

**DETERMINANTS OF AUDIT QUALITY AMONG SMALL AND MEDIUM  
PRACTITIONERS IN NAIROBI COUNTY**

**BY**

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**MASTERS OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING)**

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## **DECLARATION**

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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## ABSTRACT

The purpose of this study was to establish determinants of audit quality among small and medium audit practitioners in Kenya. The study's specific objectives were to determine the effect of auditor's independence, auditor expertise and accountability on audit quality among small and medium audit practitioners in Kenya. The study was based on exploratory research design. The target population was 542 small and medium practitioners in Nairobi County. The study was based on primary data. The data was collected through a semi -structured questionnaire. Both descriptive and inferential statistics were used in analysis of the data. The results indicated that auditor independence was not significantly related to audit quality ( $\beta = .026$ ;  $p > 0.05$ ). The results further indicated that auditor expertise had insignificant effect on audit quality ( $\beta = -0.05$ ;  $p > 0.05$ ). The results also indicated that accountability had significant positive effect on audit quality ( $\beta = .298$ ;  $p < 0.05$ ). The study makes the following recommendations. First, small and medium audit practitioners should continue upholding high standards in audit quality so as to enhance their position as credible alternatives to the big 4. Secondly, the small and medium audit practitioners should have continuous programs aimed at building capacity of the employees. Lastly, small and medium practitioners should enhance their capacity by improving their human resource policies so that they can be able to attract and retain qualified professionals.

**Key words:** Audit, auditor, quality, independence, expertise, accountability.

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## **DEDICATION**

This work is dedicated to my family for their support during the study period



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## ACRONYMS AND ABBREVIATIONS

|              |   |
|--------------|---|
| <b>CMA</b>   | Capital Market Authority                            |
| <b>CPA</b>   | Certified Public Accountant                         |
| <b>EU</b>    | European Union                                      |
| <b>EY</b>    | Ernst and Young                                     |
| <b>GAAP</b>  | Generally Accepted Auditing Standard                |
| <b>GCO</b>   | Going Concern Opinion                               |
| <b>IAASB</b> | International Auditing and Assurance Standard Board |
| <b>IAS</b>   | International Accounting Standard                   |
| <b>ICPAK</b> | Institute of Certified Public Accountants of Kenya  |
| <b>IFAC</b>  | International Federation of Accountants             |
| <b>ISA</b>   | International Standards on Auditing                 |
| <b>KPMG</b>  | Klynveld Peat Marwick Goerdeler                     |
| <b>MAO</b>   | Modified Audit Opinion                              |
| <b>PCAOB</b> | Public Company Accounting Oversight Board           |
| <b>PwC</b>   | PricewaterhouseCoopers                              |
| <b>QAO</b>   | Qualified Audit Opinion                             |
| <b>ROSC</b>  | Report on the Observance of Standards and Codes     |
| <b>SOX</b>   | Sarbanes–Oxley Act                                  |
| <b>US</b>    | United States                                       |

## **OPERATIONAL DEFINITION OF TERMS**

**Accountability** – The responsibility of an auditor reviewing a company's financial statement.

The auditor should be responsible and legally liable for any misstatements or instances of fraud. Accountability forces an accountant to be careful and knowledgeable in their professional practices, as even negligence can cause them to be legally responsible (DeAngelo, 2011).

**Audit quality** – Consistently complying with accounting and auditing standards, applying a deep and broad understanding of the clients' businesses and financial environments in which they operate, using the expertise to raise and resolve issues early and exercising professional skepticism in all aspects an auditors work (DeAngelo, 2011).

**Expertise** - The auditor's education and experience that enable him or her to be knowledgeable about business matters in general, but not the expertise of a person trained for or qualified to engage in the practice of another profession or occupation (Zikmund, 2008).

**Independence** - independence of the external auditor which is characterized by integrity and an objective approach to the audit process. The concept requires the auditor to carry out his or her work freely and in an objective manner(ICPAK, 2010).

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Over the years the EU, the US and the rest of the world have experienced several devastating financial crises. This is linked to result of numerous bad judgments of auditors and terrible investment decisions which have led to the most recent collapse which occurred between 2007 and 2009(DeAngelo, 2011).The financial crisis has placed audit quality, along with the interconnected issues of the integrityof financial reporting and corporate governance, at the top of the agenda once again.

Interest in audit quality and related changes in regulation and practice has been ongoing formany years. Deregulation in the 1980s resulted in the adjustment of audit and the emergenceof business risk audit (Power & Winsor 2007). In 2002, however, the Enron scandal prompted a global shift tore-regulation in the form of the SOX (2002), which introduced major changes to the US audit, financial reporting and corporate governance regimes. These changes included inspection of listed audits firms by a new independent agency, the Public Company Accounting Oversight Board (PCAOB); independent setting of auditing standards, restriction of non-audit services to audit clients.

In Kenya recently between 2010 and 2015, more audit firms have come up in the market so as to meet the demand of the increasing audit services needed (Herbling, 2012). The Institute of Certified Public Accountants of Kenya (ICPAK) that is charged with regulating and supervising the country's audit firms and ensuring that the required audit standards are followed in addition to ensuring that the audit partners signing the audit opinion have the required qualifications to do so have introduced strict regulations for external auditors (Ochieng, 2015).

There has been a compromise of the audit quality since the audit firm's usually charge a very high charge for their services leading to the minimization of the objectivity of the audit and in many cases a wrong audit report is usually issued. Small and medium size practitioners in Kenya are also handicapped by their lack of access to appropriate literature on the application of established accounting and auditing standards. Sheikh (2007) also noted examples of failure by auditors to ensure compliance with International Accounting Standards (IASs) and International Standards on Auditing (ISAs).

A report provided by the World Bank (2001), Report on the observance of standards and codes (ROSC) in Kenya highlighted that a number of banks failed in 1990s and they were audited by independent auditors. The auditors failed to provide warning signals about the failures of these banks after they have audited the financial statements of the banks. Therefore this has raised concerns in eyes of the public about the quality of auditing standards in Kenya. Kenyan banks were not legally required to follow the IAS's requirements until 2001 that is when all listed companies were advised to comply with IASs by Capital Market Authority (CMA). This is also evidently seen when Deloitte misreported the CMC's motors' financial statements where they were accused of not disclosing subsidiary annual reports and overseeing the company's inflated revenues (IAB editorial 2012). This was after a complaint filed by the Capital Markets Authority in Kenya. Kenya being a member of IFAC the auditors are to follow the policies and guidelines as established by IAASB (International Auditing and Assurance Standard Board) when conducting their audit work, Since there are more factors which affect the auditing process such as audit tenure, independence, due diligence, competency familiarity and other related factors. The current study sought to investigate the factors that affected the quality of audits done by medium and small practitioners in Kenya.

### ***1.1.1 Concept of Audit Quality***

Audits made on financial statements add information value to them, thus it is important for the auditor's opinion to have as much information as possible and that the auditor conduct the exercise with diligence, care and professionalism (Arrunada, 2010). For audit to be of the required quality, professionalism must be exercised by the auditor (Riyatno, 2007). There are however a few scholars who have defined audit quality including DeAngelo (2011). According to her audit quality is "the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach." according to her, the former is the auditors technical expertise while the latter is the auditors independence. Thus according to this definition, audit quality depends on the auditor's expertise and the level of auditor's independence during the exercise.

Palmrose (2008) defines audit quality as a situation where the financial statements provided by the firm's management do not have any material misstatements that can lead them to being given a qualified opinion. This definition puts it that audit quality is determined by the reasonable assurance level given by the auditor in regard to the financial statements. According to Davidson and Neu (2013), audit quality is the auditor's ability to notice and point out any manipulations and material misstatements in the provided net income of the company. This definition is the same as that of Salehi and Azary (2008). According to their definition audit quality is the extent the audit can protect the user's interests by pointing out any material misstatements in provided financial statements and how well the report reduces the information asymmetry between the financial statements users and the firm's management. According to their definition financial statements that have no misstatements and information asymmetry have the highest level of audit quality.

According to Salehi and Kangarlouei (2010), audit quality can be defined from two views; the perception of the users in regard to the financial statements and the expertise and ability of the auditor giving the report. The perception of the user using the financial statements is the way the user views the auditor's reports in regard to whether it is reliable while the auditor's expertise and ability is the ability of the auditor to point out any material misstatements. According to this argument, the users of the financial statements do not have the ability to access the evidence gathered during the audit and thus they do not have the ability to directly access the audit quality their only way to access this quality is to rely on the auditors' ability and reputation.

Yuniarti (2011) notes that when considering audit quality there are some important characteristics that one should consider including; significance which is the importance attached to the audit, reliability which is if the auditor's report are a true representation of the provided financial statements or if the claims by the management on the firm are true, objectivity is the independence level used during the audit, scope is the breadth and length of the audit, timelessness is the audit delay encountered or not encountered while the audit report was conducted, clarity is where the audit findings and recommendations were well communicated, efficiency is the cost of the audit compared to the audit benefits effectiveness refers to the audit objectives that were achieved during the audit.

These characteristics when combined define the audit quality thus if these characteristics can be identified in an audit then such an audit quality is high. Other studies have also been done regarding audit quality Salehi and Kangarlouei (2010) note that audit quality in real sense cannot be observed during and before an audit thus It is important to have a valid proxy when investigations between audit quality and other factors is done. Among the audit proxy used in such cases an important one is the audit firm reputation.



### ***1.1.2 Audit Quality Determinants***

An audit is important as it increases the trust users have in a firm's financial report. Thus an audit adds value to organizations financial statements and the users can use the audit information to make financial decisions. There has however been a decrease of trust among financial statements users due to corporate scandals despite auditors giving favorable audit reports for different companies. Scandals associated with firms such as World Com, Enron Corporation in the years 2001-2002; Indonesian bank of century and Indo firm in 2001-2008.

Due to such scandals stated above it is of importance that audit quality should be improved in particular by looking at factors that influence the quality of an audit. Auditors should adhere to and also improve on their accountability, independence and competence while conducting their audits so as to improve the audit quality. If the audit is independent, then the necessary external check on the audit integrity is guaranteed. The audit independence ensures that the audit is credible and of the required integrity thus improving its quality. If there is no audit independence, the auditor's objectivity to conduct the audit is compromised and this affects the user's confidence in the audit (Treasury, 2010).

Alim (2007) study found that there is empirical evidence that the auditor's independence does affect the quality of the audit. If the audit is not conducted by an independent party, then the reliability of the report or the financial statements does not exist. The code of professional ethics regulates the accountant's job. This code is regulated by the Kenyan Institute of Certified Public Accountant (ICPAK). The institute stipulates that every member of this institution should always keep and observe integrity, independence and objectivity while conducting their work. ICPAK ensures that the financial statements users can determine if the auditors do their audit in accordance to the provided rules and regulations (ICPAK, 2010).

Since the results of an audit are important to many people, It is important for the auditor to maintain quality as is stipulated by the generally accepted auditing standard (GAAS) when gathering and evaluating the audit evidence. The auditors audit report should be based on professional judgment. The auditor should also exercise accountability in every part of his/her audit activity. Thus, it is important that the auditor finds sufficient evidence so that the audit can be a success. Accountability in this case is the psychological and social simulation used to finalize the audit. According to Cloyd (2007), there does exist empirical evidence that accountability can increase the quality of an audit. The auditor is thus encouraged to maintain the users and clients trust. The auditor is expected to learn by monitoring any new regulations provided by ICPAK and to implement them. These standards include those involved in conducting audits, reviews, compilation, assessing and quality assurance services a major role of the given standards is to ensure the competence and independence of the audit (ICPAK, 2010).

According to ICPAK standards regarding the competence of the auditor, the audit should be done by someone who has the required technical skills and who is also competent (ICPAK, 2010). The very first auditing standard requires that the auditor should have the needed education and should be competent in his work. An auditor's competence is improved if he/she undertakes any advanced courses offered by ICPAK and also if he/she has the needed work experience. The work experience is determined by the number of years the auditor has worked and the number of audit jobs he has successful completed. The auditor's expertise increases if he has a longer experience in doing audit work. The audit quality increases if the auditor has more experience especially in regard to making judgments on audits.

