academic qualifications to be professional auditors. The study concluded that audit tenure activities had the greatest effect on the influence of stakeholder activities on audit quality, followed by auditor reputation, then auditor independence then auditor professional competence while disciplinary measures had the least effect on audit quality. The study recommends that there is need to increase the proportion of independent auditors since an increase in their number reduces the chances of financial misreporting and leads to positive perception by investors and that there should be high level of professionalism by the audit firms.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

As a major component of sound corporate governance in an organization, high quality external auditing is done by organizations. However, relatively little is known on what determines audit quality. The many recent financial scandals on firms in Kenya provide a ground for the need to investigate the joint effect of audit tenure, auditor reputation, auditor independence and auditor professional competence and due care on quality audit for listed firms in the NSE (Mwangi, 2014).

Whenever management interests are not in order with that of shareholders, an organization contracts external auditor (Barzegar & Salehi, 2012). The agency theory states that an agency relationship will exist when an agent is contracted to act on behalf of a principal. The relationship is built on certainty that the agent will perform his duties as delegated in a manner as if the principal was present and acting alone.

Professional competence, due diligence, caution and related skills are expected from the auditor while performing his duties. An auditor is expected to state the status of an entity audited through statements in his final report. He may employ various methods to gather evidences and finally express an opinion which likely affects the quality of his audit report which in this case is the audit quality (Clinch, 2010).

The literature focused on factors that were found to affect audit quality. These factors were four (4) among many others. They included; audit tenure, auditor reputation, auditor independence and auditor professional competence and due diligence. Under audit tenure, it is argued that whenever an auditor serves an audit firm for a long period, the auditors are in greater pressure to provide quality. Secondly, high reputation auditors have more incentive to protect their reputation thereby less tendency to be compromised by clients’ actions. Also, the independence of an audit is important as it enables an auditor to come up with expert opinion that will benefit the client and third parties through recommendations for improvement.
Lastly, the lead of Lennox (2017), argued that large auditors have better reputation and therefore more incentive to issue accurate reports. Three main hypotheses were used to explain the quality audit phenomenon: They are Agency Theory by Jones (2016), Role Theory and Audit Expectation gap by Oyadonghan (2011) and Information theory which were widely referred to as the three most plausible explanations to audit quality.

1.1.1 Audit Firm Characteristics and Audit quality

Extended audit firm tenure is argued to make auditors less independent due to long relations leading to familiarity with client, thus auditor may bend to client’s demands so as to continue receiving future audit fees, Hoyle (1978). Earlier arguments put forth that extended relations between auditor and client and the fear of losing future income and the need to protect their reputations induces auditor to improve audit quality, De Angelo (1981). Since these effects operate in opposite directions, in addition to determination of how each factor affects audit quality independently, it is prudent to consider the joint effect of audit firm characteristics as a whole and not only proxies like audit firm tenure, auditor reputation, auditor independence and auditor professional competence and due care in isolation.

1.1.2 Audit Firm Tenure

Audit tenure implies to the durations or periods of time an audit firm audits a certain client. According to Geiger (2012), when the client and audit firm have an extended relationship, auditor’s independence might be threatened. An extended relationship between an organization and an accounting firm might pose threat to independence of an auditor since the auditor is too familiar with the interests of its client’s (Congress 1976). This was further explained by Mautz and Sharaf (1961) who explained this situation to be contributed by reluctance and impartiality on the side of an auditor which leads to impaired judgement and interferes with auditors skepticism. Brody & Moscove (2015), suggested that auditor independence and judgement can be maximized by auditor or audit firm rotation.

Audit tenure was measured by dividing the five years (2011 – 2015) period that was analyzed into: (SHORT=0): short term tenure if client had been audited by audit firm for 3 years or less, and (LONG =1) if the client had been audited by same auditor for more than 3 years. Previous
research results have shown that there exists relationship between audit firm tenure and discretionary accruals as an quality audit proxy. Chedagani (2011), defined proxies as the direct and indirect measures and ideas that people have that may influence quality audit for example financial reporting compliance, quality control review, industry expertise, cost of capital and company size among others. Similarly, (Becker et al 2015) suggested that discretionary accruals are a proxy for earnings quality and audit quality. De las Heras et al, 2012 argued that discretionary accruals implicitly reflect fundamental economic performance. Thus the quality of earnings information in the financial report is able to reflect the audit quality. It is believed that extended relationship of an auditor and client might compromise the quality audit of reports produced by the auditor.

1.1.3 Auditor Reputation

Auditor reputation refers to the perceived corporate image of an auditing firm created from recorded previous performance on audit quality. Previous researchers Shrum and Wuthnow (2011), described auditor reputation as the relative standing or auditor desirability. Pololyn (2013), described reputation as esteem and Dolligner et al., 2016 described it as favourableness. A study by Sucher (2017) suggested that reputation is based upon both practical and technology an audit firm possess and that this reputation only comes with time. However, Aronmwan (2013) argued that it is hard to evaluate what the basis of an auditor’s reputation is that amounts to audit quality.

Thus, quality audit is independent of audit firm size and that smaller audit firms are more dependent on few large clients than larger audit firms, De Angelo (2011). As postulated in earlier researches, non-audit fees to be received from clients might act as security for those audit firms whose poor quality audit work results to loss on client. This can be proved on the theory of incentives where auditors are motivated by the incentive they receive, the greater the perceived incentive, the greater the audit quality. This is largely related to the auditors from big audit firms.

1.1.4 Auditor Independence

According to Lindberg and Beck 2014, auditor independence is well referred as the pillar of the auditing profession as it is the foundation of the public’s trust. DeAngelo (2011) relates the
probability of detection to auditor competence and probability of revelation is associated with auditor independence. He argued that large international accounting firms have established brand reputation and have motives to maintain it by providing high-quality audit, therefore (Jeong & Rho, 2014) concluded that bigger auditors become more independent when there is no financial affiliation with clients. This independence provides big auditors with stronger negotiation stance with their clients compared with smaller audit firms (Nelson, Elliott & Tarpley, 2012).

Other prior studies by Alim, Trisni, & Lilik, 2017 and Windsor & Warning-Rasmussen, 2013 had shown that quality audit is positively affected by auditor independence thus a directly proportional relationship. It therefore follows that auditor independence is directly proportional to quality audit as the auditor carries out his or her work freely and objectively. Independence requires integrity and an objective approach to the audit process. In addition to technical competence, auditor independence is the most important factor in establishing the credibility of the audit opinion. This objectivity will not be met if audit report users conclude that the auditor may have been influenced to act differently by other parties like company directors or personal ambitions.

There are two general types of Independence. The first is the Independence of the internal auditor which means independence from parties whose interests might be harmed by the results of an audit. Specific internal management issues include inadequate risk management, inadequate internal controls, and poor governance and Secondly, Independence of the external auditor which means freedom from parties interested in particular results published in financial statements of an entity. This helps give guidance on independence from suppliers, clients, third parties et cetera (Schuer, 2012).

1.1.5 Auditor Professional Competence and Due Care
According to the Accountants Act (2012) and ICPAK code of ethics section 100.4, which touches on professional competence and due care, a professional accountant or auditor has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current
developments in practice, legislation and techniques. A professional accountant should act diligently and in accordance with applicable technical and professional standards when providing professional services.

ICPAK Code of Ethics Section 100.11 and 100.12 further emphasizes that professional competence and due care are regarded as safeguards that deter unethical behavior and promote quality audit to a firm since it enhances auditors capacity and capability. It further promotes safeguards through continuing professional development requirements, peer reviews, regulatory monitoring and disciplinary procedures and communication of information produced by a professional accountant which all amount to quality audit to firms listed in the Nairobi Securities Exchange market. ICPAK Code of Ethics Section 130, also emphasizes that competent professional services that result to quality audit is to be achieved by auditors when they exercise sound judgment and apply professional knowledge and skill in the performance of such service. Therefore, they must strive to attain professional competence and maintain the same professional competence by acting diligently in their duties and applying technical and professional standards in their services. This will no doubt enhance confidence of users and will over and above resonate to quality of an audit.

1.1.6 Client importance and audit fees

Client importance refers to the degree of economic dependence an audit firm has on a particular client in terms of audit fees. Economic dependence is highly influenced when an auditor performs other consultancy services to client such as taxation, accounting, system design, valuation, recruiting and trainings on addition to auditing thereby increasing risk on quality audit caused by financial reliance of auditing firm on a client. Fear of losing additional income causes an auditor to fail to contradict management even in genuine cases. Further being too familiar with management may cause and auditor to lose his or her professional skepticism (Holye, 2015).

According to Hoitash (2017), audit fees paid affects quality audit in several ways. First, clients who pay high audit fees receive high quality audits resulting to high quality reports. However, high fees may compromise auditors’ independence because the induced relationship may make
an auditor shy away from seeking necessary supporting documents from a client during the audit process for fear of losing revenue hence affecting audit quality. The total audit fees which includes but is not limited to audit expenses such as cost of travel incurred by auditors, audit tax, cost on time spent auditing a client et cetera are measures of economic dependence, and could impact on auditor independence and consequently on audit quality. Client importance is measured by the natural logarithm of Total Audit Fees paid by client to an audit firm for audit services performed.

1.1.7 The Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) was established in 1954 as the Nairobi Stock Exchange, based in Nairobi the capital of Kenya. It was a voluntary association of stockbrokers in the European community registered under the Societies Act in British Kenya. No formal rules or regulations governed the stock broking activities therefore trading was on mere gentleman’s agreement with set standard commissions. At the onset, stock broking was a by-the-way business conducted by professionals like accountants, auctioneers, estate agents and lawyers who met to exchange prices while socializing because they were engaged in other specialties.

Over the years, several changes occurred which included delisting of companies established in East Africa that is Tanzania and Uganda, privatization of NSE, establishment of CMA to govern and regulate the stock market, setting up a computerized delivery and settlement system (DASS) and incorporation of Central Depository and Settlement Corporation (CDSC) Limited among others.

Currently there are sixty seven (67) listed firms at the NSE out of which 11, are banking, 7, Agricultural, 3, Automobiles and Accessories, 12, Commercial and Services, 5, Construction and Allied, 5, Energy and Petroleum, 6, Insurance, 5, Investment, 1, Investment Services i.e. NSE, 10, Manufacturing and Allied, 1, Telecommunication and Technology, 1, Real Estate Investment Trust and 1, Exchange Traded Fund (www.nse.co.ke). The secondary data that is available in audited annual reports at the Nairobi Securities Exchange (NSE), Capital Markets Authority (CMA), and the various company websites, financial reports, financial bulletins and various financial Acts and Regulations necessitates the analysis of these listed firms.
1.2 Statement of the problem
There have been numerous financial scandals and audit reporting failures in both public and private organizations some of which are listed in the NSE which has led Companies in various sector of the economy to experience financial distress; that is circumstances in which a company cannot meet its current obligations using operating cash flows and it is therefore faced with the need to employ corrective measures (Wruck 2015). Such distresses have been occasioned by professional misconduct while handling financial accounts and consequently raising doubts on auditing profession. For example, recent corporate scandals in Kenya such as Deloitte & Touche an external auditor which was reported for professional misconduct in handling financial accounts of Mumias Sugar, Tusky Supermarket, the Collapsed Dubai Bank and Chase Bank. Ernst & Young also a big reknown audit firm was investigated by Commission for Co-operative Development on the role it played during the acquisition process of Equatorial Commercial Bank by Mwalimu Sacco. Consequently, a lot of questions have been raised about the auditing profession in Kenya. Much of the concerns are about reduced quality audit and independence of auditors and especially the Big 4 audit companies in Kenya which include KPMG, PWC, Delloite and Ernest and Young.

Recently, the Institute of Certified Public Accountants of Kenya (ICPAK) enacted new regulations that will require external auditors to deepen disclosure on financial statements by companies (ICPAK, 15), in as much as economics suggests that the concentration of the accounting field is lowering the quality of audits being conducted and there exists very little documented studies on quality audit in Kenya. Having few success stories on quality audit is a matter that may affect stakeholder confident and reduce trading profit in the Nairobi securities market as a whole.

Regulatory bodies like the CMA and ICPAK, are also challenged with a duty of regularly monitoring the accounting and auditing profession to ensure high quality work is done on financial statements. This thus dictates regular inspections and even taking disciplinary actions if need be in cases that misrepresentations or creative accounting are cited to users of financial information.
Mriwa (2013), measured how audit tenure affected quality audit in commercial banks listed in the Nairobi Securities Exchange (NSE) and concluded that quality audit was affected by the effectiveness of human capital and auditor independence as the period of audit tenure increases. The study also reported that quality audit in banks was low and as tenure increased the quality decreased which was consistent with the research by Simnett and Carey (2006). This however contradicted findings of Yuniatri (2012) who purported that when audit tenure is long, the quality audit increases.

Little research has been done on the quality of audit for firms listed in the securities market in developing countries like Kenya. Various countries have changing characteristics in their variables during a period of analysis, and thus the need to study these factors under developing economies. ICPAK has also instituted various reforms that are inclined to improve quality audit and curb audit failures. The researcher is therefore motivated to analyze and bring to light the relationship between audit tenure, auditors reputation, auditors independence and auditors professional competence and due care on audit quality.

1.3 Objectives of the study

1.3.1 Main Objectives
The main objective of the study was to determine the effect of audit firm characteristics on the quality audit of firms listed in the NSE in Kenya.

1.3.2 Specific Objectives
The study was guided by the following research objectives;
1. To establish the effect of audit firm tenure on quality audit for firms listed in the NSE in Kenya.
2. To establish the effect of auditor reputation on the quality audit for firms listed in the NSE in Kenya.
3. To determine the effect of auditor independence on quality audit for firms listed in the NSE in Kenya.
4. To determine the effect of auditor professional competence on quality audit for firms listed in the NSE in Kenya.
1.4 Research Questions
The study sought to answer the following questions;
1. What is the effect of audit firm tenure on quality audit for firms listed in the NSE?
2. What is the effect of auditor reputation on the quality of audit services for firms listed in the NSE?
3. Does auditor independence affect the quality of audit reports for firms listed in the NSE?
4. What is the contribution of auditors professional competence and due care to the quality of audit reports?

1.5 Significance of the study
This study aimed to investigate the joint effect of audit firm tenure, auditor reputation, auditor independence and auditor professional competence and due care on quality audit for firms listed in NSE. These findings will provide evidence of quality audit on the listed firms in Kenya. Since quality audit is derived from inferences on financial reports of a company, this study will help various users of financial statements and audit reports in improving the quality of financial reporting which would amount to improved audit quality.

The government of Kenya through the main accounting board ICPAK, may use the findings to formulate or review accounting and auditing guidelines with a view to improve the management of professional conduct. Such guidelines would enable identify factors that relate to quality audit which if found to be lacking pose a huge threat. Future researchers, academicians and policy makers who may wish to conduct studies on quality audit may use this research as a foundation and build upon it. This research will offer a basis for comparative information for references or for conducting other studies.

1.6 Scope of the study
This study sought to find the joint impact of audit firm tenure, auditor reputation, auditor independence and auditor professional competence and due care on audit quality. The research was based on 67 companies listed in the Nairobi securities market (www.nse.co.ke). The study used correlation approach of study. Data was collected from a sample population of 33 listed firms from the entire population of the 67 firms. Primary data was sought and secondary data
that is available was selected for a period of five (5) years that is from 2011 to 2015 since this is the period when most audit queries on audit quality were raised in the public sector by oversight authorities

1.7 Limitations of the study
Every research study has its unique challenges that are expected to be encountered and some arise as time goes by due to changes on intervening variables that affect the variables under study and some variables not being able to be measured quantitatively. Secondly, the researcher was not sure how readily available classified and useful data to this research was to be accessed within the research period and how much information would be disclosed willingly. There also lacked a standard rating of quality audit to help in benchmarking thus lacking objectivity hence results are dependent on audit team manager opinion. There is a rise in corporate failures attributed to audit failures, sometimes not necessarily the factual truth. Thus the researcher was pressured to try to establish and link or separate such factors and their effect to audit quality.

The researcher overcame these limitations through the assistance that she got from respondents who could access centralized registries at the CMA and NSE to get relevant classified data. The researcher was also able to get valuable information from qualified officers from the Office of the Auditor-General Kenya. On variables that could not be measured quantitatively, research questions were assigned to respondents in a way that the responses would enable drawing reliable conclusions using statistical measurements.

1.8 Organization of the Study
The project comprises of five chapters. Chapter one involves background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and significance of the study, limitation of the study, scope of the study and organization of the study. Chapter two reviews theoretical and empirical literature while chapter three deals with research methodology which entails research design, target population, sampling design, rationale for sample selection, data collection instruments, questionnaires, validity of the research instrument, reliability, data analysis and ethical considerations. Chapter four entails
data analysis findings, presentation, interpretation and discussion while Chapter five indicates the summary of the findings, conclusions and recommendations.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter aimed to discuss the various theories that informed this study, empirical review of related studies, research gaps and conceptual framework to illustrate the relationship between independent and dependent variables.

2.2 Theoretical Literature

2.2.1 Agency Theory

According to Jone (2016), audit is a monitoring tool implemented to address the principal-agent conflict. Agency theory is an economic theory that attempts to explain the imperfections of an agency relationship. Auditors as agents are expected to act in accordance to the agency relationship agreement and thereby provide possible solutions that align issues with respect to financial presentations that may cause conflict between principal and agent. Agency theory suggests that, under an agreement of one or more people (principals) hire someone else (agent) to act on their behalf as well as delegate some decision making authority.

Depending on the principal-agency agreement, the agent performs duties as delegated by the principal. Mistrust between the two parties may be caused by information asymmetries which may in turn lead to principal-agency conflicts. Consequently, the principal resolves to put in place mechanisms to align their interest to that of agents to reduce any opportunistic behavior and the magnitude of information asymmetries (Grant, 2012). The auditor assesses financial statements of a going concern prepared by the principal to determine the financial position of the company as presented by the financial statements in compliance with GAAPs and other applicable standards. The report an auditor produces from audited accounts helps to re-inforce the trust between the various stakeholders.
2.2.2 Inspired Confidence Theory and Policeman Theory

Hayes et al, 2005, Inspired Confidence Theory suggested that when stakeholders demand accountability from management as an exchange from their contribution to the company, audit services are a direct consequence of the participation of outside stakeholders in the financial markets. Thus the management may give biased information and therefore audit of this information is required. This is in support of Hayes et al, 2015, Policeman Theory which restrains the auditor’s responsibilities on arithmetical accuracy and on the prevention and detection of fraud. An auditor is expected by public and users of audit reports to perform the audit process in accordance with relevant laws and regulations that govern the audited entity and present an unbiased and independent audit report of his findings. This is in a bid to prevent fraud and encourage management to be prudent and transparent on making decisions on the affairs of an entity (Appah Ebimobowei and Oyadonghan 2011).

As a result of inspired confidence by beneficiaries, public and users of auditor’s report, existing expectation gaps perceived by stakeholders are addressed as part of the duties of an auditor in the financial statements. There are also instances, where an auditor falls prey to personal, emotional or financial pressure which cause compromise on his independence resulting to poor audit quality. These theories therefore support the audit quality.

2.2.3 Signaling Effect Theory

According to Aboody & Lev (2000), signaling effect theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. The sender chooses the appropriate means to communicate or signal the other party to enable adequate interpretation. This interpretation is what will enhance sound and beneficial decision making in a firm. An auditor being an agent of the firm should always ensure to convey accurate signals through the information in their audit reports so that correct signal is received by firm’s management and shareholders to enhance proper decision making.

Sijpesteijn (2011), stated that internal decision making process improves with data that is more accurate. Investors make key economic decisions based on signals and information that is provided in financial reports. Investors use audited financial information to make investment
decisions and assess expected risk-return relationship. For example dividend payout signals to investors about a firm’s future earnings and expected future profitability. Investors draw inferences about the firm’s internal operating cash flows from the dividend announcement made and the report of the auditor over the financial soundness of the firm.

2.3 Empirical Review

2.3.1 Audit Firm Tenure

The Cohen Commission (AICPA 2016) mentioned that a new auditor brings a fresh perspective to the audit. Audit tenure is the duration or length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor. Arruñada and Paz-Ares (2016) suggest that the auditor may become less objective and apply less effort toward the detection of material misstatements when firm tenure is longer. Besides that, after several years of being audited by a certain auditor, it could be beneficial for the client to start a relation with a new auditor. Also, Li (2010), suggest that a long term relationship between the auditor and the client imposes a threat to auditor independence for smaller clients weakly monitored by auditors than larger clients.

Raghunandan (2012), on the other hand, found out that audits performed by audit firms with a short term relationship with clients had more audit failures than those performed with audit firms which had long term audit tenures. This theory agrees with Yuniatri 2012, who concluded that when audit tenure was long, quality audit increases.