Coklin (2013) explains that if one has more experience in a particular field then he is able to make quality judgments in regard to cases presented to them that are in regard to cases related

to such a field. These findings show that independence does affect audit quality, the findings also concur with Alim (2007) and De Angelo (2011) findings. However, their research shows that the audit quality is not affected by the auditor's experience which is contrary to Kolodner's (2006) findings. However, the argument is the same as that of Ashton (2010), Meisser and Quillim (2012), Cloyd (2007), Tan and Libby (2007) and Tan and Kao's (2009) findings.

### ***1.1.3 Small and Medium Practitioners in Kenya***

In Kenya, provision of auditing services has for long been dominated by the big four multinational auditing firms which are PricewaterhouseCoopers (PWC), Deloitte, Ernst and Young (EY) and Klynveld Peat Marwick Goerdeler (KPMG). However, in recent times, this trend is fast changing as locally owned small and mid-sized auditing firms are challenging the big four. However, auditing of the large and public listed companies in Kenya is still mostly a preserve of the big four (Ochieng, 2015).

Despite the dominance of the big four in auditing the large and publicly listed companies, most of the audit firms however, are small and medium sized (Okoth & Were, 2013). The smallness of these audit firms makes it challenging to keep up to date with developments that are happening in the auditing and accounting profession. The most challenging is that due to fewer huge auditing contracts, they struggle to earn enough to sustain their professions. This means that they can barely afford to spend on building capacity of their staff. Small and medium-sized practitioners in Kenya also face challenges in accessing current and appropriate material that regards accounting and auditing standards and ethics.

Moreover, most of the small and medium-sized practitioners have a high failure rate of compliance with International Standards on Auditing (ISAs) and International Accounting

Standards (IASs). Herbling (2012) argues that this is largely caused by the inadequate capacity of the small audit firms. Additionally, these small and medium sized audit firms provide their services to small and medium sized firms which may not demand high quality services thus not providing any motivation for the small and medium practitioners to improve their competence (Okoth & Were, 2013).

Similarly, small and medium sized practitioners struggle to attract clients making it difficult to win clients and improve their revenue base. They therefore have few resources to invest in improving the expertise of existing staff and partners or in enlisting new experienced professionals. Therefore, many small and medium-sized audit firms in Kenya are facing daunting challenges in attracting and retaining qualified, competent and accountable and independent partners and staff. They are also facing numerous challenges including undercutting, increased need for compliance as more legislation is enacted and increased competition (Herbling, 2012).

## **1.2 Statement of the Problem**

The ever increasing loss of confidence in audit conducted on financial statements together with the reduction of the independence of auditors conducting these audits has led to decreased accountability in regards to shareholders funds raising a question of whether these audits are really relevant. Many of the accounting companies doing financial audits have been found to do audits that are substandard which do not identify the key risks that organizations face in time for corrective action that can be done to prevent negative effect on the entity's going concern.

A study by Jackson, Moldrich and Roebuck (2008) on audit quality from the perspective of mandatory firm rotation indicated that audit quality can be enhanced by rotating auditors. Lennox (1999) did a study on whether the size of the audit firm has an impact on audit quality.

He reported that the size of the audit firm will again influence the quality of audits. Hoitash, Markelevich and Barragato (2007) also studied the impact auditor's fees on audit quality. They observed that indeed remuneration of the auditors will have an effect on the level of audit quality. DeAngelo's (2011) study established that large auditing firms are able to attract experienced auditors and hence have high audit quality compared to small firms.

However, all these studies do not give a better alternative for regulating firms whose stakeholders are more actively involved in the firm's affairs. We also realize that the practice of audit is still immature and many corporate governance and ethical issues in regard to professional and ethical standards among the small and medium audit firms have been reported.

Very few studies had been undertaken to determine factors influencing audit quality among small and medium audit practitioners in Kenya. Muthui, Muturi and Kabiru (2014) assessed factors influencing auditors' independence when performing their duties and established that audit firm tenure affects independence. The study also established that forcing a change of auditors affected the quality of audits adversely. Ndisya (2015) studied the factors influencing audit quality in manufacturing and services firms listed in the Nairobi Securities Exchange. The study established that financial status of the company, audit fees and auditor size were significant in determining audit quality. Of these few studies, none had addressed the effect that independence, expertise and accountability of the practitioners have on the audit quality of their reports. This study therefore sought to establish factors influencing audit quality among small and medium audit practitioners in Kenya. Specifically, it focused on the effect of auditor's independence, expertise and accountability on the quality of audit.

### **1.3 Objective of the Study**

#### ***1.3.1 General Objective***

The general objective of the study was to establish factors influencing audit quality among small and medium audit practitioners in Kenya.

#### ***1.3.2 Specific Objectives***

The study was guided by the following specific objectives:

- i. To determine the effect of auditor's independence on audit quality among small and medium audit practitioners in Kenya.
- ii. To determine the effect of audit expertise on audit quality among small and medium audit practitioners in Kenya.
- iii. To determine the effect of accountability on audit quality among small and medium audit practitioners in Kenya.

### **1.4 Research Questions**

The study sought to answer the following research questions:

- i. To what extent does the auditor's independence affect audit quality among small and medium audit practitioners in Kenya?
- ii. To what extent does auditor's expertise affect audit quality among small and medium audit practitioners in Kenya?
- iii. To what extent does accountability affect audit quality among small and medium audit practitioners in Kenya?

### **1.5 Significance of the Study**

The study findings will help in identifying the factors that affect audit quality among medium and small enterprises in Kenya. The study will also provide recommendations that can solve the problems that have led to decreased confidence among shareholders who rely on audits to provide accountability in regard to their investments in various firms. This research will be of help to the owners or firm directors who can use it to help them to come up with the needed standards to govern and monitor audits ensuring they get value for money due to the increasing audit fees. the study will further be of help o he Institute of Certified Public Accountant of Kenya (ICPAK) by helping the institution come up with policies that can be a guide to the external audits provided to medium and small Kenyan enterprises to ensure high quality of such audits.

In addition, investors can use the study findings as a guide to help them make informed investment decisions. Regulatory bodies, policy makers and firm management can benefit from the findings as they can use them to ensure audit objectivity and transparency. Auditing students will also gain by the insight provided by the study on the importance of audit reports in regard to providing assurance to Kenyan stakeholders. The findings also serve as a guide to all prospective investors. The research further will be used as reference by other scholars who would wish to carry out studies related to the topic discussed. The study will further add information to the knowledge that exists on factors that affect quality of audit among the Kenyan medium and small enterprises

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The introductory part of the literature review opens up the study to factors influencing audit quality among small and medium practitioners in Kenya.

#### **2.2 Theoretical Literature Review**

##### ***2.2.1 Theory of Agency Costs***

The theory of agency costs is one of the theories that respond to the agency relationships imperfections. Jones (1996) explained that audit services are required as the monitoring methods due to the conflicts that may arise between managers, owners and other security holders. Additionally, he further explains that the provision of audited statements is a least cost response to the owner's manager and intra-owner conflict of interest leading to agency costs increase. Agency costs from different firms are not the same. Further, the heterogeneous demand for the audit services by clients is a result of the difference in agency cost from different firms that can happen in cases where the auditing services requested are unusual.

According to Jones (1996), audit services quality is market assessed joint probability in which the auditor detects a breach in the accounting system of the client and also reports the identified breach. On the other side, the specified audits may enhance the financial information's credibility as the result of the independent verification of management-provided financing reports, thus may minimize the investor's information risk as proposed in the study conducted by Johnson et al. (2002).



Wilbricht (2009) argued that principal-agent problem can be dealt with to some extent by incurring additional agency cost in order to monitor the performance of the agent. Similarly, Lubatkin (2004) argue that increasing the agency cost will help firms ensure that managers are running the business more efficiently. Hence, managers will be more efficient in their financial reporting since the managers will have to make sure that the financial reporting and audit exercise are well administered. Thus, managers that are not able to undertake this responsibility will be replaced by more efficient managers who can better serve the shareholders. This theory was aligned to the auditor experience variables in this study. It explained how expertise of the auditor can influence audit quality through the sanctions that unqualified auditors can get.

### ***2.2.2 Role Theory and the Concept of Audit Expectation Gap***

The extensive critique of auditors in the last decades following several top rated corporate collapses and financial scandals, which have led to a number of litigations against auditors, also suggest that there is a gap between the public expectations of the auditor's performance and the actual performance of an auditor (Porter, 1993). According to Porter (1993) the audit expectation-performance gap should be defined as the gap between society's expectations of auditors and auditors' performance, as perceived by society. The purpose of any audit is to ensure that the financial statements of organizations, on which the auditor is submitting a report, presents a true and fair reflection of the company's financial position and are not misleading (Porter et al., 1996). However, rules and regulations concerning auditing contain terms such as professional skepticism which can be interpreted in many ways by auditors and various stakeholders (Zikmund, 2008). Previous research has found that there is a disparity between the public

understanding of the task and duties of an auditor, with regard to identifying and reporting financial fraud, and the actual task and responsibilities of an auditor (Zikmund, 2008).

Audit practice enables auditors to express their opinion in cases where the financial statements they are presented with show a fair and true view of the state of affairs of the firm. An audit seeks to ensure that the financial statements presented to the auditor are not misleading and a true and fair representation of the financial state of affairs of a given organization. However, there is an expectation from the general public that the auditor has the responsibility to not only detect but prevent all the existing frauds in the firm. This means that the users of the financial information often expect that the auditors will do more than examine and confirm the financial statements fairness, expecting that the auditors will also take on the responsibility of protecting the interests of those who benefit from the audits by detecting and also reporting any frauds as irregularities. Thus, the audit expectation gap is sometimes as a result of the audit users unreasonable expectations. There is need therefore for the users of audits to be educated on what to expect from the auditors. Further the society also needs to be educated so that they can have reasonable expectations of the duties and responsibilities of auditors. This theory was aligned to auditor accountability in the study and how this can influence audit quality.

### ***2.2.3 Audit Quality Theory***

Watkins, Hillison and Morecroft (2004) differentiated audit quality from perception of audit quality. The two were viewed to be different using factors such as monitoring strength and reputation which are the actual and perceived audit quality. Monitoring strength can be measured using the elements of audit quality which includes the degree of competence and auditors'

independence. The perception on the two elements' degree as a measure for audit quality from the market would refer to as auditor reputation.

The concept of audit quality has proved difficult to define with certainty. It is not immediately or directly observable and is difficult to measure (Power,1997).Moreover, audit markets' participants have conflicting roles and different expectations that lead to different definitions and ways of measuring it (Rasmussen & Jensen,1998;Watkiin et al., 2004),which suggests ambiguity and subjectivity in the term audit quality.

The regulator in the UK and professional practitioners have never defined the term precisely, although various initiatives have been built around the term and serve to influence contemporary understandings of such concepts. The professional literature is inclined to define audit quality in relation to meeting the requirements of the auditing standards during the course of the audit (Krishnan &Schanner 2001;McConnell & Banks,1998).

In comparison ,various academic research approaches that are relevant to audit have defined and measured audit quality in a number of ways, involving a combination of measures that linked inputs (Such as industry expertise, the amount of non-audit firm) to audit outcomes, such as audit failures (Feroz,Park &Pastena,1991) and the quality of financial reporting (Becker,Defond, Jiambalvo&Subramanyam,1998;Gul, Sun & Judy, 2003),process measures that are related to auditor performance (Such as audit procedures, judgment and decision-making and quality – threatening behavior) (Sutton,1993; Malone & Roberts,1996) and to capture quality attributes of relevance to users and prepares of financial statements (Carcello,Hermanson& McGrath, 1992;Duff,2009). This theory was aligned to auditor independence variable in this study. It sought to establish the link that existed between independence of the auditor and the quality of the resulting audit.

## **2.3 Empirical Literature Review**

### ***2.3.1 Auditor Independence***

Auditor Independence is important because it has an impact on audit quality. DeAngel (2006) suggests that audit quality is defined as the probability that (a) the auditor will uncover a breach and (b) report the breach. If auditors do not remain independent, they will be less likely to report irregularities, thereby impairing audit quality.

As independence is a critical issue for the auditing profession, many studies on this have been performed. The main dimension of assessing the impact of auditor independence on audit quality includes client importance. Under client importance auditors are paid by the companies whose financial statements they audit. Economically important clients carry greater weight in an auditor's portfolio. Therefore an auditor may have a higher incentive to yield to pressure from larger clients, thereby compromising independence.