Investigations on quality audit by Lim and Tan (2010) revealed that quality audit was associated to audit tenure moderated by auditor specialization and audit fees and analyzed this relation using Ordinary Least Square (OLS) regression. In another study by Mc Nichols, (2012), accrual quality model was used to measure quality audit and it was found that companies audited by specialists in their industry had relatively higher quality audit when audit tenure was long. However, this relationship was moderated by auditors’ dependence on audit fees from clients.
Sarbanes-Oxley Act commonly known as the SOX Act (2012), found it unlawful for a lead audit partner and reviewer of a registered public auditing firm to conduct audit of client if he has ever been involved in each of the five (5) previous audits of the same client. This Act however falls short of requiring audit firm rotation. It has been thought firms may go ahead and require audit firm rotation especially in cases where there is a change of the lead audit partner. Certainly, long audit tenure has been indicated as a devising factor that may have facilitated the many emerging corporate scandals.

Knapp (1991) shared a similar opinion on the connection between audit tenure and competence with the US audit committee. They agreed that there are high chances that an auditor in the first year of his mandate will detect anomaly and that the ability to detect error decreases gradually, reaching its weakest level after 20 years of engagement hence negating the association of audit tenure with quality.

Agunda (2013) documented evidence from the banking industry on how audit firm tenure affected audit quality. Multiple linear regressions were used with quality audit as the dependent variable and auditor rotation, consultancy services offered and audit fees as the independent variables. A population of 43 commercial banks were used with primary data collected through questionnaires and interview for financial year ended 2013 and analyzed using statistical tools. The study results indicated that by providing audit services on rotational basis, the effect on quality audit will be high compared to long term tenures that go without rotation of either lead audit partners or audit firms.

Mansi et al (2003) documented how audit tenure and cost of debt financing affects audit quality. He divided audit firms into categories of big 6 and non-big 6. They used the information gathered to test whether bond price was included in credit ratings and further examined how the choice of the audit firm affects credit spread. The results found that when evaluating bond ratings, rating agencies considered auditors’ characteristics and that non big 6 audit firms were downgraded by one minor rating category. In addition, companies who have maintained long relationship with auditors were rated on their bond and that those with big 6 auditors who were considered to be large received premium on their bond. This implied that the results of audit impact the capital market.
2.3.2 Auditor Reputation

According to De Angelo (2011), users of financial statements use auditor reputation to infer unobserved quality audit based on the provided audit reports. An audit firm builds its reputation over time by producing quality work. To maintain this reputation, total commitment is required from each member of the team since a well-earned reputation should conform to the report produced in each audit report.

Klein and Leffler (2011) formulated a model for endogenous quality to study audit firm reputation versus audit quality. They reported that a firm’s reputation or brand was a key characteristic that improved audit quality. High reputation firms produced high quality audit because of higher levels of available resources and greater degree of personnel training and expertise. Similarly, reputation costs provide the incentive to convey higher audit quality. Ultimately “auditors develop a brand name reputation for providing higher quality assurance, with a resulting increase in the quality of audited financial statements” (Li et al. 2013).

Hennes et al (2011) further discussed that firms with a reputation for credible financial reporting are likely to change auditors when quality audit is questioned to avoid capital markets consequences of potentially unreliable financial reporting. Therefore, high reputation firms are more motivated to maintain skilled auditors to maintain the reputation of credible audit quality.

2.3.3 Auditor Independence

According to Sweeney (2014), when an auditor lacks independence then chances of being perceived as not being objective are very high. This occurs if an audit firm becomes too involved with its client and further issues an audit opinion that may deceive and manipulate investors. According to DeFond et al (2012), and in a similar study by Carey and Simnett (2006), they purported that auditors must objectively evaluate the client’s performance and withstand client pressure to issue a clean opinion. Hence, independence plays a pivotal role to maintain audit quality. Accountant Jules Muis concluded that such crisis is predictable and avoidable and that the accounting profession had failed in such instances (Kalse & Wester, 2010). To protect the public from abuses, regulators around the world implemented several rules, the Sarbanese-Oxley Act (SOA) being the most familiar one in which SOA issued a
restriction of consultancy and advisory services, and another possible solution that could increase independence was mandatory audit firm rotation.

De Angelo (2011) in her study concluded that to enhance independence of the auditor, audit committee should conduct meetings with the external auditor in absence of the company’s management and senior committee members.

Kimeli (2013) on the other hand, analyzed the factors that determine audit fees a factor that greatly influences the independence of an audit and hence quality audit for firms listed in the NSE. Using a deductive approach he gathered data on firms listed on NSE for a duration of five (5) years, 2012 to 2012. The research objective was tested using correlation analysis and multiple regression analysis. He noted that the big 4s audit firms were the main auditors of these companies.

**2.3.4 Auditor Professional Competence and Due Care**

Sundgren (2015) argued that certified auditors provided higher level of assurance than non-certified auditors. He noted that non-certified auditors are less probable to customize their audit reports compared to their counterparts and that at minimum quality audit differs between the two. This implied that certified auditors provide higher level of assurance than non-certified auditors. An auditor has to maintain professional proficiency through continuing professional education (CPE). Practical work provides a key learning point for an individual.

Manita and Elommal (2010) constructed a new stream of research that focused on auditor professionalism and competence which is driven by an entire audit process as per IAASB (2011). The IAASB describes ‘audit quality’ (AQ), as the process that concerns such matters as the soundness of the audit methodology, effectiveness of audit tools used, availability of adequate technical support that are all geared towards supporting execution of quality audit.

According to Svanström’s (2013) paper, where the author measures quality audit via the management’s perception, it purported that managers are in the best position to witness quality audit improvement because they are heavily involved in communicating with auditors and
producing annual reports which captures the extent to which reporting quality is raised by the audit process.

**2.3.5 Audit Quality**

According to Titman and Trueman (2016), auditors need to provide high quality audit services. Palmrose (2011) was also a proponent to the study and described audit report as of quality when there is no misstatement in financial reports. The same view was laid forth by Epstein & Geiger (2014) that the perceived quality audit for audited financial statement is higher since audited financial statement provides absolute assurance to users that the financial statement contains no material errors and misstatement.

Schuer (2012) added that when audit services provided are of higher quality, there is a high possibility that the financial statements are précised and correct reflecting the financial position and results of operations of the entity being audited. Clinch (2010) summarized by stating that the quality of accounting information disclosed includes audit quality. Further, auditing process is performed in conformity to applicable auditing standards. Defond et al (2010) raised the view that audited financial statements provided reasonable assurance that accounting information have been presented in accordance with GAAPs and that are not materially misstated. As suggested by De las Heras (2012), quality audit is related to auditing standards in that an auditor will detect audit failure, will be disciplined and further incentivized to constrain managerial opportunism.
## 2.4 Summary of Empirical Review

### Table 2.1: Empirical review summary

<table>
<thead>
<tr>
<th>Author (Year)</th>
<th>Title</th>
<th>Methodology</th>
<th>Findings</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundragen (2015)</td>
<td>Effect of quality audit on earnings management</td>
<td>Descriptive</td>
<td>Certified auditors provided higher levels of assurance</td>
<td>Despite certification there are other factors as knowledge of client industry, auditor experience, attitude etc. Also it ignores other variables and the methodology of calculating the earnings.</td>
</tr>
<tr>
<td>Arrunanda and Paz-Ares (2016)</td>
<td>Mandatory rotation of company auditors: A critical examination. International Review of Law and Economics</td>
<td>Case study</td>
<td>Shorter audit tenure increased audit costs</td>
<td>Quality comes at a cost and also it disagrees with auditor rotation which also has a cost.</td>
</tr>
<tr>
<td>Svanstrom (2013)</td>
<td>Audit quality perceptions and audit process</td>
<td>Descriptive</td>
<td>States that quality audit is measured via management perception captured in the audit process</td>
<td>Quality is not easy to measure objectively as it depends on the user of financial reports and not only management.</td>
</tr>
<tr>
<td>Agunda (2014)</td>
<td>Relationship between auditor rotation and quality audit in commercial banks in Kenya</td>
<td>Correlational</td>
<td>He concluded that by providing consultancy services, quality of audit increased.</td>
<td>Other regulations referred to eg SOA, GAAPs and ICPAK Code of Ethics does not support auditor involvement with client as it encourages familiarity which hinders objective judgement</td>
</tr>
<tr>
<td>De Angelo (2011)</td>
<td>Audit size and audit quality. Journal of Cross-sectional</td>
<td>Purports that users of financial statements use auditor reputation</td>
<td>Reputations of quality work is built over time and thus</td>
<td></td>
</tr>
<tr>
<td>Authors</td>
<td>Study Title</td>
<td>Methodology</td>
<td>Description</td>
<td>Implications</td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------------------------------------------------------</td>
<td>-------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Chen &amp; Li (2012)</td>
<td>Auditors’ brand-name reputation, Audit Office size and the Impact of client Importance on Quality audit at the Office level: Evidence from China.</td>
<td>Descriptive</td>
<td>Suggested that companies audited by reputable audit firms “big 4” will be positively correlated with quality audit and extended audit tenure and that this relationship may be negatively affected by lack of auditor independence eg, reliance on audit fees from clients.</td>
<td>Big 4 firms do not necessarily rely on audit fees and mostly are very independent because their reputation helps them secure clients.</td>
</tr>
</tbody>
</table>

### 2.5 Research Gap

Based on the literatures that have been documented in this study, many factors are seen to be able to influence the quality audit of firms listed in the NSE and audit tenure, auditor reputation, audit independence and auditor professional competence and due care are just a few of the factors. Several definitions of quality audit have been made by scholars, however, there is no fixed and reasonable definition of what its determinants are. It therefore seems that quality audit is defined by elements which are largely unobservable and approached broadly with focus on various attributes of audit which includes judgement, outcomes and process. It is also true that quality audit phenomenon varies across the wide range of users of audit reports.

Little literature is available on quality audit in the developing countries in Africa and those that are available so far have employed the proxies approach; mostly size of audit firm, industry specialization, auditor reputation, audit tenure, auditor professionalism and competence, audit firm experience of clients industry, auditor technical skill and resources among others. Since quality audit definition varies with user’s perception, it would be unreasonable to look at only
one of the many attributes of quality audit independently. This would simply not provide the clear picture of quality audit. Consequently, this study aimed to find out whether there exists a joint effect between audit tenure, auditor reputation, auditor independence and auditor professional competence and due care on quality audit of firms listed in the Kenya’s NSE market for the years 2011 to 2015.
2.6 Conceptual Framework

Figure 1: Conceptual Model

**Independent Variable**

- **Audit Tenure**
  - Duration in years
  - Rotation of audit firm
  - Rotation of auditor or lead partner

- **Auditor Reputation**
  - Years in the audit service
  - Quality of work produced
  - Quality of auditors

- **Auditor Independence**
  - Audit fees
  - Other services offered
  - Familiarity factors

- **Auditor professional competence and due care**
  - Skills, knowledge & experience
  - Knowledge of client industry
  - CPE and membership to professional bodies

**Dependent Variable**

- **Quality Audit**
  - Credible and reliable information
  - User friendly reports

Source: Researcher, 2018
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology comprised a systematic and theoretical analysis of the methods applied to an area of study. This research aimed to establish the extent to which the quality of auditors report is affected by audit tenure, auditor reputation, auditor independence and auditor professional competence and due care. The methodology adopted in this study is discussed and presented as research design, population of the study, sample of study, data collection procedure and data analysis and presentation.