Several articles using theoretical modeling investigate the effect of low-balling on auditor independence and audit quality. De Angelo (1981 b) contends that low – balling is sunk costs and will not impair independence. Lee and Gu(1998) argue that low-balling improves independence. However, Magee and Tseng(1990) indicate that the value of incumbency can negatively affect independence if there is a multi-period disagreement on reporting policy.

Dopuch and King (1996) experimental evidence that a high degree of low-balling decreases audit quality in non-competitive market settings. However an archival study by Gul, Fung and Jaggi(2009) does not find evidence that low –balling results in impaired audit quality. Most studies examine the association between client importance and independence using the issuance of the audit opinion including a modified audit opinion (MAO) a qualified audit

opinion (QAO) and a going concern opinion(GCO).Krishuan and Krishuan (1996) document that auditors are less likely to issue QAO to larger clients when warranted.

Mojtahedzadeh and Aghaei (2005) proved that auditor independence is a decisive factor in public accounting profession without independence, audit detection task to find material misstatement is questionable, because bias reports have low effect on audit quality. Furthermore, Wooten (2003) proved that auditor independence is an important factor that affects audit quality. Hussey and Ian (2001) also proved that an audit can only be qualified if auditor become independent to report violations of agreement between principal and agent, hence auditors independence has a positive effect on audit quality.

### ***2.3.2 Audit Expertise***

Expertise refers to an auditor having knowledge and experience in the areas of accounting and financial reporting, internal controls and auditing (SOX, 2002).Studies have found that expertise affects audit quality.Dezort(1998) found that auditor experience related to audit and internal control evaluation resulted in internal control judgments more in line with auditors than organizational members lacking such experience.

McDaniel,Martin and Maines(2002) found that expert and financially literate auditors evaluation of the quality of financial reporting items differ. This result implies that the inclusion of financial experts in audit quality of a company's financial report in general impacts positively on the quality of an audit.

Bedard et al. (2004) focused on earnings management and found out that audit committees with more expert members are better equipped to restrict earnings management. Dezort(1998) and Dezoprt and Salteno(2001) found that audit committee members possessing

auditing management disagreements over an ambiguous accounting issue than members lack such knowledge.

Experts also found out how to safeguard auditors from being unfairly dismissed (Archambault et al., 2001). Vafens et al. (2007) found that audit committee member expertise has a positive relationship with audit fees indicating the experts demand for higher quality service by external auditors.

### ***2.3.3 Auditor Accountability***

Flaming research (2002) tested the hypothesis regarding the audit quality where he divided the components of competency, accountability on and objectivity of the auditor. Behn et al. (1999) and Samelson et al. (2006) found that the accountability of the audit exercise from the external auditor and board would affect audit quality produced.

Watkins et al (2004) proved that accountability on the audit exercise by independent parties to find and eliminate material misstatement and manipulation in financial statements affect audit quality. Furthermore, Lee and Stone (1995) also proved that accountability affects audit quality. Perry (1984) also proved that there are four factors that affect audit quality namely budget scope, incompetency, critical evaluation and lack of independence of the auditors. Incompetency and lack of accountability are the dominating factors affecting audit quality, hence accountability has a positive effect on audit quality.

Sound knowledge and competence of the external parties commands a premium. Gut et al. (1994) state that the audit should be performed and the report prepared with due professional care by persons who have adequate training, experience and competence in auditing. Auditors are

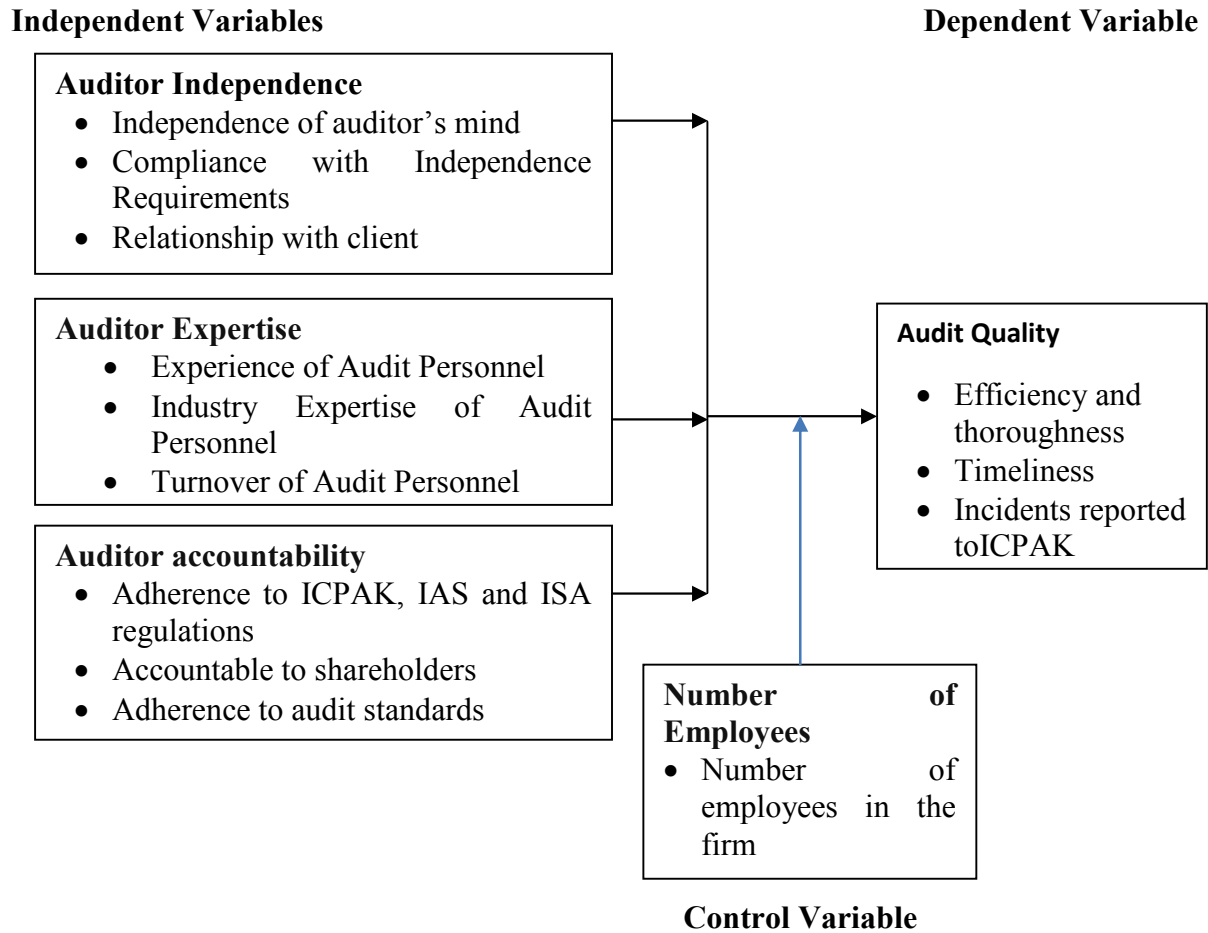
expected by third parties to have academic training in accounting, taxation, auditing and other areas related to their profession.

Alford and Strawer (1990) carried out a survey which results points out that with increasing the minimum educational requirements for CPA memberships may be a direct result expansion enjoyed by the accounting profession. Therefore, the education is directly affected on audit competence, which leads to high quality of audit practices. Watts and Zimmerman (1986) predict that large audit firms supply a higher quality audit because of greater competency. These companies may have more resources (Palmrose,1986) and they may use higher quality staff (Chan et al., 1993).Francis and Wilson (1988) suggest that audit firms invest in their brand name reputation in order to command high levels of competency that results to high audit quality standards.

## **2.4 Conceptual Framework**

The conceptual framework that guided the study is presented in Figure 1. The study depicts that the expertise, independence and accountability of the auditor will influence the quality of audit. The expectation is that when an auditor has the requisite expertise, accountability and independence, the quality of audit will be high. Similarly, when the auditor has low level of expertise, accountability and independence, the quality of audit will be low. The control variable in the study was the number of employees the firm had. This was expected to affect audit quality as having many employees may mean having sufficient human labour and expertise to perform quality audit. Moreover, number of employees also can have an enhancing effect on audit quality since it can mean high revenues which can enable the firm to attract and retain more experienced and skilled audit staff.

**FIGURE1**  
**Conceptual Framework**



*Source: Author (2016).*

### 2.5 Operationalization of Variables

This section provides a description of the variables considered in the study and how they will be measured. This is presented in Table 1.



**TABLE1**  
**Operationalization of Variables**

| <b>Variable</b>      | <b>Indicators</b>   | <b>Level of measurement</b>    | <b>Questionnaire section</b> |
|----------------------|---|--------------------------------|------------------------------|
| Auditor Independence | <ul style="list-style-type: none"> <li>• Independence of auditor's mind</li> <li>• Economic independence</li> <li>• Independence of appearance</li> <li>• Professionalism</li> <li>• Relationship with client</li> </ul>                            | Ordinal (5 point rating scale) | Section B                    |
| Auditor Expertise    | <ul style="list-style-type: none"> <li>• Professional knowledge</li> <li>• Continuous capacity building</li> <li>• Experience in auditing</li> <li>• Industry experience</li> <li>• Audit planning skills</li> </ul>                                | Ordinal (5 point rating scale) | Section C                    |
| Accountability       | <ul style="list-style-type: none"> <li>• Monitoring and supervision</li> <li>• Awareness of regulations</li> <li>• Adherence to rules by ICPAK, IAS and ISA</li> <li>• Accountability to shareholders</li> <li>• Professional commitment</li> </ul> | Ordinal (5 point rating scale) | Section D                    |
| Audit Quality        | <ul style="list-style-type: none"> <li>• Accomplishment of audit objectives</li> <li>• Complaints</li> <li>• Thoroughness and efficiency</li> <li>• Timeliness</li> <li>• Reliable reporting</li> </ul>   | Ordinal (5 point rating scale) | Section E                    |
| Number of employees  | Count   | Scale                          | Section A                    |

*Source: Author (2016).*

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter discusses the methodology approach for the study and highlights the research design, target population, sampling technique, data collection instruments and data analysis and presentation.

#### **3.2 Research Design**

An exploratory design was used in this study. Cooper and Schindler (2006) observed that an exploratory design is well suited for a study where there are very few studies that have studied the problem. Exploratory design hence provides the researcher with familiarity and insights about the problem. Exploratory studies are aimed at providing basic details, concerns and settings around the context of the problem being researched (Mugenda&Mugenda, 2003). Using this design, the variables to be explored were identified as audit independence, expertise and accountability. The nature of how these variables related with audit quality was explored in depth.

This exploratory design was deemed suited for this study as it enabled the researcher to understand and have a well-grounded picture of how audit independence, expertise and accountability influences audit quality among small and medium audit practitioners in Nairobi. Moreover, the design enabled generation of new ideas and assumptions which could be used to develop tentative hypothesis and theories on what factors influenced audit quality in small and medium audit practitioners.

### **3.3 Target Population**

The study's population was made of 542 small and medium (SMEs) audit firms with operations in the county of Nairobi. The Institute of Certified Public of Kenya (ICPAK) indicated that as at 31<sup>st</sup> December 2015, there were 848 active small and medium-size Kenyan audit firms. Out of these 848 SME audit firms, 542 of the SMEs audit firms operated in Nairobi County, and were dispersed within the eight divisions that is, Kasarani, Embakasi, Makadara, Dagoretti, Kibera, Central Nairobi, Pumwani, and Westlands (ICPAK, 2016).

The research study target population is the total set of units that can be used to make inferences for the survey data. The target population has group members that the researcher seeks to study. The results of the research will be generalized to the target population since they all have common significant characteristics. Thus the target population defines the units that the finding of the survey seeks to generalize. The target population also determines the cases that are eligible or not eligible for the study's survey. The researcher needs to delineate the temporal and geographical traits of the target population. Mugenda and Mugenda (2003) explain that the targeted population must have observable traits that can be generalized to the study's results.

### **3.4 Sample and Sample Procedure**

The use of a sampling technique or design allows the researcher to statistically determine the study's appropriate sample size that can be used to generalize the study's results to the entire population (Itayer, 1997). Statistically in order for generalization to take place, a sample of at least 30 must exist (Cooper & Schindler, 2003). Kotler (2001) argues that if well chosen, samples of about 10% of a population can often give good reliability. Other literature has shown that sample size selection to a great extent is judgmentally decided.

The sample for the study was computed using the sample calculation formula by Yamane (1967).

In the formula, the significance level selected was 5%. The formula applied was;

$$n = \frac{N}{1 + N(e)^2}$$

Where;

N = Target population (542)

n = sample size

e = Significance level (5%).

$$n = \frac{542}{1 + 542(0.05)^2}$$

$$= 230$$

This was the sample of the study from where inference about all small and medium size audit firms in Nairobi was made. The 230 audit firms were selected by simple random sampling. This helped to ensure that every member of the population had an equal chance of being selected as part of the sample (Cooper & Schindler, 2003).

### **3.5 Data Collection Instruments**

Primary data was used for the study. The primary data was collected by use of semi-structured questionnaires in which case the respondents were given the semi-structured questionnaires to respond to. The questionnaires had close-ended questions which included likert scale questions. Questions that are closed-ended in nature are helpful in testing the score of a variety of

characteristics, which helps to reduce the number of responses that are related so as to order to acquire more diverse responses (Kothari, 2006).

Questionnaires were preferred because according to Kombo and Tromp (2006), they are an effective data collection instrument that allows respondents to give much of their opinions in regard to the research problem. As explained by Kombo and Tromp (2006) the obtained information from the questionnaires is free from researcher's influence and is not biased enabling the collection of valid and accurate data

### **3.6 Validity and Reliability**

To establish the research instrument validity, the study sought opinions of experts in the field of study especially the study's supervisor and lecturers in the department of finance and accounting. Modifications and the needed revision to the research instrument were conducted to ensure its validity. Mugenda and Mugenda (2003) point out that reliability measures the consistency of the research instrument which can be tested by use of the test-retest reliability method. Reliability is enhanced by testing a diverse sample of the research individuals, using testing procedures that are uniform and putting many similar items as part of the measure.

#### **3.6.1 Reliability**

Reliability seeks to establish if the results of the research are repeatable. The term seeks to understand if the measures used for business concepts are consistent. The respondent's lack of knowledge is one factor that can affect the research reliability. It is further suggested that if a respondent at the moment is tired or stressed, or have attitudes toward the

questionnaire/interview it can impact negatively on the reliability of the study (Kombo and Tromp, 2006).

Reliability is an issue that is important in quantitative research. Most quantitative studies are concerned with whether the study's measure is stable or not stable. After the final confirmation, a pilot test was conducted by distributing the questionnaire among 10 management staff of small audit firms which ensured that the questionnaire was appropriate and the aspects investigated were generally understandable. Cronbach's alpha methodology based on internal consistency was used to check the reliability.

### ***3.6.2 Validity***

Validity is the most important research criterion. It determines the integrity of the research. It seeks to determine if the item elicits the intended information. It suggests the fruitfulness of the research or the match between a construct and how well the research conceptualizes its idea in a conceptual definition. It refers to how well an idea about reality "fits" in with actual reality. Thus validity in this case concerned whether the findings were on factors influencing audit quality among small and medium practitioners in Kenya.

### **3.7 Data Analysis and Presentation**

Before the data responses could be processed, the completed questionnaires were edited to ensure the data was complete and consistent. Data was analysed through descriptive statistics, factor analysis, correlation as well as regression analysis. Descriptive methods including percentages, weighted means, relative frequencies and standard deviation were used. To generate a data array that can be used for further analysis, statistical package for social sciences (SPSS)

was used for analysis of the data. SPSS was used to generate descriptive statistics such as mean, range among others in analyzing the data. Inferential statistics (factor, correlation and regression) were also used in data analysis. The use of correlation analyses allowed researcher to determine the association level between the variables under study (Levin & Rubin, 2008). This analysis is an initial step used in statistical modelling that helps to explain the relationship between the dependent and independent variables.

Factor analysis according to Bartholomew et al. (2008) is a data reduction method. It assists in seeking principal unobservable variables that are revealed by the observed variables. In this study, this method was applied to establish whether there were any other variables that determined audit quality rather than the three (independence, expertise and accountability) that were considered in this study. The study applied the principal axis factor method with direct obliminrotation.

Lastly, multiple linear regression was conducted. The regression f test was used to test the model fit to the data collected. T test was utilized to assess the significance of auditor independence, auditor expertise and auditor accountability in affecting audit quality. Number of employees was used as a control variable in the study. It was hence applied in the regression as an additional independent variable. These tests were conducted on 5% significance level. The regression equation was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Whereby

Y = Audit quality of the small and medium practitioners

X<sub>1</sub> = Auditor's independence

X<sub>2</sub> = Auditors' expertise

X<sub>3</sub> = Auditor' accountability.

$\beta_1, \beta_2, \text{ and } \beta_3$  =Coefficients of determination

$\varepsilon$  =error term

Diagnostic tests were conducted before factor analysis or regression was performed. These were conducted to test whether the data collected respected the assumptions of regression analysis. The tests that were performed include tests for multicollinearity, normality of residuals and homoscedasticity.



## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION**

#### **4.1 Introduction**

This chapter presents the results of the study starting with the response rate and the demographic characteristics. The presentation of results is then made based on the research objectives. These findings are presented based on descriptive and inferential statistics. The results were as a result of descriptive statistical analysis, factor analysis and regression analysis.

#### **4.2 Response Rate**

A sample of 230 small and medium audit firms were selected to participate in the study. The respondents were key audit partners in the firms. Out of these 230 participants who were issued with the questionnaire, 122 returned their responses which resulted to a response rate of 53%. This was adequate as indicated by Babbie (2011) that a response rate of more than 50% is adequate for paper based questionnaire survey. The analysis in this chapter relates to these returned questionnaires. Checking of the questionnaires indicated that the questionnaires were comprehensively filled and were all included in analysis.

#### **4.3 Reliability of Items**

The reliability of the responses was tested before analysis was performed. The results of the reliability test are provided in Table 2. The results indicated the reliability of items were all above the recommended level of 0.7 indicating that there was high internal consistency in the items. The overall alpha value was 0.782 which was well above 0.7 indicating that the items in the questionnaire were reliable.

**TABLE 2**  
**Reliability of Items**

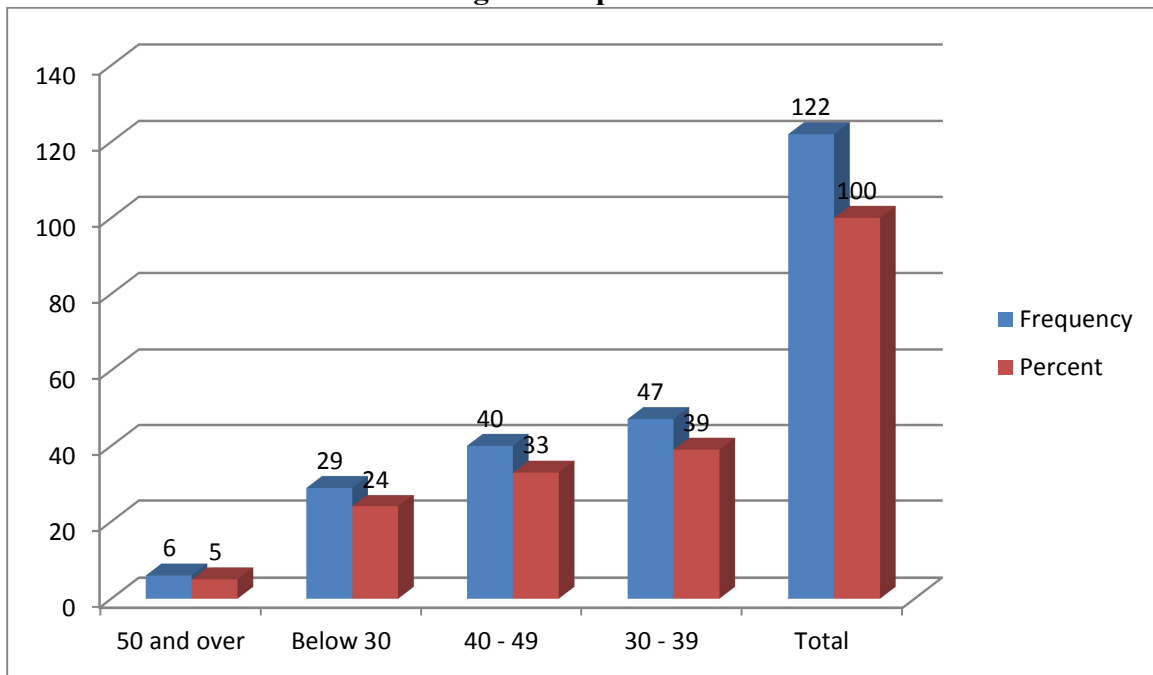
| <b>Variable</b>        | <b>Number of items</b> | <b>Cronbach alpha</b> |
|------------------------|------------------------|-----------------------|
| Auditor independence   | 8                      | 0.707                 |
| Auditor expertise      | 10                     | 0.821                 |
| Auditor accountability | 6                      | 0.733                 |
| Audit quality          | 11                     | 0.762                 |
| Overall                | 27                     | 0.782                 |

*Source: Author (2016)*

#### 4.4 General Information

General information of respondents and the audit firms was sought. First, respondents were required to indicate their ages. Results are presented in Figure 2. The results indicate that 39% of the respondents were aged between 30 and 39 years while only 5% were aged above 50 years. These results indicated that most of the employees in the audit firms were middle aged.

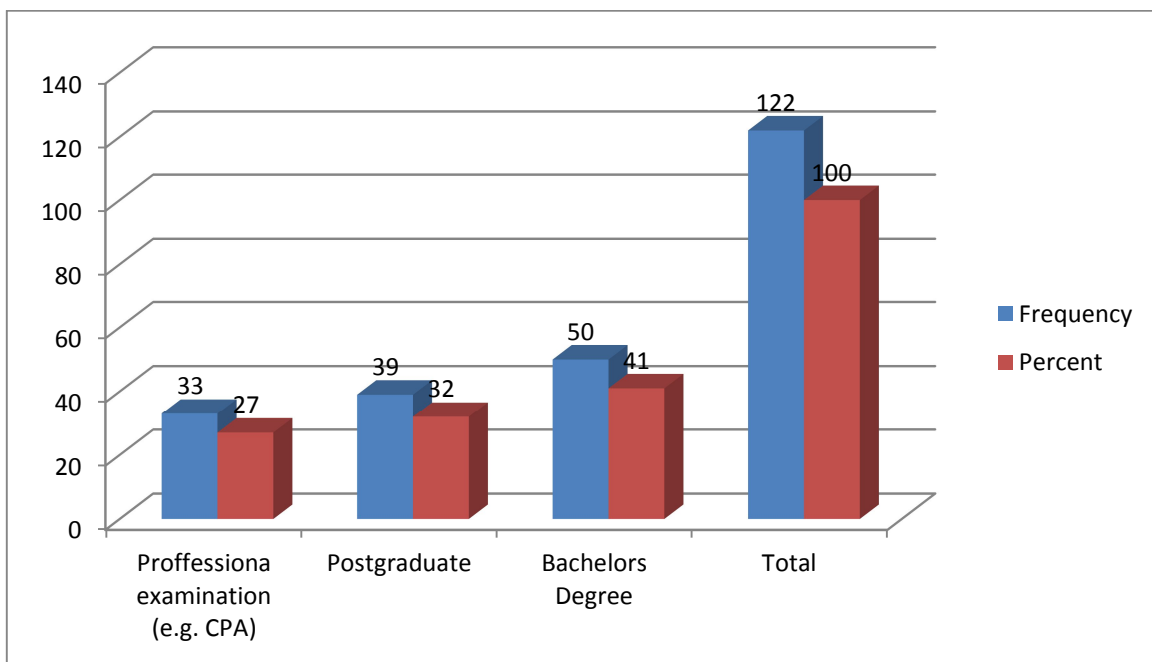
**FIGURE 2**  
**Age of Respondents**



*Source: Author (2016).*

On the highest level of education attained, results presented in Figure 3 indicated that 41% of the respondents from the audit firms had bachelors level of education while 32% had postgraduate level of education. Those who had attained professional levels of education such as CPA were 27%. These results indicated that respondents had high academic qualifications.