3.2 Research Design

The research design used was exploratory research design. Exploratory research design enables give insight about a given subject and relates it to the existing knowledge (Cooper and Schindler, 2013). This is because little is known about firm characteristics on quality audit and thus this study technique enables exploration of the association or relationship between observed quality audit and the explanatory variables. This study aimed to discover the level to which auditors report quality for firms listed in Nairobi Securities Exchange, determine the measures of audit quality, define the explanatory variables and indicate their expected relationship to audit quality.

3.3 Target population

A population refers to an entire group of individuals or objects who share similar characteristics that the researcher intends to use to experiment and draw generalized conclusions. The target population of the study was the 67 listed companies at the Nairobi Securities Exchange (NSE) for a period of five years commencing January 2011 to December 2015. (Source: NSE Website). The target respondents were the board members, heads of finance and senior internal auditors among the firms selected.
Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Sector of economy</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Banking</td>
<td>11</td>
</tr>
<tr>
<td>2. Agricultural</td>
<td>7</td>
</tr>
<tr>
<td>3. Automobiles &amp; accessories</td>
<td>3</td>
</tr>
<tr>
<td>4. Commercial &amp; services</td>
<td>12</td>
</tr>
<tr>
<td>5. Construction and allied</td>
<td>5</td>
</tr>
<tr>
<td>6. Energy &amp; petroleum</td>
<td>5</td>
</tr>
<tr>
<td>7. Insurance</td>
<td>6</td>
</tr>
<tr>
<td>8. Investment</td>
<td>5</td>
</tr>
<tr>
<td>9. Investment services (NSE)</td>
<td>1</td>
</tr>
<tr>
<td>10. Manufacturing &amp; allied</td>
<td>10</td>
</tr>
<tr>
<td>11. Telecommunication &amp; technology</td>
<td>1</td>
</tr>
<tr>
<td>12. Real Estate Investment Trusts (REITs)</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>67</strong></td>
</tr>
</tbody>
</table>

(Source: www.nse.co.ke)

3.4 Sampling and sample size

The study used purposive sampling to select and sample companies with specific characteristics based on researchers’ judgement from various sectors of the economy listed in the NSE that are plausible for this research and also the respondents who included board members, heads of finance and senior internal auditors from each of the companies.

However, the research excluded the 11 banking firms and 6 listed insurance companies due to their operating characteristics, 13 other companies that were listed during the study period, 2 companies that had not prepared consolidated financial statements for the period under review, and due to difference in reporting currencies, 2 companies incorporated outside Kenya were not be analyzed. Therefore, the final sample used in the study was 33 firms that had complete information. (Appendix 3 and 4).

3.5 Data Collection Instruments

Data was collected through primary and secondary sources. Primary data was derived from structured questionnaires filled by authorities in the firms who comprise Board of Directors and senior audit committee members and secondary data was derived from certified copies of financial statements and reports, Business magazine and journals, NSE and CMA websites, Central Depository and Settlement Corporations Reports, Company Manuals, Financial
Policies and Regulations and entering the results in a data collection schedule. The advantage was that it was convenient for the researcher to administer questionnaires to participants who are accessible to her and can be honest, and the secondary data was readily available therefore fast and easy collection of data as well as suitability to the timeframe and financial resources available. However, the only disadvantage was that this information was historical though for this research it was not necessarily the case as the period under study is between the year 2011 and 2015, the data thus served the intended purpose.

3.6 Data Collection Procedure

Semi-structured questionnaires were used to collect primary data through drop and pick later method. According to Kothari (2004) data collection involves the process of getting information regarding the study subject from a given set of respondents. Secondary data was obtained from financial statements of the selected firms. Evaluation of the sampled companies’ financial reports for the period under study was done with a focus on the quality audit of the audited financial reports. The variables of concern and their assessment pertaining to quality audit was audit tenure, auditor reputation, auditor independence and auditor professional competence and due care.

3.6 Data Analysis and Presentation

The study used both descriptive and inferential statistics to analyze data. This is the process of systematically applying statistical and or logical techniques to describe and evaluate information in a research study. In this research, analysis of data aimed to identify the relationship of quality audit on the joint effect of audit tenure, auditor reputation, auditor independence and auditor professional competence and due care. The study used descriptive statistics such as mean and standard deviation and Inferential statistics such as correlational analysis and regression analysis to calculate and measure accrual quality.

OLS regression was used to analyze the data collected to establish the joint effect of all the variables. The data was then measured using a statistical software SPSS and presented in form of narrations and summarized tables.
3.6.1 Model Specification

The multiple regression model was as follows:

\[ Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + E \]

\[ \text{where; } \]

\[ X_1 \] - is Audit Tenure
\[ X_2 \] - is Auditor Reputation
\[ X_3 \] - is Auditor Independence
\[ X_4 \] - is Auditor Professional Competence and due care
\[ B_0, B_1, B_2, B_3, B_4 \] is the coefficients or constants
\[ E \] - is the error term

With inclusion of the intervening variable, the model was:

\[ Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + E \]

\[ \text{where; } B_5X_5 \text{ represents the Intervening Variables} \]

3.7 Ethical Consideration

Research ethics involves ensuring the protection of participants’ dignity on daily work and the presentation of the information in the research. First and foremost, the research study was worthwhile and did not make unreasonable demands on participants. Risk or inherent harm to participants was communicated. This involved the researcher ensuring voluntary participation of subjects especially firms under study or access to firm’s documents. The researcher ensured that any information given was handled with the confidentiality it deserved and the information got through an interview and the participants wished to remain anonymous, the researcher ensured to respect such sentiments.

The researcher also analyzed carefully and not misrepresented any information. All previous research works were acknowledged and citations made using professional language. Researcher also sought relevant research authority or permission from the country’s National Council of Science Technology and Innovation, County Commissioner and County Director of Education in Nairobi before embarking on data collection and finally publishing and sharing any findings to the general public or users of the report therefrom.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter discusses the findings obtained from the primary instrument used in the study. It discusses the background information and their opinions on audit firm characteristics and quality audit for firms listed at the Nairobi securities exchange (NSE) in Kenya. The researcher prepared tables that summarized the respondents’ collective reactions.

4.2 Response Rate

The researcher administered 33 questionnaires out of which a total of 31 filled questionnaires were returned. This gave a response rate of 93.94% which is within what Clinch (2010) prescribed as a significant response rate for statistical analysis and established at a minimal value of 50% as indicated in Table 4.1.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th>Total Questionnaires administered</th>
<th>Questionnaires filled and returned</th>
<th>Questionnaires not returned</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>31</td>
<td>2</td>
<td>33</td>
</tr>
<tr>
<td>Percentage Total (%)</td>
<td>93.94</td>
<td>6.06</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Researcher, 2018)

4.3 Descriptive Statistical Analysis

4.3.1 Reliability Analysis

Cronbach’s Alpha which measures the internal consistency by establishing if certain items within a scale measure the same construct was used in which Jone (2016) established the Alpha value threshold at 0.7.
Table 4.2: Reliability Analysis

<table>
<thead>
<tr>
<th></th>
<th>Cronbach's Alpha</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit tenure</td>
<td>.841</td>
<td>Reliable</td>
</tr>
<tr>
<td>Auditor reputation</td>
<td>.826</td>
<td>Reliable</td>
</tr>
<tr>
<td>Auditor independence</td>
<td>.716</td>
<td>Reliable</td>
</tr>
<tr>
<td>Auditor professional competence and due care</td>
<td>.718</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

From the above findings, the audit tenure was the most reliable with an Alpha value of 0.841, followed by Auditor reputation with an Alpha value of 0.826 then auditor professional competence and due care with an Alpha value of 0.718 while auditor independence was the least reliable with an Alpha value of 0.716. This illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Jone, 2016). This, therefore, depicts that the research instrument was reliable and therefore required no amendments.

4.4 Validity Analysis

Exploratory factor analysis was used to establish the construct validity of the questionnaire. The factors that explain the highest proportion of variance the variables share are expected to represent the underlying constructs.
Table 4.3: Summary of Component Matrix

<table>
<thead>
<tr>
<th>Component</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you exercise due care, engage with clients to determine responsiveness to their needs and ensure compliance with GAAPs and are regular performance appraisals conducted to ensure quality</td>
<td>.678</td>
<td>.916</td>
<td>.948</td>
<td></td>
</tr>
<tr>
<td><strong>Average on Audit Quality</strong></td>
<td>.847</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you consider audit process as part of professional and social obligations, allowed quality work because of strong commitment to your role</td>
<td>.948</td>
<td>.567</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average on Auditor Reputation</strong></td>
<td>.757</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>You ensured you had no financial obligations, no personal relationships, internal auditors worked independently and auditors were given time to make professional objective opinion</td>
<td>.903</td>
<td>.895</td>
<td>.873</td>
<td></td>
</tr>
<tr>
<td><strong>Average on Auditor Independence</strong></td>
<td>.890</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The longest period worked in the organization, the length of tenure and level of experience as a full time professional</td>
<td>.895</td>
<td>.533</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average on Audit Firm Tenure</strong></td>
<td>.714</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The highest level of education of auditors, the level of engagement with clients and attendance of continuing professional education</td>
<td>.882</td>
<td>.567</td>
<td>.451</td>
<td></td>
</tr>
<tr>
<td><strong>Average on Auditor Professional Competence and Due Care</strong></td>
<td>.633</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Litigation and Inspection</td>
<td>.583</td>
<td>.578</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average on avoidance of litigation and inspection costs</strong></td>
<td>.580</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Researcher (2018)

The above results allowed for the identification of which variables fall under each of the 4 major extracted factors. Fifteen (15) parameters were analysed and measured to one of the 4 factors depending on variability strength in percentage and total variability of each factor was explained. From the summarized factor analysis, all the variables indicated that construct validity was high since all average results exceeded the prescribed threshold of 0.40 (Serakan & Bouglee, 2016).
4.5 Descriptive Statistical Analysis

4.5.1 Evaluation of Performance of the Audit Firm

The respondents were requested to evaluate the performance of the audit firm that conducted the most recent audit of their company. Their responses were as shown in table 4.4.