**FIGURE 3**  
**Education Level**

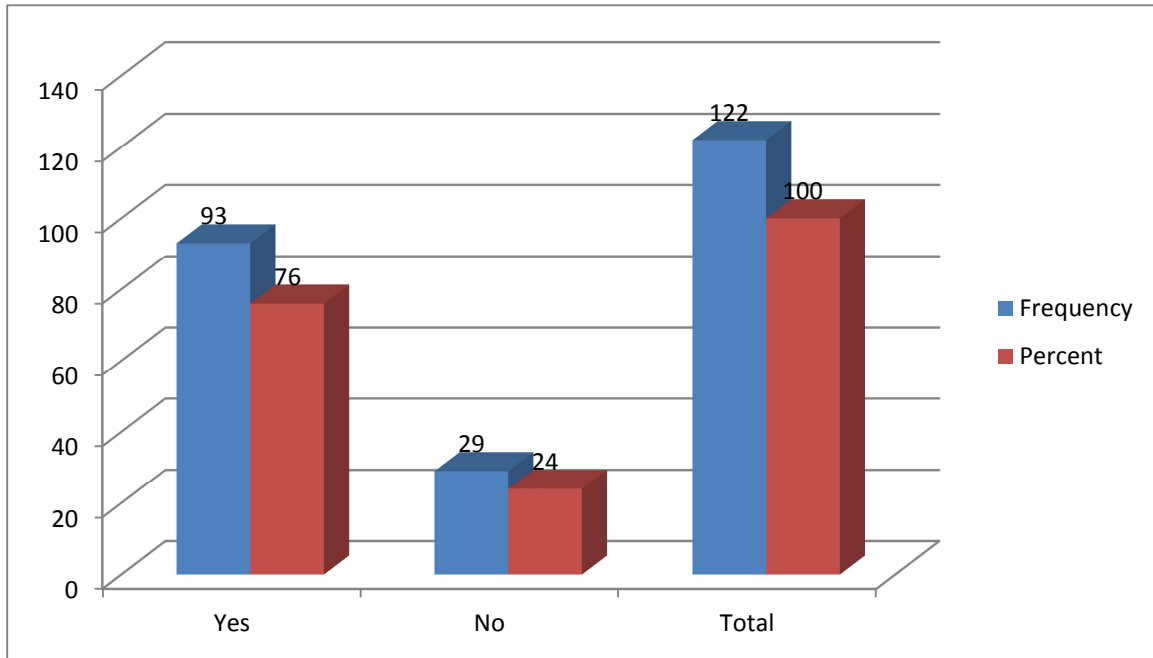


*Source: Author (2016).*

Respondents were also required to indicate whether they had any professional qualifications. The results indicated that 76% had professional qualifications while only 24% did not possess any professional qualifications.

**FIGURE 4**

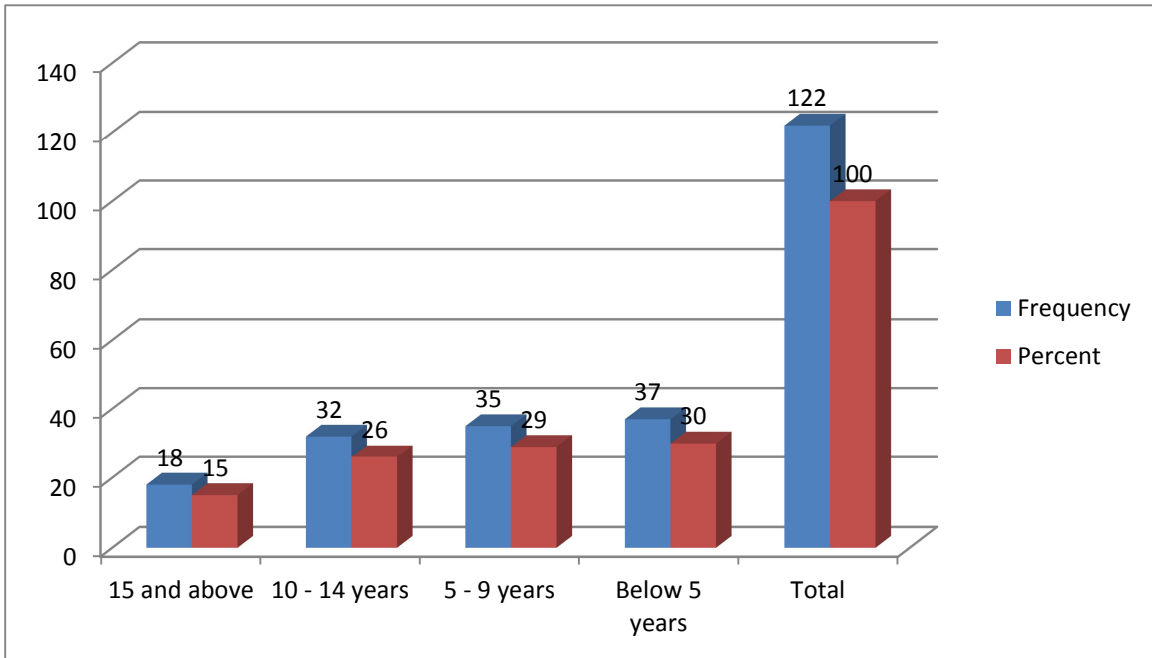
**Whether Respondent had Professional Qualifications**



*Source: Author (2016).*

Respondents were further required to indicate that years of experience they had in auditing. This was aimed at assessing their competence in answering the questions and their in-depth knowledge of auditing. Results presented in Figure 5 indicate that 30% had below 5 years of experience while 15% had more than 15 years of experience. Those who had 5 – 9 years of experience were 29% while 26% had experience of 10 – 14 years.

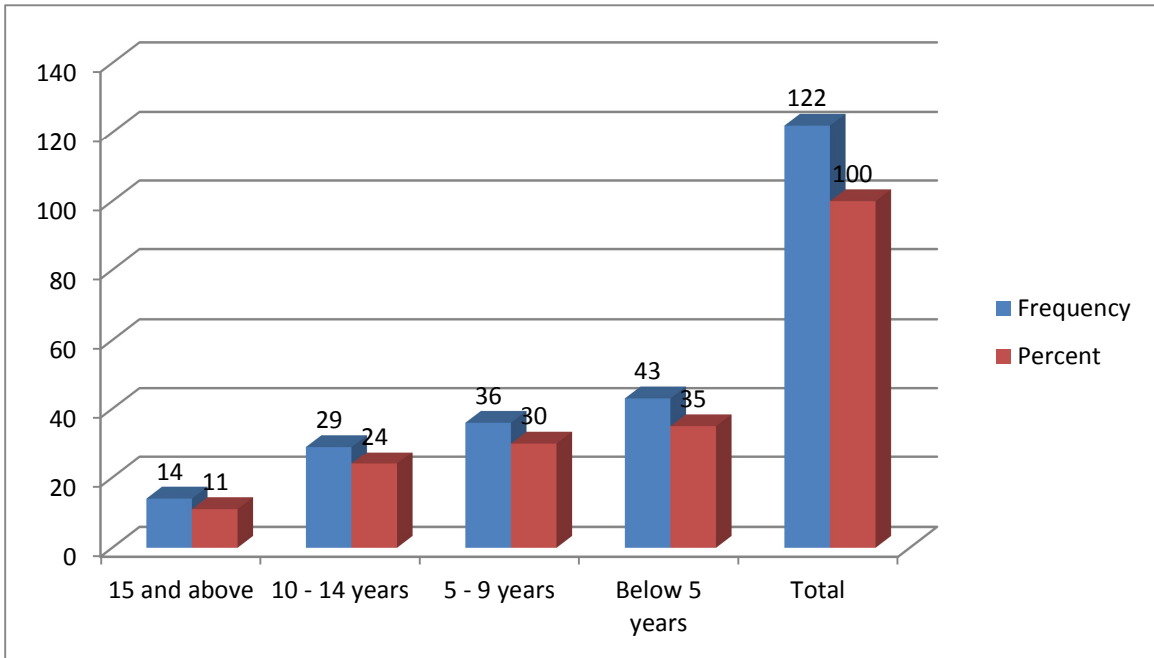
**FIGURE 5**  
**Years of Experience in Auditing**



*Source: Author (2016).*

The years that the respondents had worked in the organizations were also sought. Results presented in Figure 6 indicate that 35% had worked in their current firms for less than 5 years while 11% had worked in the firms for over 15 years. Those who had worked in the firms for 5-9 years were 30% while 24% had worked in the firms for 10 – 14 years.

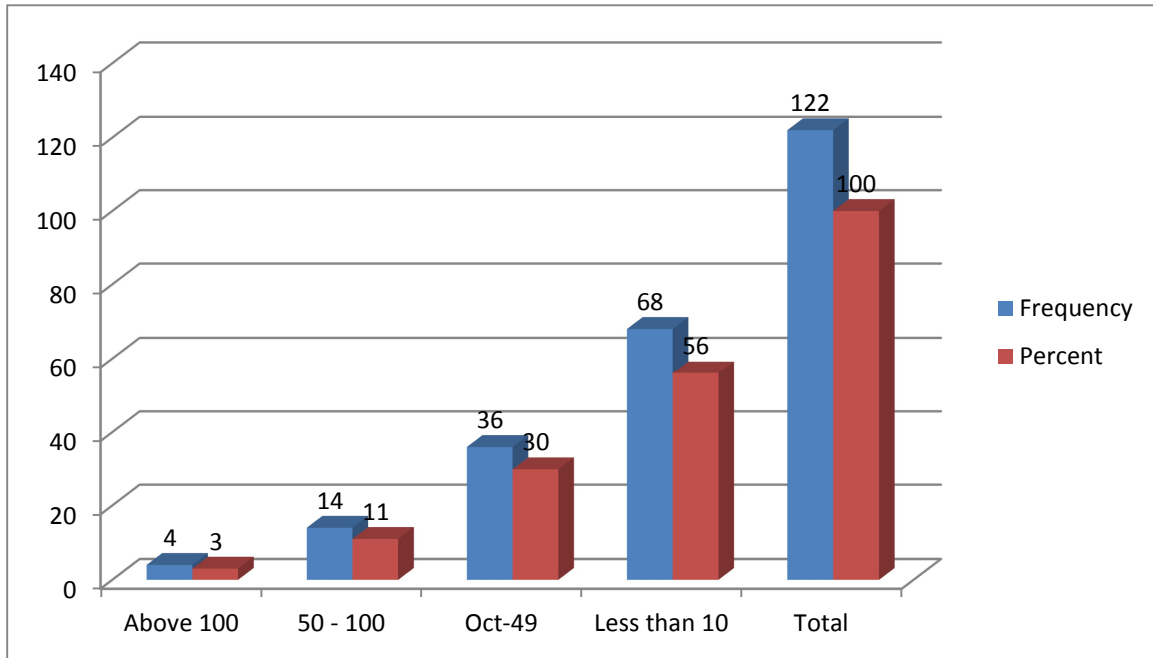
**FIGURE 6**  
**Years of Service in the Organization**



*Source: Author (2016).*

The study also investigated the number of employees that the surveyed firms had. This was to assess the size of the firms and also to measure the moderating variable of the study. The results in Figure 7 indicate that most of the firms surveyed were small and had less than 10 employees (56%). Those firms that had more than 100 employees were just 3% while those with 50 – 100 employees were 11%. These results indicated that most of the surveyed firms were small.

**FIGURE 7**  
**Number of Employees in the Firm**



*Source: Author (2016).*

#### **4.4 Auditor's Independence**

The study investigated auditor independence in the surveyed small and medium audit firms. Respondents were required to indicate the extent that auditors and the firm observed the listed characteristics relating to independence. The rating applied was 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great extent. Means and standard deviations were applied in analyzing the responses and the results are presented in Table 3. The results indicated that the behaviors of auditors in the surveyed firms portray integrity to a great extent (mean = 4.21) and auditors to a great extent had state of mind independence to make objective and unbiased audit decisions (mean = 4.21). Study findings also indicate that, to a great extent, auditors were assigned to firms in which they had no pecuniary relations or interest (4.20). The findings further indicated that auditors to a great extent portrayed objective and

professional skepticism (mean = 4.20). Similarly study results revealed that auditors to a great extent indicated independence of appearance (4.16) and also that auditors of the surveyed firms were always keen to avoid circumstances that could create a conflict of interest (4.15). Study findings also indicated that auditors of the surveyed firms did not perform other non-audit services for clients that they audited (mean 4.07). Correspondingly, study results indicated that auditors, to a great extent, maintained a fair approach while performing their tasks (mean = 4.07).