Table 4.4: Performance of the Audit Firm

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dissatisfactory</td>
<td>3</td>
</tr>
<tr>
<td>Average</td>
<td>5</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>16</td>
</tr>
<tr>
<td>Very satisfactory</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

From the findings, the respondents indicated that the performance of the audit firm that conducted the most recent audit of their company was satisfactory as shown by 51.6%, very satisfactory as shown by 22.6%, average as shown by 16.1% and dissatisfactory as shown by 9.7%. This shows that the performance of the audit firm that conducted the most recent audit of their company was satisfactory. These findings conform to De las Heras (2012) who purported that auditing standards related to quality audit as it enabled an auditor detect audit failure, will be disciplined and further incentivized to constrain managerial opportunism.

4.5.2 Audit Quality

The respondents were asked to indicate whether they agree that the auditors/audit firm(s) were responsive to company’s needs. Their responses were as shown in table 4.5.

Table 4.5: Audit Quality

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not responsive</td>
<td>2</td>
</tr>
<tr>
<td>Somehow responsive</td>
<td>6</td>
</tr>
<tr>
<td>Responsive</td>
<td>18</td>
</tr>
<tr>
<td>Very Responsive</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
</tr>
</tbody>
</table>

(Source: Researcher(2018))

The respondents agreed that auditors or audit firm(s) were responsive to company’s needs as shown by 58.1%, somehow responsive as shown by 19.4%, very responsive as shown by
16.1% and not responsive as shown by 9.7%. This showed that auditors or audit firm(s) were responsive to company’s needs. This concurs with Clinch (2010) who raised the view that audited financial statements that have been presented in accordance with GAAPs and are not materially misstated provide reasonable assurance to clients.

### 4.5.3 Level of Agreement with various Statements on Audit Quality

The respondents were further asked whether their level of agreement using a likert scale of 1-4 with various statements on audit quality. Table 4.6 shows their responses.

Table 4.6: Level of Agreement with various Statements on Audit Quality

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auditing standards (GAAPs) in the audit of your company were complied with</td>
<td>3.097</td>
<td>.740</td>
</tr>
<tr>
<td>Their auditor and his/her team members exercised due care in all audit engagements</td>
<td>1.452</td>
<td>.744</td>
</tr>
<tr>
<td>The Senior Management and lead audit partners engaged actively in the audit process</td>
<td>3.419</td>
<td>.664</td>
</tr>
<tr>
<td>The audit team members were knowledgeable about accounting and auditing and observed high ethical standards during audit processes</td>
<td>2.436</td>
<td>.741</td>
</tr>
</tbody>
</table>

Source: Researcher(2018)

The respondents strongly agreed that the Senior Management and lead audit partners engaged actively in the audit process as expressed by a mean score of 3.419 and that auditing standards (GAAPs) in the audit of the company were complied with as expressed by a mean score of 3.097. The respondents however disagreed that the audit team members were knowledgeable about accounting and auditing and observed high ethical standards during audit processes as expressed by a mean score of 2.436 and strongly disagreed that their auditor and his/her team members exercised due care in all audit engagements as expressed by a mean score of 1.452. These findings conform to De las Heras (2012) who argue that quality audit is related to auditing standards in that an auditor will detect audit failure, will be disciplined and further incentivized to constrain managerial opportunism.

### 4.5.4 Level of Satisfaction

The respondents were asked to indicate their level of satisfaction with the overall audit performance and the final audit reports. Their responses were as shown in table 4.7.
From the findings, it showed that the respondents were satisfied (51.6%), neutral (25.8%), very satisfied (16.1%) and dissatisfied (6.5%) with overall audit performance and the final audit reports. This showed that the overall audit performance and the final audit reports were satisfactory. Epstein & Geiger (2014) noted that the perceived quality audit for audited financial statement is higher since audited financial statement provides absolute assurance to users that the financial statement contains no material errors and/or misstatement.

### 4.5.5 Auditor Reputation

The study sought to establish the effect of auditor reputation on the quality audit for firms listed in the NSE in Kenya.

### 4.5.6 Level of Agreement with various Statements on Auditor Reputation

The respondents were requested to indicate their level of agreement with various statements on auditors’ reputation using a likert scale of 1-4. Their responses were as shown in table 4.8.
The respondents agreed that they allowed quality audit work to be carried out because of strong commitment and dedication to their role and profession in the organization as illustrated by a mean of 3.439 and that they were motivated to having a thorough audit work done so as to avoid the cost of litigation as illustrated by a mean of 3.084. The respondents however disagreed that they do consider audit process as part of your professional and social obligations by ensuring that investors and participants in the financial market rely on audit reports presented to them as illustrated by a mean of 2.271. These findings are in line with Klein and Leffler (2011) who formulated a model for endogenous quality to study audit firm reputation versus quality audit and reported that a firm’s reputation or brand is a key characteristic that improves audit quality.

4.5.8 Auditor Independence

The study sought to determine the effect of auditor independence on quality audit for firms listed in the NSE in Kenya.

**Level of Agreement with Various Statements on Auditor Independence**

The researcher asked the respondents to indicate their level of agreement with various statements on auditors’ independence using a likert scale of 1-4. Their responses were as shown in table 4.9.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>They always ensure that there is no financial relationship between the audit firms and your committee members that would compromise auditors independence</td>
<td>3.145</td>
<td>0.649</td>
</tr>
<tr>
<td>They ensured that there was no personal relationship with your auditors that would lead to familiarity threats and compromise their independence.</td>
<td>3.613</td>
<td>0.636</td>
</tr>
<tr>
<td>The auditors at any given time made audit assessments that were more reflective of their professional objective opinion and not your best interest</td>
<td>2.371</td>
<td>0.778</td>
</tr>
<tr>
<td>The Internal Auditors independently performed their duties and were always allowed to give objective opinions on their reports</td>
<td>3.242</td>
<td>0.862</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

From the results, the respondents strongly agreed that they ensured that there was no personal relationship with their auditors that would lead to familiarity threats and compromise their
independence as shown by a mean of 3.613. The respondents also agreed that the Internal Auditors independently performed their duties and were always allowed to give objective opinions on their reports as shown by a mean of 3.242 and that they always ensured there is no financial relationship between the audit firms and their committee members that would compromise auditors independence as shown by a mean of 3.145. The respondents however disagreed that the auditors at any given time made audit assessments that were more reflective of their professional objective opinion and not their best interest as shown by a mean of 2.371.

These findings correlate to findings by Carey and Simnett (2006) who argued that auditors must objectively evaluate the client’s performance and withstand client pressure to issue a clean opinion and hence independence is playing an important role to maintain audit quality.

4.5.9 Audit Firm Tenure

The study sought to establish the effect of audit firm tenure on quality audit for firms listed in the NSE in Kenya. The researcher asked that respondents to use a likert scale of 1-4 and indicate their opinion on the effect of the various aspects of audit firm tenure on the quality audit for firms listed in the NSE in Kenya. Their responses were as shown in table 4.10.

<table>
<thead>
<tr>
<th>Table 4.10: Effect of the various aspects of Audit Firm Tenure</th>
<th>Mean</th>
<th>Std Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration in years</td>
<td>3.124</td>
<td>.887</td>
</tr>
<tr>
<td>Rotation of audit firm</td>
<td>2.345</td>
<td>.568</td>
</tr>
<tr>
<td>Rotation of auditor or lead partner</td>
<td>3.123</td>
<td>.986</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

As per the results, the respondents indicated that duration in years as shown by a mean of 3.124 and rotation of auditor or lead partner as shown by a mean of 3.123 greatly affect quality audit for firms listed in the NSE in Kenya. However the respondents indicated that rotation of audit firm as shown by a mean of 2.345 moderately affect quality audit for firms listed in the NSE in Kenya. These agree with Arruñada and Paz-Ares (2016) who suggest that the auditor may become less objective and apply less effort toward the detection of material misstatements when firm tenure is longer.
4.5.10 Auditor Professional Competence and Due Care

The study sought to determine the effect of auditor professional competence and due care on quality audit for firms listed in the NSE in Kenya.

Level of Education

The respondents were asked to indicate their level of education. This is analysed in table 4.11.

Table 4.11: Level of Education

<table>
<thead>
<tr>
<th>Type of Education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma Holder</td>
<td>7</td>
<td>22.6</td>
</tr>
<tr>
<td>Professional Certificates</td>
<td>5</td>
<td>16.1</td>
</tr>
<tr>
<td>Degree</td>
<td>13</td>
<td>41.9</td>
</tr>
<tr>
<td>Postgraduate degree</td>
<td>6</td>
<td>19.4</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

As per the results, the respondents reported that the highest level of education attained was a degree as shown by 41.9%, diploma holder as shown by 22.6%, postgraduate degree as shown by 19.4% and professional certificates as shown by 16.1%. This implies that most of the respondents had the required academic qualifications to be auditors. Sundgren (2015) argued that certified auditors provided higher level of assurance than non-certified auditors. He noted that non-certified auditors are less probable to customize their audit reports compared to their counterparts and that at minimum quality audit differs between the two.

4.5.11 Longest Period an Auditor has worked in the Organization

The respondents were also requested to indicate the longest period an auditor has worked in the organization and their responses were as shown in table 4.12.

Table 4.12: Longest Period an Auditor has worked in the Organization

<table>
<thead>
<tr>
<th>Period of Work</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 5 years</td>
<td>5</td>
<td>16.6</td>
</tr>
<tr>
<td>5-10 years</td>
<td>11</td>
<td>34.7</td>
</tr>
<tr>
<td>11-15 years</td>
<td>12</td>
<td>38.7</td>
</tr>
<tr>
<td>Over 15 years</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

The respondents indicated that the longest period an auditor has worked in the organization was 11 to 15 years as shown 38.7%, 5 to 10 years as shown by 34.7%, over 15 years as shown
by 10% and below 5 years as shown by 16.6%. This implies that most of the auditors had long working experience in the organization. This correlates with Manita and Elommal (2010) who constructed a new stream of research that focused on auditor professionalism and competence which is driven by an entire audit process.

4.5.12 Level of Experience as a Full-time Professional

The respondents were also requested to indicate their office tenure (level of experience) as a full-time professional in their organization. Their responses were as shown in table 4.13.

<table>
<thead>
<tr>
<th>Level of experience as a full-time professional</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 3 years</td>
<td>2</td>
<td>6.5</td>
</tr>
<tr>
<td>3 – 5 years</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td>6 - 9 years</td>
<td>14</td>
<td>45.2</td>
</tr>
<tr>
<td>Over 10 years</td>
<td>6</td>
<td>19.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

The respondents indicated that the office tenure (level of experience) as a full-time professional in their organization was 6 to 9 years as shown 45.2%, 3 to 5 years as shown by 29%, over 10 years as shown by 19.4% and below 3 years as shown by 6.5%. This implies that there was long office tenure (level of experience) as a full-time professional in their organization. According to Svanström’s (2013) paper, where the author measured quality audit via the management’s perception, it purports that managers are in the best position to witness quality audit improvement because they are heavily involved in communicating with auditors and producing annual reports which captures the extent to which reporting quality is raised by the audit process.