**TABLE 3**  
**Independence of Auditors in Small Audit Firms**

| Statement   | N   | Minimum | Maximum | Mean | Std. Deviation |
|---|-----|---------|---------|------|----------------|
| Auditors have state of mind independence to make objective and unbiased audit decisions         | 122 | 2       | 5       | 4.21 | .633           |
| Auditors maintain a fair approach while performing their tasks                                  | 122 | 2       | 5       | 4.07 | .831           |
| Auditors indicate independence of appearance  | 122 | 2       | 5       | 4.16 | .708           |
| Auditors portray objective and professional skepticism  | 122 | 2       | 5       | 4.20 | .680           |
| Auditors are assigned to firms in which they have no pecuniary relations or interest            | 122 | 2       | 5       | 4.20 | .664           |
| Auditors of this firm are always keen to avoid circumstances that create a conflict of interest | 122 | 1       | 22      | 4.15 | 1.830          |
| The behaviours of auditors in this firm portray integrity                                       | 122 | 2       | 5       | 4.14 | .696           |
| Auditors of this firm do not perform other non-audit services for clients that they audit       | 122 | 3       | 5       | 4.10 | .685           |

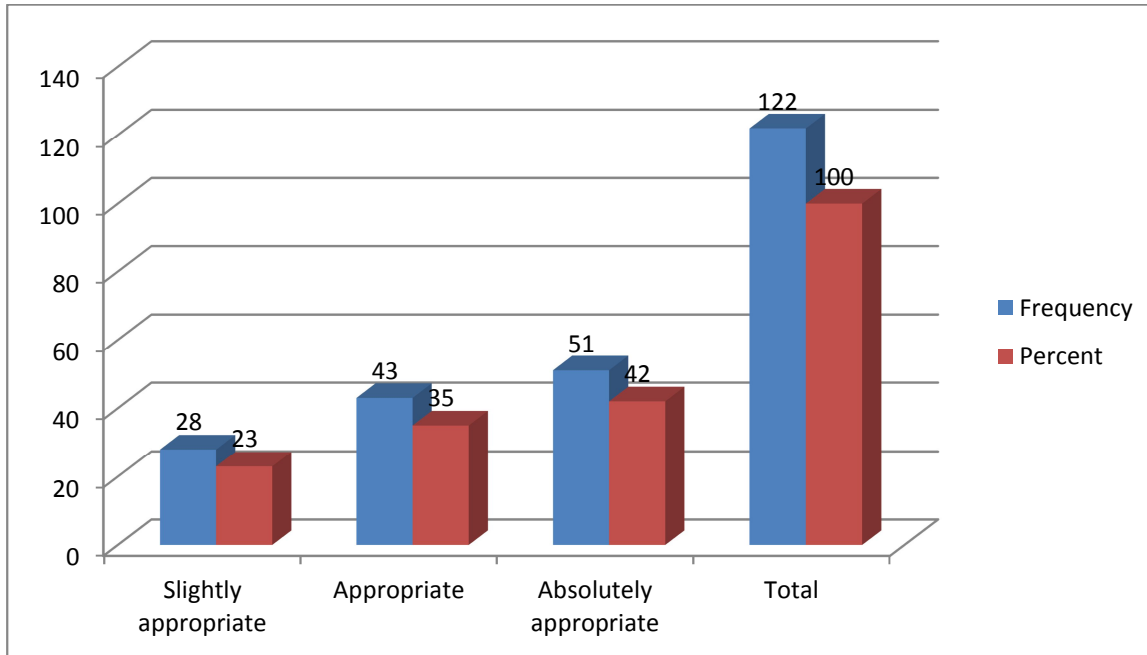
*Source: Author (2016).*

Moreover, respondents were asked to describe the relationship between the clients and the firm. Respondents were required to indicate whether the relationship with clients was



professionally appropriate or not. Results presented in Figure 8 indicate that 42% considered the relationship between their firm and clients as absolutely professional while 23% considered the relationship as slightly appropriate.

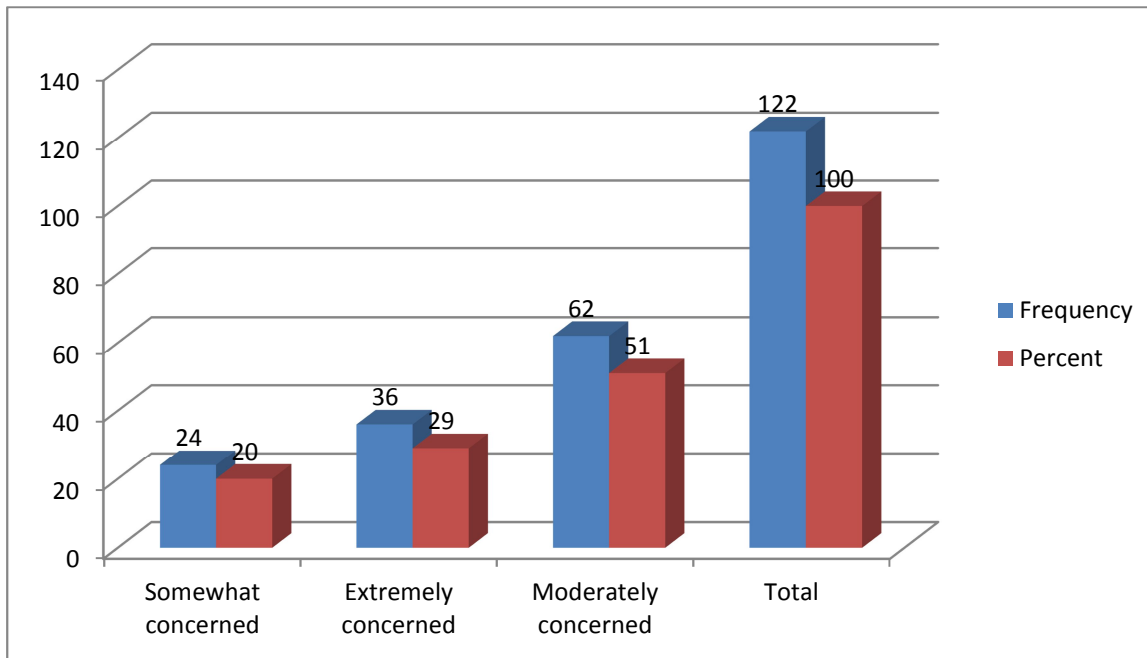
**FIGURE 8**  
**Relationship with Clients**



*Source: Author (2016).*

To assess dependence of the surveyed audit firms on their clients, of the firm on its clients, respondents were asked to indicate how concerned the firms would be towards losing revenue when client terminated a contract. Results presented in Figure 9 indicate that 51% would be moderately concerned, 29% extremely concerned while 20% would be somewhat concerned. These results indicated that most of the small audit firms relied much on their customers for revenues which may compromise the audit quality.

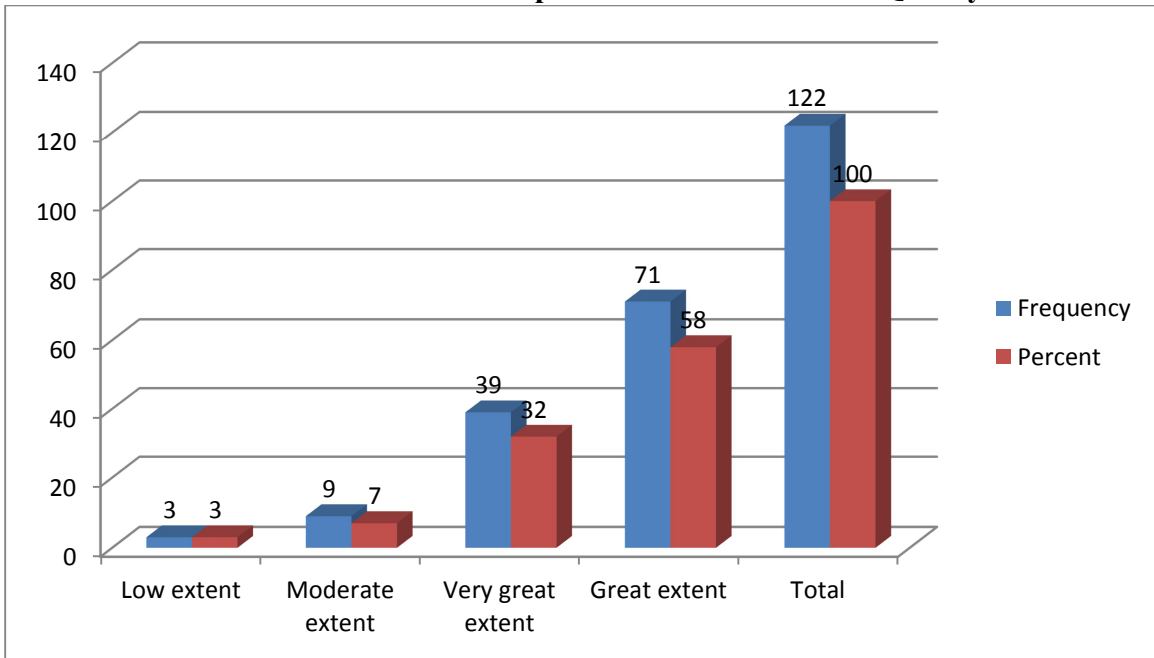
**FIGURE 9**  
**Concern after Losing Client**



*Source: Author (2016).*

The respondents were also asked to provide their view on the role they perceived auditor independence had in influencing audit quality. The respondents were asked to indicate the extent that auditor independence affected audit quality for the audits that the firms conducted. Results in Figure 10 indicate that 58% affected audit quality to a great extent. Moreover, 32% indicated that auditor independence affected audit quality to a very great extent.

**FIGURE 10**  
**Extent That Auditor Independence Affected Audit Quality**



*Source: Author (2016).*

#### **4.5 Auditor's Expertise**

The study also investigated the expertise of auditors in the surveyed audit firms in Nairobi. First, respondents were required to indicate the extent to which auditors in the surveyed firms had accomplished the listed skills and expertise. The rating used was 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great extent. The analysis was done through means and standard deviations. The results of the analysis are presented in Table 4. The findings revealed that to a great extent, auditors in the surveyed firms had good audit planning skills that considered client 's internal control system, audit risk, and substantive testing procedures (mean = auditors in the surveyed small and medium audit firms had professional knowledge (mean = 4.25). The results also established that the firms assigned auditors who had experience in the client's industry (mean = 4.25) and auditors in the firms had attained the minimum qualifications set by ICPAK (mean = 4.20). Further results indicated that auditors

perceived as professionals (mean = 4.14) and the required professional knowledge (Mean = 4.09). However, findings indicated that auditors in the surveyed firms created a professional working relationship with clients to a moderate extent (mean = 3.22) and also and also attended professional seminars for continuous training to a moderate extent (mean = 3.40). Moreover, results indicated that auditors in the surveyed firm had to a moderate extent met the CPD hours as set by ICPAK (mean = 3.33). Findings also indicated that the firms sponsored their staff to workshops and trainings to improve and update their skills to a small extent (mean = 2.26).