4.5.13 Engagement with Auditors Frequency

The researcher asked the respondents to indicate how frequently they engaged with auditors. Their responses were as shown in table 4.14.
Table 4.14: Engagement with Auditors Frequency

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrequently</td>
<td>1</td>
</tr>
<tr>
<td>Averagely frequently</td>
<td>4</td>
</tr>
<tr>
<td>Frequently</td>
<td>18</td>
</tr>
<tr>
<td>Very frequently</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

The respondents indicated that they engaged with auditors frequently as shown by 58.1%, very frequently as shown by 25.8%, averagely frequently as shown by 12.9% and infrequently as shown by 3.2%. This shows that firms frequently engaged with auditors. This is in agreement with Sundgren (2015) who noted that non-certified auditors are less probable to customize their audit reports compared to their certified counterparts and that at minimum quality audit differs between the two.

4.5.14 Continuing Professional Education trainings attendance

The respondents were asked to indicate whether they have attended at least two continuing professional education trainings in the last five years. Their responses were as shown in table 4.15.

Table 4.15: Continuing Professional Education trainings attendance

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>23</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
</tr>
</tbody>
</table>

(Source: Researcher, (2018)

From the findings, the respondents indicated that they have attended at least two continuing professional education trainings in the last five years as shown by 74.2% while 25.8% indicated they do not.. This meant that most of the respondents had attended at least two continuing professional education trainings in the last five years. This is in agreement with Sundgren (2015) who noted that an auditor had to maintain professional proficiency through continuing professional education (CPE).
4.5.15 Whether Performance is rated on Regular Basis

The respondents were asked whether their performance is rated on regular basis, at least bi-annually. Their responses were as shown in table 4.16.

Table 4.16: Whether Performance is rated on Regular Basis

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>26</td>
<td>83.9</td>
</tr>
<tr>
<td>No</td>
<td>8</td>
<td>16.1</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>100</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

The respondents indicated that whether their performance is rated on regular basis, at least bi-annually as shown by 83.9% while 16.1% of the respondents indicate that their performance is not rated on regular basis, at least bi-annually. This revealed that performance in the firms is rated regularly, at least bi-annually. This is in line with De Angelo (2011) who in her study concluded that to enhance independence of the auditor, audit committee should conduct meetings with the external auditor in absence of the company’s management and senior committee members to discuss overall audit performance candidly.

4.5.16 Disciplinary Measures

Using a likert scale of 1-4, the respondents were asked to indicate their opinion on the effect of the various aspects of disciplinary measures on the quality audit for firms listed in the NSE in Kenya. Their responses were as shown in table 4.17.

Table 4.17: Effect of the various Aspects of Disciplinary Measures

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inspection</td>
<td>3.143</td>
<td>.647</td>
</tr>
<tr>
<td>Litigation</td>
<td>2.964</td>
<td>.834</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

From the findings, the respondents indicated that inspection (mean=3.143) and litigation (mean=2.964) greatly affect the quality audit for firms listed in the NSE in Kenya.
4.6 Analysis of Inferential Statistics

4.6.1 Correlation Analysis

Pearson correlation coefficient was used to determine the strength and the direction of the relationship between the dependent variable and the independent variable. The analysis using Pearson’s product moment correlation was based on the assumption that the data is normally distributed and also because the variables are continuous.

Table 4.18: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Audit quality</th>
<th>Audit Tenure</th>
<th>Auditor Reputation</th>
<th>Auditor Independence</th>
<th>Auditor Professional Competence</th>
<th>Disciplinary Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit quality</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Tenure</td>
<td>Pearson Correlation</td>
<td>.646</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.023</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor Reputation</td>
<td>Pearson Correlation</td>
<td>.744</td>
<td>.513</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.027</td>
<td>.026</td>
<td>.027</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor Independence</td>
<td>Pearson Correlation</td>
<td>.522</td>
<td>.423</td>
<td>.0327</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.028</td>
<td>.012</td>
<td>.018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditor Professional Competence</td>
<td>Pearson Correlation</td>
<td>.734</td>
<td>.533</td>
<td>.520</td>
<td>.431</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.042</td>
<td>.009</td>
<td>.002</td>
<td>.014</td>
<td></td>
</tr>
<tr>
<td>Disciplinary Measures</td>
<td>Pearson Correlation</td>
<td>.623</td>
<td>.533</td>
<td>.420</td>
<td>.321</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.037</td>
<td>.009</td>
<td>.002</td>
<td>.014</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

The study computed into single variables per factor by obtaining the averages of audit tenure, auditor reputation, auditor independence, auditor professional competence and due care and disciplinary measures. Pearson’s correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table above indicates the correlation matrix...
between the factors (audit tenure, auditor reputation, auditor independence, auditor professional competence and due care and disciplinary measures) and audit quality.

As per the table there exists a positive relationship between quality audit and audit tenure as shown by coefficient of 0.646, a positive relationship between quality audit and auditor reputation as expressed by coefficient of 0.744, a positive relationship between quality audit and auditor independence as indicated by coefficient of 0.522, a positive relationship between quality audit and auditor professional competence as illustrated by a coefficient of 0.734 and a positive relationship between quality audit and disciplinary measures as shown by coefficient of magnitude 0.623. This shows that all variables were significant.

The study also showed that there was a strong correlation between the Independent variables and audit quality. Audit Tenure and auditor professional competence and due care gave the highest magnitude of 0.533 while Auditor Reputation and Auditor professional competence and due care gave a slightly lower magnitude of 0.520. This means that audit tenure and auditor professional competence and due care have a higher correlation as compared to auditor professional competence and due care with auditor reputation.

Further, disciplinary measures and audit tenure indicated a high magnitude of 0.533 against all other variables that had lower magnitudes of correlation. This means that when the audit tenure is longer, the more severe disciplinary measures would be taken against an audit firm that does not comply with the laid out regulations and GAAPs as it is assumed that the audit firm is more aware of the impact of their audit report to their client.

Auditor independence on the correlation matrix versus other independent variables scored the least magnitudes. This thus concludes that auditor independence strongly relies on the auditors tenure, auditor reputation and finally the auditors professional competence and due care while exercising their duties.

**4.6.2 Regression Analysis**

In addition, the researcher conducted a multiple regression analysis so as to test joint effect of audit tenure, auditor reputation, auditor independence and auditor professional competence and due care on audit quality.
The adjusted $R^2$ was found to be 0.649 inferring that variations on quality audit which are explained by audit tenure, auditor reputation, auditor independence and auditor professional competence and due care were 64.9%.

In predicting the effects of Audit Tenure, Auditor Reputation, Auditor Independence and Auditor Professional Competence and due care on audit quality, the regression model test was found to be significant since p-value was less than 0.005 and The calculated $F$ (14.874) was larger than the critical value of $F=2.7426$.

The established model for the study was:

$$Y = 0.904 + 0.864X_1 + 0.594X_2 + 0.716X_3 + 0.654X_4$$

The results reveal that quality audit will be 0.904 if all other factors are held constant. The study results also show that an increase in audit tenure will lead to a 0.864 increase the quality
audit if all other factors are held constant. Again as shown by \( r = 0.594 \), the study revealed that increase in auditor reputation would lead to an increase in the quality audit if all other factors are held constant. Further the study showed that if there was a unit change in auditor independence, a 0.716 increase in the quality audit would be realized if all other factors are held constant. Also a unit change in auditor professional competence would lead to 0.654 increases in the quality audit if other factors were constant.

Finally the study showed that all variables were significant since p-values were less than 0.005 with audit tenure having the greatest effect and auditor reputation having the least effect on audit quality.

Regression analysis shows how dependent variable is influenced with independent variables.

**Table 4.22: Model Summary for Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.859</td>
<td>0.738</td>
<td>0.686</td>
<td>1.966</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

Table 4.23 is a model fit which establish how fit the model equation fits the data. The adjusted \( R^2 \) was used to establish the predictive power of the study model and it was found to be 0.686 implying that 68.6% of the variations on the quality audit is explained by audit tenure activities, auditor reputation, auditor independence auditor professional competence and due care as well as disciplinary measures leaving 31.4% percent unexplained.

**Table 4.23: ANOVA Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>Regression</td>
<td>316.34</td>
<td>5</td>
<td>63.268</td>
<td>14.107</td>
<td>0.000</td>
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<tr>
<td>Residual</td>
<td>112.12</td>
<td>25</td>
<td>4.485</td>
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<tr>
<td>Total</td>
<td>448.46</td>
<td>30</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

(Source: Researcher 2018)

The probability value of 0.000 indicated that the regression relationship was highly significant in predicting how Audit Tenure activities, Auditor reputation, Auditor Independence as well as Auditor Professional Competence and due care affected audit quality. The F calculated at 5
percent level of significance was 14.107 since F calculated is greater than the F critical (value = 2.603), this shows that the overall model was significant.

**Table 4.24: Regression Coefficients**

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
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<tr>
<td>(Constant)</td>
<td>0.731</td>
<td>3.059</td>
<td>0.003</td>
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<tr>
<td>Audit Tenure</td>
<td>0.867</td>
<td>0.368</td>
<td>2.843</td>
<td>0.006</td>
</tr>
<tr>
<td>Auditor reputation</td>
<td>0.812</td>
<td>0.386</td>
<td>2.829</td>
<td>0.006</td>
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<tr>
<td>Auditor Independence</td>
<td>0.732</td>
<td>0.832</td>
<td>5.674</td>
<td>0.000</td>
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<tr>
<td>Auditor Professional Competence</td>
<td>0.712</td>
<td>0.462</td>
<td>3.207</td>
<td>0.002</td>
</tr>
<tr>
<td>Disciplinary measures</td>
<td>0.673</td>
<td>0.581</td>
<td>2.421</td>
<td>0.023</td>
</tr>
</tbody>
</table>

(Source: Researcher 2018)

The established model for the study was:

\[ Y = 0.731 + 0.867 X_1 + 0.812 X_2 + 0.732 X_3 + 0.712 X_4 + 0.673 X_5 \]

The regression equation above has established that taking all factors into account (audit tenure activities, auditor reputation, auditor independence auditor professional competence and due care and disciplinary measures) constant at zero, the quality audit was 0.731. The findings presented also show that taking all other independent variables at zero, a unit increase in audit tenure activities would lead to a 0.867 increases on the audit quality. The variable was significant since 0.006<0.05.

The study also found that a unit increase in auditor reputation would lead to a 0.812 increase on audit quality. The variable was significant since 0.006<0.05. Further the study found that a unit increase in the scores of auditor independence would lead to a 0.732 increase on the audit quality. The variable was significant since 0.000<0.05.

Further, the findings shows that a unit increases in the auditor professional competence and due care would lead to a 0.712 increase on audit quality. The variable was significant since 0.002<0.05. The study further found that increase in disciplinary measures would lead to a 0.673 increase in the quality audit if all the variables are held constant.
Overall, audit tenure activities had the greatest effect on the influence of stakeholder activities on audit quality, followed by auditor reputation, then auditor independence then auditor professional competence and due care while disciplinary measures had the least effect on audit quality. All the variables were significant (p<0.05).

Generally the study indicates a positive and significant influence of independent variables on the dependent variable. Audit firm tenure, auditor reputation, auditor independence and auditor professional competence and due care positively affected quality of audit among the listed firms in the NSE in Kenya. 68.6% of all changes in audit quality among the firms selected was due to the independent variables while other factors not included in the study influenced the remaining percentage.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents a summary of the findings, conclusions as well as the recommendations of the study. This research study was based on audit firm characteristics and quality audit for firms listed at the Nairobi securities exchange in Kenya.

5.2 Summary of the Findings
The study sought to establish the effect of audit firm tenure on quality audit for firms listed at the NSE in Kenya. The study found that the duration in years and rotation of auditor or lead partner greatly affect quality of audit for firms listed in the NSE in Kenya. The study also found that rotation of audit firm moderately affected quality audit for firms listed in the NSE in Kenya. This is in agreement with Knapp (1991) who connected audit tenure to competence in which auditors’ ability to produce quality work reduced as the tenure was longer. Arunanda and Paz-Ares (2016) also concurred with this theory that the less objective an auditor may become when the tenure is longer, hence reduced quality of an audit report as an effect less effort to detect material misstatements. The Cohen Commission (AICPA 2016) also mentioned that a new auditor brings a fresh perspective to the audit, this further supports the need for mandatory rotation of auditor or lead audit partner.

The study sought to establish the effect of auditor reputation on the quality audit for firms listed in the NSE in Kenya. The study revealed that firms allowed quality audit work to be carried out because of strong commitment and dedication to management role and profession in the organization and that management is motivated to having a thorough audit work done so as to avoid the cost of litigation. The study further found that management does not only consider audit process as part of their professional and social obligations by ensuring that investors and participants in the financial market can rely on audit reports presented to them. This is in agreement with Li et al (2013) and Klein and Leffler (2011) who agreed that high reputation audit firms produced high quality audit because of high levels of available resource.
tools, personnel, training and expertise as well as the incentive of a brand name reputation for providing higher quality assurance.

The study sought to determine the effect of auditor independence on quality audit for firms listed at the NSE in Kenya. The study found that management ensured that there was no personal relationship with the auditors that would lead to familiarity threats and compromise their independence. The study found that the Internal Auditors independently performed their duties and were always allowed to give objective opinions on their reports and that management always ensured that there was no financial relationship between the audit firms and their committee members that would compromise auditors’ independence. The study also found that the auditors at any given time didn’t make audit assessments that were more reflective of their professional objective opinion and not their best interest. This is in line with research done by DeFond et al (2012) and Carey and Simnett (2006), who opined that auditors must objectively evaluate clients performance and withstand client pressure to be able to issue quality reports. Also the SOA issues restrictions concerning client and auditor involvement that would decrease auditor independence.

The study sought to determine the effect of auditor professional competence and due care on quality audit for firms listed at the NSE in Kenya. The study found that the auditors have the required academic qualifications to be auditors, that most of the auditors had long working experience in the organization, that there was long office tenure (level of experience) as a full-time professional in their organization and those firms frequently engaged with auditors. The study also revealed that most of the respondents have attended at least two continuing professional education trainings in the last five years and that whether performance in the firms is rated on regular basis, at least bi-annually. This is in agreement with the argument of Sundragen (2015) that certified auditors provided higher level of assurance that non-certified auditors. This was due to being competence and able to comply with the laid IAASB (2011) prescription of quality audit reports.

5.3 Conclusion of the study
The study also concluded that audit firm tenure positively affect quality audit for firms listed in the NSE in Kenya. The study found that that duration in years and rotation of auditor or lead
partner greatly affect quality audit for firms listed in the NSE in Kenya. If the tenure of the audit firm or lead audit partner was too long, quality audit would decrease and vice versa. The study concluded that auditor reputation affects quality audit for firms listed in the NSE in Kenya positively. Firms were found to allow quality audit work to be carried out because of strong commitment and dedication to management role and profession in the organization and management is motivated to having a thorough audit work done so as to avoid the costs relating to litigation.

The study concluded that auditor independence has a significant effect on quality audit for firms listed in the NSE in Kenya. This is contributed by the fact that management ensure that there was no personal relationship with the auditors that would lead to familiarity threats and compromise their independence and that the Internal Auditors independently performed their duties and were always allowed to give objective opinions on their reports.

The study concluded that auditor professional competence and due care has a positive and significant effect on quality audit for firms listed in the NSE in Kenya. The auditors were found to have the required academic qualifications to be auditors and there was long office tenure (level of experience) as a full-time professional in their organization and those firms frequently engaged with auditors. The study also revealed that most of the respondents have attended at least two continuing professional education trainings in the last five years which aid improve audit quality.

5.4 Recommendations of the study

The results suggest that it is important to consider the effect of detection mechanisms such as auditor quality while examining the relation between executive compensation and accounting manipulation. There is thus the need for the listed companies to adopt corporate governance practices that are effective to address key auditing practices for purposes of audit quality.

The study recommended that it is therefore utmost necessary for firms to re-elect members of the audit committee who have served for more than 9 years in the board because of their vast experience. Also, the presence of a robust audit committee will reduce financial misreporting.
and enhance quality monitoring. As such, experienced audit committee members should be a key factor for firms.

The study recommended that there is need to increase the proportion of independent auditors since an increase in their number reduces the chances of financial misreporting and leads to positive perception by investors. In so doing, there is improved firm performance. Moreover, in order to reduce financial distress in a company there is also need to increase the number of independent directors because they are independent and without influence from the directors.

The study also recommends that there should be high level of professionalism by the audit firms. This means that companies that are highly indebted and auditors fail to prove such indebtedness should be fined or operating license be withdrawn so as to safeguard the shareholders of the companies. In addition the officials of the company who engage in misstatements of the financial statements should be sacked and charged in the court of law.

The study recommends that measures should be put in place by relevant authorities like ICPAK for disclosure of pertinent issues such as audit fees to encourage availability of such data which are important variables in such a study. It was also noted that some listed companies failed to publish their audited accounts as per requirement by the CMA Act making available information limited. Consequently, disciplinary actions should be taken upon such companies for failure to comply with GAAPs and IAASB.

5.5 Suggestion for Further Research

This study recommends that another study should be conducted on significantly more number of firms rather than only firms listed in the NSE for the sake of generalizing the results of the study. Moreover, other moderating factors can be formulated in the research model of new research by other scholars in future.

This study was only focused on listed Kenyan firms. This therefore calls for a similar study but from other countries so as to establish if there are similarities in the findings and if possible recommendations are similarly applicable.
REFERENCES


ICPAK Code of Ethics.


APPENDICES

APPENDIX 1: INTRODUCTION LETTER

Mildred A. Otieno
Kenyatta University – School of Business
Nairobi.

Dear Respondent,

I am a student at Kenyatta University pursuing a Master of Business Administration (Finance) degree course and required to carry out and submit a research on “Firm Characteristics and Quality Audit of firms listed at the Nairobi Securities Exchange” as partial fulfillment of the requirements of the course.

The purpose of administering this questionnaire is to get your views as key participants in the organization and industry as a whole on the range of issues affecting your capacity to receive quality audit.

The research will be purely for education purposes and will be conducted in accordance with the ethics of research; therefore any information provided will be held with utmost confidentiality.

Kindly feel free and be honest as possible. Thank you in advance for your valuable time and co-operation.

MILDRED A. OTIENO
(RESEARCHER)
APPENDIX 2: QUESTIONNAIRE

Instructions: (Please tick √ or write the appropriate answer in the space provided)

The purpose of this questionnaire is to help us review firm characteristics and quality of audit of the firms listed at the Nairobi Securities Exchange (NSE) in Kenya.

** All information will be treated with utmost confidentiality **

SECTION A: BACKGROUND

This section is to be completed by Board of Directors, Senior Internal Auditor and Head of Finance

1. Name of Company .................................................................

2. Tick one: □ Male □ Female

3. Position: □ Head of Finance □ Senior Internal Auditor □ Board of Directors

4. Please evaluate the performance of the Audit firm that conducted the most recent audit of your company by ticking the appropriate response.

   Satisfactory □ Dissatisfactory □
   Very satisfactory □ Average □

SECTION B: QUALITY AUDIT

5. Do you agree that the auditors / audit firm(s) were responsive to company’s needs?

   Very Responsive □ Responsive □ Somehow responsive □ Not responsive □

6. Do you agree that auditing standards (GAAPs) in the audit of your company were complied with?

   Strongly agree □ Disagree □ Agree □ Strongly disagree □

7. In your assessment, do you agree that your auditor and his/her team members exercised due care in all audit engagements?

   Strongly agree □ Disagree □ Agree □ Strongly disagree □

8. The Senior Management and lead audit partners engaged actively in the audit process?

   □ □
9. The audit team members were knowledgeable about accounting and auditing and observed high ethical standards during audit processes?

Yes □ No □

10. How satisfied have you been with the overall audit performance and the final audit reports?

Very satisfied □ Satisfied □ Neutral □ Dissatisfied □ Very dissatisfied □

SECTION C: AUDITOR REPUTATION

11. Do you consider audit process as part of your professional and social obligations by ensuring that investors and participants in the financial market rely on audit reports presented to them?

Strongly agree □ Disagree □ Agree □ Strongly disagree □

12. You allowed quality audit work to be carried out because of strong commitment and dedication to your role and profession in the organization

Strongly agree □ Disagree □ Agree □ Strongly disagree □

13. You were motivated to having a thorough audit work done so as to avoid the cost of litigation

Strongly agree □ Disagree □ Agree □ Strongly disagree □

SECTION D: AUDITOR INDEPENDENCE

14. You always ensured that there is no financial relationship between the audit firms and your committee members that would compromise auditors independence

Strongly agree □ Disagree □ Agree □ Strongly disagree □

15. You ensured that there was no personal relationship with your auditors that would lead to familiarity threats and compromise their independence.