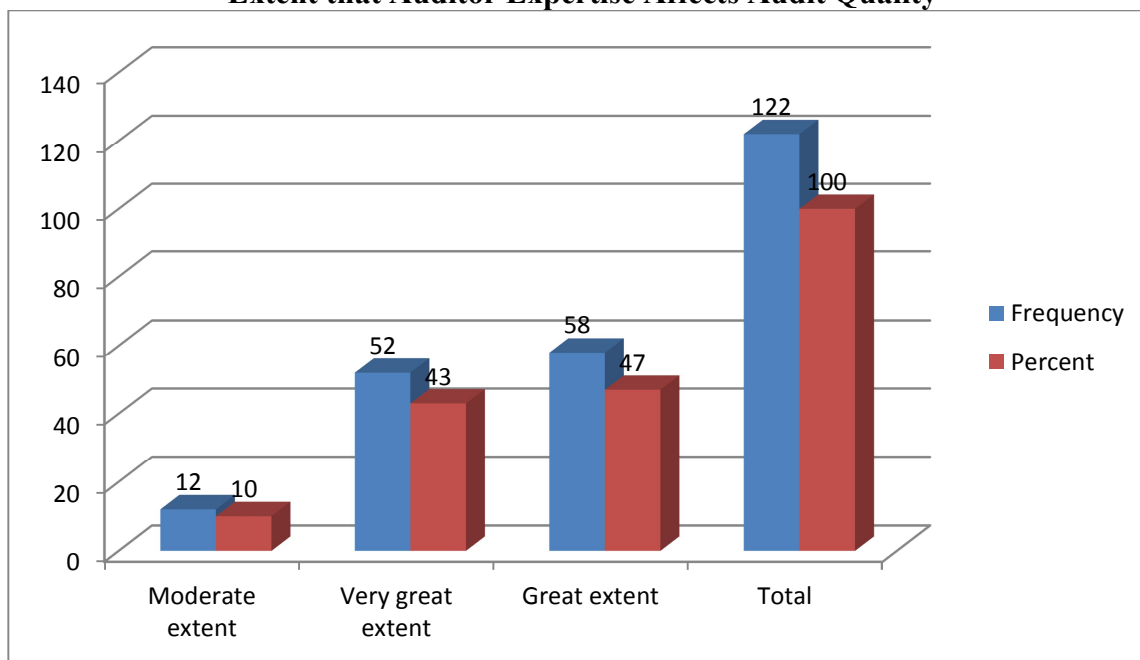
**TABLE4**  
**Auditor's Expertise**

| Statements  | N   | Minimum | Maximum | Mean | Std. Deviation |
|---|-----|---------|---------|------|----------------|
| The professional knowledge  | 122 | 2       | 6       | 4.09 | .803           |
| Auditors perceived as professionals   | 122 | 2       | 5       | 4.14 | .742           |
| Firm's staff have met the CPD hours as set by ICPAK   | 122 | 1       | 5       | 3.33 | 1.216          |
| Auditors in this firm have attained the minimum qualifications set by ICPAK   | 122 | 3       | 5       | 4.20 | .555           |
| Auditors in this firm always create a professional working relationship with clients  | 122 | 1       | 5       | 3.22 | .992           |
| Auditors in this firm attend professional seminars for continuous training  | 122 | 1       | 5       | 3.40 | .951           |
| Auditors in this firm have adequate experience in the auditing field  | 122 | 2       | 5       | 4.07 | .736           |
| The firm assigns auditors who have experience in the client's industry  | 122 | 2       | 5       | 4.25 | .554           |
| The firm sponsors its staff to workshops and trainings to improve and update their skills   | 122 | 1       | 5       | 2.26 | 1.436          |
| Auditors in this firm have good audit planning skills that considers client's internal control system, audit risk, and substantive testing procedures | 122 | 2       | 5       | 4.25 | .594           |

*Source: Author (2016).*

Another query was posed to respondents and they were required to indicate extent that they viewed auditor expertise to affect audit quality for the audits that the surveyed firms had conducted. Study results in Figure 11 indicates that 47% of the respondents were of the view that auditor expertise affected audit quality to a great extent while 43% indicated that auditor expertise affected audit quality to a very great extent.

**FIGURE 11**  
**Extent that Auditor Expertise Affects Audit Quality**



*Source: Author (2016).*

#### **4.6 Auditor Accountability**

The study also investigated the extent that auditors and the surveyed small and medium audit firms observed accountability. Some statements were listed and respondents were required to indicate the extent that the firm and its auditor experienced those listed issues. The rating was 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great

extent. Means and standard deviations were used for analysis and results are presented in Table 5.

**TABLE 5**  
**Auditor Accountability**

| Statement  | N   | Minimum | Maximum | Mean | Std. Deviation |
|--|-----|---------|---------|------|----------------|
| Continually monitors and supervises its auditors to ensure that they adhere to set standards   | 122 | 2       | 5       | 4.08 | .778           |
| Auditors in this firm are aware of current regulations on auditing   | 122 | 2       | 5       | 4.25 | .659           |
| This firm and its auditors adhere to the rules set by ICPAK, IAS and ISA   | 122 | 2       | 5       | 4.07 | .810           |
| Auditors works as per the contract signed between the firm and the client  | 122 | 1       | 5       | 4.18 | .739           |
| Auditors always ensure that the reports they issue are reliable and valuable to shareholders of the client firm                                | 122 | 2       | 5       | 4.23 | .690           |
| The firm's auditors have high professional commitment and show love and courage to carry duties based on rules and norms within the profession | 122 | 2       | 5       | 4.20 | .680           |

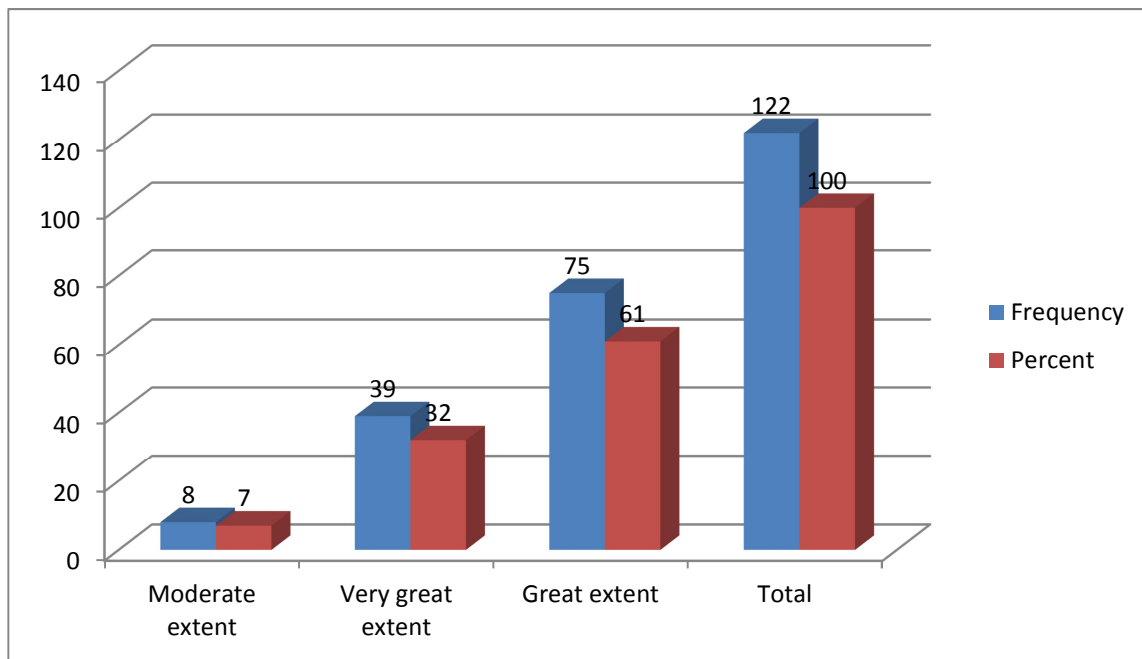
*Source: Author (2016).*

The results in Table 5 indicate that auditors in the surveyed firms were aware of current regulations on auditing (mean = 4.25), ensured that the reports they issued were reliable and valuable to shareholders of the client firm (4.23) and had high professional commitment and showed love and courage to carry duties based on rules and norms within the profession. Results also established that auditors worked as per the contract signed between the firm and the client

(mean = 4.18). The surveyed firms continually monitored and supervised their auditors to ensure that they adhered to set standards (mean = 4.08). Correspondingly, the surveyed firms and their auditors adhered to the rules set by ICPAK, IAS and ISA. These results indicated that there was a high level of accountability of the auditors and the small and medium firms surveyed.

The study also sought to establish the extent that auditor accountability affected audit quality. Study results in Figure 12. The results indicated that 61% of the respondents indicated that auditor accountability affected audit quality to a great extent while 32% were of the view that auditor accountability influenced audit quality to a very great extent.

**FIGURE12**  
**Extent That Auditor Accountability Affected Audit Quality**



*Source: Author (2016).*

The study also provided various measures of audit quality. The aim was to assess audit quality in the small and medium audit firms surveyed. Audit quality was also the dependent

variable and was indicated by various measures. The most robust measure was compliance with accounting and auditing standards. The study provided respondents with various measures of audit quality and required the respondents to indicate the extent that auditing by their firms attained the listed qualities in their auditing and reporting. The rating applied was 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great extent. The study applied means to analyze the response. The results are presented in Table 6.

**TABLE6**  
**Audit Quality**

| Statement   | N   | Minimum | Maximum | Mean | Std. Deviation |
|---|-----|---------|---------|------|----------------|
| Reliable reporting  | 122 | 2       | 5       | 3.99 | .858           |
| Timeliness in reporting   | 122 | 1       | 5       | 4.01 | .983           |
| Accomplishing established audit objectives                        | 122 | 2       | 5       | 4.22 | .649           |
| Complaints regarding the audit work by this firm                  | 122 | 2       | 5       | 4.20 | .655           |
| Thorough auditing   | 122 | 2       | 5       | 4.25 | .594           |
| Compliance to auditing and accounting standards                   | 122 | 2       | 5       | 4.24 | .669           |
| Audit without bias  | 122 | 2       | 5       | 4.07 | .773           |
| Audit findings are correctly justified                            | 122 | 2       | 5       | 4.27 | .705           |
| Accuracy of audit reports   | 122 | 2       | 5       | 4.02 | .876           |
| The language used in audit reports is simple and straightforward. | 122 | 1       | 5       | 4.17 | .735           |
| The firm has had no disciplinary action regarding its auditing    | 122 | 2       | 5       | 4.22 | .686           |

*Source: Author (2016).*

The results in Table 6 indicate that the audit by the surveyed small and medium audit firms was deemed of quality to a great extent as all the measure reported a mean around 4. The results indicate that audit adhered to reliable reporting (mean 3.99), thorough auditing (mean = 4.25),



accomplishing established audit objectives (4.22) and compliance with accounting and auditing standards (mean 4.24). Other qualitative attributes of auditing by the surveyed firms included audit without bias, producing findings that are correctly justified, producing accurate reports, using language that is simple and straightforward.

#### **4.7 Correlation Analysis**

The study also conducted a correlation analysis for two reasons. The first was to establish the relationship among the variables. The second was to test whether there was multicollinearity among the independent variables. Results in Table 7 indicate that there were two independent variables that had correlation of above 0.1. The highest correlation among independent variables was between auditor expertise and auditor accountability ( $r = .074$ ;  $p > 0.05$ ).

The results also indicated that auditor accountability had a significant positive relationship with audit quality ( $r = 0.351$ ;  $p < 0.05$ ). However, study results indicated that auditor independence ( $r = 0.039$ ;  $p > 0.05$ ) and auditor expertise ( $r = -0.038$ ;  $p < 0.05$ ) had insignificant relationship with audit quality.