Strongly agree □ Disagree □ Agree □ Strongly disagree □
16. The auditors at any given time made audit assessments that were more reflective of their professional objective opinion and not your best interest
Strongly agree □ Disagree □ Agree □ Strongly disagree □

17. The Internal Auditors independently performed their duties and were always allowed to give objective opinions on their reports.
Strongly agree □ Disagree □ Agree □ Strongly disagree □

SECTION E: AUDIT FIRM TENURE

18. Using a likert scale of 1-4 indicate your opinion on the effect of the following aspects of audit firm tenure on the quality audit for firms listed in the NSE in Kenya where 1-Low extent; 2-Moderate Extent, 3-Great extent; 4- Very great extent

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<td>Duration in years</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rotation of audit firm</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Rotation of auditor or lead partner</td>
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</tbody>
</table>

SECTION F: AUDITOR PROFESSIONAL COMPETENCE AND DUE CARE

19. What level of education are your auditors?
   Diploma Holder □ Professional Certificates □
   Degree □ Postgraduate degree □

20. What is the longest period an auditor has worked in the organization?
   Below 5 years □ 11 – 15 years □
   5-10 years □ over 16 years □

21. Please indicate your office tenure (level of experience) as a full-time professional in your organization
   Below 3 yrs □ 3-5 yrs □ 6 – 9 yrs □ 10 – 15 yrs □ over 10 years □

22. How frequently do you engage with auditors?
   Very frequently □ Frequently □ Averagely frequently □ Infrequently □
23. Have you attended at least two Continuing Professional Education trainings in the last five years?
Yes [ ] No [ ] other [ ] give reason ………………………………………

24. Is your performance rated on regular basis, at least bi-annually?
Yes [ ] No [ ] other [ ] give reason ………………………………………

25. Using a likert scale of 1-4 indicate your opinion on the effect of the following aspects of disciplinary measures on the quality audit for firms listed in the NSE in Kenya where 1-Low extent; 2-Moderate Extent, 3-Great extent; 4- Very great extent

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<tr>
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<td>Litigation</td>
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**** Thank you for filling this questionnaire ****
APPENDIX 3: FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE (NSE)

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<tr>
<th>LIST OF FIRMS</th>
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<th>FIRMS EXCLUDED</th>
<th>REASONS FOR EXCLUSION</th>
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<td>Complex operating characteristics</td>
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<tr>
<td>2</td>
<td>CFC Stanbic Holdings Ltd</td>
<td>x</td>
<td>“”</td>
</tr>
<tr>
<td>3</td>
<td>I&amp;M Holdings Ltd</td>
<td>x</td>
<td>“”</td>
</tr>
<tr>
<td>4</td>
<td>Diamond Trust Bank Kenya Ltd</td>
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<td>“”</td>
</tr>
<tr>
<td>5</td>
<td>HF Group Ltd</td>
<td>x</td>
<td>“”</td>
</tr>
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<td>6</td>
<td>KCB Group Ltd</td>
<td>x</td>
<td>“”</td>
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<td>7</td>
<td>National Bank of Kenya Ltd</td>
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<td>NIC Bank Ltd</td>
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<td>9</td>
<td>Standard Chartered Bank Ltd</td>
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<td>Equity Group Holdings</td>
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<td>11</td>
<td>The Co-op Bank of Kenya Ltd</td>
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<td>12</td>
<td>Eaagads Ltd</td>
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<td>Rea Vipingo Plantations Ltd</td>
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<td>17</td>
<td>Sasini Ltd</td>
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<td>Williamson Tea Kenya Ltd</td>
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<td>Sameer Africa Ltd</td>
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<td>21</td>
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<td>26</td>
<td>TPS Eastern Africa (Serena) Ltd</td>
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<td>Hutchings Biemer Ltd</td>
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<td>31</td>
<td>Atlas Development and Support Services</td>
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<td>32</td>
<td>Deacons (East Africa) Plc</td>
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<td>33</td>
<td>Nairobi Business Ventures Ltd</td>
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**CONSTRUCTION AND ALLIED**

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<td>35</td>
<td>Bamburi Cement Ltd</td>
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<td>E.A.Portland Cement Ltd</td>
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**ENERGY AND PETROLEUM**

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<td>KenGen Ltd</td>
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<td>42</td>
<td>Kenya Power &amp; Lighting Co Ltd</td>
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<tr>
<td>43</td>
<td>Umeme Ltd</td>
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<td>Incorporated in Kampala</td>
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**INSURANCE**

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<td>Sanlam Kenya PLC</td>
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<td>Kenya Re- Corporation Ltd</td>
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**INVESTMENT**

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<tr>
<td>51</td>
<td>Centum Investment Co Ltd</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Trans-Century Ltd</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>53</td>
<td>Home Afrika Ltd</td>
<td>x</td>
<td>Listed during study period</td>
</tr>
<tr>
<td>54</td>
<td>Kurwitu Ventures</td>
<td>x</td>
<td>Sharia compliant. Financial statements not available.</td>
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<td>55</td>
<td>INVESTMENT SERVICES</td>
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<td>56</td>
<td>Nairobi Securities Exchange Ltd</td>
<td>x **</td>
<td>Under study</td>
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<td>57</td>
<td>MANUFACTURING AND ALLIED</td>
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<tr>
<td>58</td>
<td>B.O.C Kenya Ltd</td>
<td>x</td>
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</tr>
<tr>
<td>59</td>
<td>British American Tobacco Kenya Ltd</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60</td>
<td>Carbacid Investments Ltd</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>East African Breweries Ltd</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>Mumias Sugar Co. Ltd</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>Unga Group Ltd</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>64</td>
<td>Eveready East Africa Ltd</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>65</td>
<td>Kenya Orchards Ltd</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>66</td>
<td>Carbacid Investments Ltd</td>
<td></td>
<td></td>
</tr>
<tr>
<td>67</td>
<td>British American Tobacco Kenya Ltd</td>
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<td></td>
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<td>68</td>
<td>A. Baumann Co Ltd</td>
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<td>69</td>
<td>Flame Tree Group Holdings Ltd</td>
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<td>70</td>
<td>TELECOM. &amp; TECHNOLOGY</td>
<td></td>
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<tr>
<td>71</td>
<td>Safaricom Ltd</td>
<td>√</td>
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<tr>
<td>72</td>
<td>REAL ESTATE INVESTMENT TRUST</td>
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<td>73</td>
<td>Stanlib Fahari I-REIT</td>
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<td>74</td>
<td>EXCHANGE TRADED FUND</td>
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<td>75</td>
<td>New Gold Issuer (RP) Ltd</td>
<td>x</td>
<td>Difference in reporting currencies</td>
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**Total** | **33** | **34** |

*Source: www.nse.co.ke*

**Key**

√ firms selected and included for sampling.

x firms selected and excluded from sampling.
APPENDIX 4: LIST OF FIRMS ANALYZED IN THE STUDY

<table>
<thead>
<tr>
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<th>Company Name</th>
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<td>Carbacid Investment</td>
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<td>Kakuzi</td>
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<td>East Africa Breweries Ltd</td>
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<td>3</td>
<td>Mumias Sugar Co</td>
<td>20</td>
<td>NMG</td>
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<td>4</td>
<td>Unga Group</td>
<td>21</td>
<td>Standard Group Ltd</td>
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<td>5</td>
<td>Eveready EA</td>
<td>22</td>
<td>TPS Serena</td>
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<tr>
<td>6</td>
<td>Olympia capital</td>
<td>23</td>
<td>Scan Group</td>
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<td>7</td>
<td>Safaricom Ltd</td>
<td>24</td>
<td>Uchumi Supermarkets</td>
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<td>8</td>
<td>Eaagads Ltd</td>
<td>25</td>
<td>Athi River Mining</td>
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<td>9</td>
<td>Kapchorua Tea Co</td>
<td>26</td>
<td>Crown Berger</td>
</tr>
<tr>
<td>10</td>
<td>Limuru Tea Co</td>
<td>27</td>
<td>Bamburi Cement</td>
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<tr>
<td>11</td>
<td>Rea Vipingo Plantation</td>
<td>28</td>
<td>Centum</td>
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<td>12</td>
<td>Sasini Ltd</td>
<td>29</td>
<td>East African Portland Cement Ltd</td>
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<tr>
<td>13</td>
<td>Car &amp; General Ltd</td>
<td>30</td>
<td>Kenol Kobil</td>
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<td>14</td>
<td>Sameer Africa Ltd</td>
<td>31</td>
<td>Total Kenya</td>
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<td>15</td>
<td>Marshalls EA Ltd</td>
<td>32</td>
<td>KenGen Ltd</td>
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<td>16</td>
<td>Kenya Airways</td>
<td>33</td>
<td>Kenya Power &amp; Lightning Co Ltd</td>
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<tr>
<td>17</td>
<td>Longhorn Kenya</td>
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</tbody>
</table>

*Source: www.nse.co.ke*
APPENDIX 5: RESEARCH AUTHORIZATION LETTER FROM GRADUATE SCHOOL

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tcl. 810961 Ext. 4150

Internal Memo

FROM: Dean, Graduate School
TO: Mildred Aluoch Otieno
C/o Accounting and Finance Dept.

DATE: 22nd November, 2017
REF: D53/OL/CTY/26890/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 15th November, 2017 approved your Research Project Proposal for the M.B.A Degree Entitled, “Audit Firm Characteristics and Audit Quality for Firms Listed at the Nairobi Securities Exchange (NSE) in Kenya”.

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University’s Website under Graduate School webpage downloads.

Thank you,

HARRIET ISABOE
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Mr. Joseph Theuri
   C/o Department of Accounting and Finance
   Kenyatta University
E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke
P.O. Box 43844, 00100
NAIROBI, KENYA
Tel: 8710901 Ext. 57530

Our Ref: D53/OL/CTY/26890/2015
DATE: 22nd November, 2017

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR MILDRED ALUOCH OTIENO – REG. NO.
D53/OL/CTY/26890/2015.

I write to introduce Ms. Mildred Aluoch Otieno who is a Postgraduate Student of this
University. She is registered for M.B.A degree programme in the Department of Accounting
and Finance.

Ms. Mildred Aluoch intends to conduct research for a M.B.A Project Proposal entitled, “Audit
Firm Characteristics and Audit Quality for Firms Listed at the Nairobi Securities Exchange
(NSE) in Kenya”.

Any assistance given will be highly appreciated.

Yours faithfully,

[Signature]

MRS. LUCY N. MBAABU
FOR: DEAN, GRADUATE SCHOOL
APPENDIX 6: RESEARCH AUTHORIZATION LETTER FROM NACOSTI

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No. NACOSTI/P/17/34001/20506

Date: 7th December, 2017

Mildred Aluoch Otieno
Kenyatta University
P.O. Box 43844-00100
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Audit firm characteristics and audit quality for firms listed at the Nairobi Securities Exchange (NSE) in Kenya,” I am pleased to inform you that you have been authorized to undertake research in Nairobi County for the period ending 6th December, 2018.

You are advised to report to the County Commissioner and the County Director of Education, Nairobi County before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a copy of the final research report to the Commission within one year of completion. The soft copy of the same should be submitted through the Online Research Information System.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.