**TABLE7**  
**Correlation Matrix**

|                         |                     | Audit Quality | Auditors Independence | Auditors Expertise | Auditors Accountability |
|-------------------------|---------------------|---------------|-----------------------|--------------------|-------------------------|
| Audit Quality           | Pearson Correlation | 1             |                       |                    |                         |
|                         | Sig. (2-tailed)     |               |                       |                    |                         |
|                         | N                   | 122           |                       |                    |                         |
| Auditors Independence   | Pearson Correlation | .039          | 1                     |                    |                         |
|                         | Sig. (2-tailed)     | .674          |                       |                    |                         |
|                         | N                   | 122           | 122                   |                    |                         |
| Auditors Expertise      | Pearson Correlation | -.038         | -.039                 | 1                  |                         |
|                         | Sig. (2-tailed)     | .680          | .667                  |                    |                         |
|                         | N                   | 122           | 122                   | 122                |                         |
| Auditors Accountability | Pearson Correlation | .351**        | -.007                 | .074               | 1                       |
|                         | Sig. (2-tailed)     | .000          | .938                  | .417               |                         |
|                         | N                   | 122           | 122                   | 122                | 122                     |

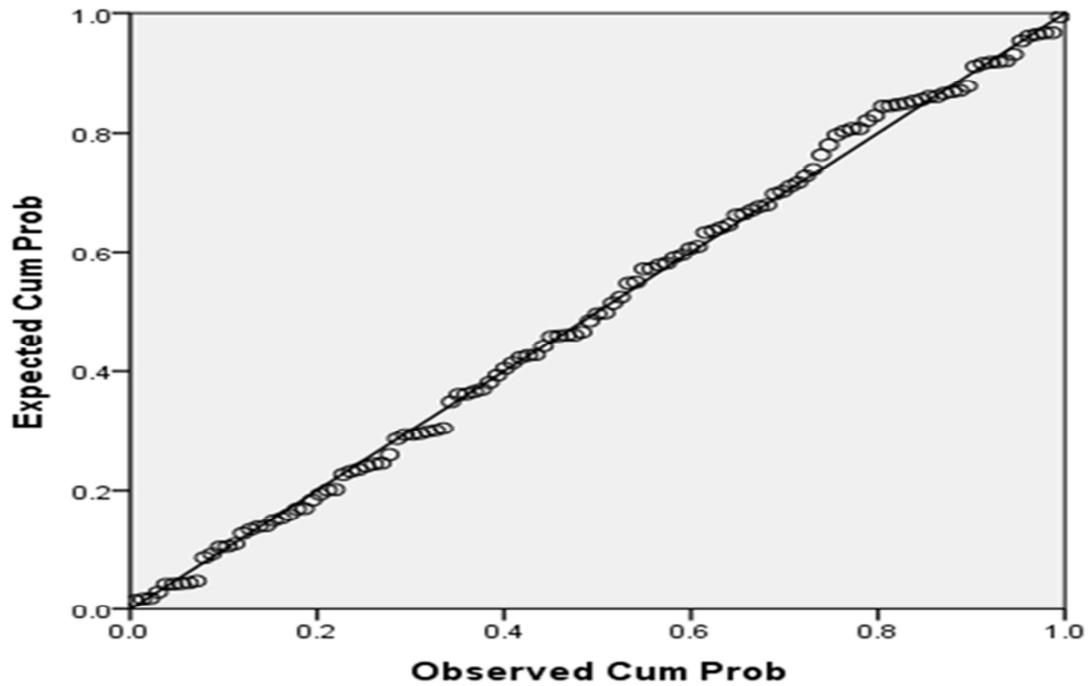
*Source: Author (2016).*

#### 4.8 Regression analysis

The study conducted regression analysis using the three derived factors (independence, competence and accountabilities). The dependent variable was audit quality which was indicated by compliance to auditing and accounting standards.

After the regression model was run, normality of errors was tested. The study applied the Normal P-P plot of regression standardized residual. The results (Figure indicate that errors were normally distributed (Figure 13). The results hence indicated that the estimates of the regression equation could hence be reliable.

**FIGURE 13**  
**Normal P-P plot**



*Source: Author (2016).*

The regression results are presented in Table 8, 9 and 10. Table 8 presented the model summary. The results indicate that the r squared was 0.129 indicating that the model explained 12.9% of the change in audit quality using the three independent variable used in the study. Number of employees was the control variables and was hence used as an additional independent variable.

**TABLE8**  
**Model Summary**

| Model | R    | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1     | .359 | .129     | .107              | .22597                     |

*Source: Author (2016).*

Table 9 presented the results of the ANOVA which indicated the statistical significance of the model. The results indicate that the model was significant ( $F = 5.815$ ;  $p < 0.05$ ) and therefore the three independent variables could be used to explain audit quality.

**TABLE9**  
**Analysis of Variance**

| Model |            | Sum of Squares | df  | Mean Square | F     | Sig. |
|-------|------------|----------------|-----|-------------|-------|------|
| 1     | Regression | .891           | 3   | .297        | 5.815 | .001 |
|       | Residual   | 6.026          | 118 | .051        |       |      |
|       | Total      | 6.916          | 121 |             |       |      |

*Source: Author (2016).*

Lastly, Table10 presented the significance of the independent variables in the model. The results indicated that auditor independence was not significantly related to audit quality ( $\beta = .026$ ;  $p > 0.05$ ). The results further indicated that auditor expertise insignificant effect on audit quality ( $\beta = -0.05$ ;  $p > 0.05$ ). The results also indicated that accountability had significant positive effect on audit quality ( $\beta = .298$ ;  $p < 0.05$ ). number of employees had a positive effect on audit quality ( $\beta = .329$ ;  $p < 0.05$ ).

**TABLE10**  
**Significance of the Independent Variables**

|                         | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig.  |
|-------------------------|-----------------------------|------------|---------------------------|-------|-------|
|                         | B                           | Std. Error | Beta                      |       |       |
| (Constant)              | 2.990                       | .456       |                           | 6.560 | .000  |
| Auditors Independence   | .026                        | .057       | .039                      | .448  | .655  |
| Auditors Expertise      | -.050                       | .069       | -.063                     | -.727 | .469  |
| Auditors Accountability | .298                        | .072       | .356                      | 4.131 | .000  |
| Number of employees     | .329                        | 0.081      | .341                      | 4.062 | 0.000 |

*Source: Author (2016).*

The study established that auditor independence insignificantly related to audit quality ( $\beta = .026$ ;  $p > 0.05$ ). These results do not support the findings by DeAngelo (2006) that auditor independence is important because it has an impact on audit quality. The study results also do not concur with results from various other studies. For instance, Mojtahedzadeh and Aghaei (2005) proved that auditor independence is a decisive factor in public accounting profession without independence, audit detection task to find material misstatement is questionable, because bias reports have low effect on audit quality. Furthermore, Wooten (2003) proved that auditor independence is an important factor that affects audit quality. Hussey and Ian (2001) also proved that an audit can only be qualified if auditor become independent to report violations of agreement between principal and agent, hence auditors independence has a positive effect on audit quality.

The results further indicated that auditor expertise had insignificant effect on audit quality ( $\beta = -0.05$ ;  $p > 0.05$ ). These results do not relate to the results by McDaniel et al. (2002) found

that expert and financially literate auditors evaluation of the quality of financial reporting items differ. The results implies that the inclusion of financial experts in audit quality of a company's financial report in general do not impact on quality of an audit. The study also does not concur with other studies. Dezoort (1998) found that auditor experience related to audit and internal control evaluation resulted in internal control judgments more in line with auditors than organizational members lacking such experience. McDaniel, Martin and Maines (2002) found that expert and financially literate auditors evaluation of the quality of financial reporting items differ. This result implies that the inclusion of financial experts in audit quality of a company's financial report in general impacts positively on the quality of an audit.

The results also indicated that accountability had a significant positive effect on audit quality ( $\beta = .298$ ;  $p < 0.05$ ). These results supportsWatkins et al (2004) who proved that accountability on the audit exercise by independent parties to find and eliminate material misstatement and manipulation in financial statements affect audit quality. Furthermore, the study results also supportLee and Stone (1995) who established that accountability affects audit quality. Perry (1984) also proved that there are four factors that affect audit quality namely budget scope, incompetency, critical evaluation and lack of independence of the auditors. Incompetency and lack of accountability are the dominating factors affecting audit quality, hence accountability was found to have a positive effect on audit quality. This however was contrary to the study findings.

#### **4.9 Factor Analysis**

Factor analysis was also conducted in this study to explore the underlying factors influencing audit quality. The purpose was to narrow down or drop some of the variables and find out

whether the remaining variables would explain a higher audit quality among small and medium practitioners in Kenya. The study applied the Principal Component Analysis method and then applied direct Oblimin method to rotate the factor matrix. The direct Oblimin method was selected so as to select factors that had some relationship with each other. Before factor analysis was conducted, the Kaiser-Meyer-Olkin(KMO) Measure of Sampling Adequacy was conducted. This measure was below the recommended 0.5. This led to removal of some items which had no significant loadings on the factors. The factors that remained are indicated in the Pattern table. The removal of some items led to the KMO test to be above the recommended 0.5 as indicated in Table 11.

**TABLE11**  
**KMO and Bartlett's Test**

|  |      |        |
|--|------|--------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |      | .533   |
| Approx. Chi-Square                               |      | 65.753 |
| Bartlett's Test of Sphericity                    | Df   | 28     |
|  | Sig. | .000   |

*Source: Author (2016).*

Further, Bartlett's Test of Sphericity was conducted. This tested the null hypothesis that the correlation matrix is an identity matrix. The test was significant indicating that the indices and loadings in the matrix were significant. These tests were required before conducting the factor analysis. The model  $H_0$  was assumed to be correct and hence accept. Model  $H_a$  should therefore be rejected. In this case the P-value should be greater than 0.05

**TABLE 12****Computation of Degrees of Freedom**

|  |    |                            |  |
|--|----|----------------------------|--|
| Number of distinct sample moments:             | 36 | Result (Default model)     |  |
| Number of distinct parameters to be estimated: | 17 |                            | Minimum was achieved<br>Chi-square = 21.754<br>Degrees of freedom = 19 |
| Degrees of freedom (36 - 17):                  | 19 | Probability level = .29667 |  |

*Source: Author (2016).*

The factor loadings range from 0.928 to 0.512 which were all above 0.5 and indicated that convergent validity was met. The path coefficients were negative though the p-values were higher than 0.05. The results in Table 13 indicate the unstandardized regression coefficients which are positive which suggest that the factors considered in these study positively influence growth in real estate in Kenya. These factors Qq\_6, Qq\_7, Eq\_9, and Iq\_3 are significant and therefore support the hypothesis.

**TABLE13****Regression Weights**

|      |      |                       | Estimate | S.E. | C.R.  | P    | Label |
|------|------|-----------------------|----------|------|-------|------|-------|
| Qq_3 | <--- | Quality               | 1.000    |      |       |      |       |
| Qq_6 | <--- | Quality               | 2.396    | .622 | 3.853 | ***  |       |
| Qq_7 | <--- | Quality               | 1.501    | .392 | 3.825 | ***  |       |
| Qq_8 | <--- | Quality               | .729     | .394 | 1.851 | .064 |       |
| Eq_4 |      | ExpertiseIndependence | 1.000    |      |       |      |       |
| Eq_9 |      | ExpertiseIndependence | 2.393    | .619 | 3.864 | ***  |       |
| Iq_3 |      | ExpertiseIndependence | 1.501    | .392 | 3.825 | ***  |       |
| Iq_7 |      | ExpertiseIndependence | .731     | .394 | 1.856 | .063 |       |

*Source: Author (2016).*



#### 4.9.1 Description of Variables Used

**TABLE 14**  
**Description of Variables Used for Confirmatory Factor Analysis**

|       |   |
|-------|---|
| Qq_3  | Accomplishing established audit objectives  |
| Qq_6  | Compliance with accounting and auditing standards   |
| Qq_7  | Audit without bias  |
| Qq_8  | Audit findings are correctly justified  |
| Eq_4  | Auditors in this firm have attained the minimum qualifications set by ICPAK               |
| Eq_9  | The firm sponsors its staff to workshops and trainings to improve and update their skills |
| Iq_3  | Auditors indicate independence of appearance  |
| Iq_7  | The behaviours of auditors in this firm portray integrity                                 |
| E1-E9 | Measurement and Random Errors   |

*Source: Author (2016).*

#### 4.9.2 Confirmatory Factor Analysis

Suhr(2006) argues that confirmatory factor analysis is a statistical procedure used to confirm the factor arrangement of a set of experiential variables. CFA assists the researcher to test the hypothesis that an association between experiential variables and their underlying latent constructs exists. The results model shows audit quality as the dependent variable. The three independent variables: mortgage independence, expertise and accountability were set as the exogenous variables. The researcher employed confirmatory factor analysis to establish the path analysis and determine the relationship between the dependent and independent variable. The Chi square, RMSEA and the

goodness of fit index (GFI) are the most popular for determining the absolute fit. Table 13 presents the model fit results and hypothesized relationships respectively. The Chi-square test statistic is not significant at 0.05 but according to the hypothesized model then accept. The RMSEA was 0.216 and the Goodness of Fit Index was 0.869. RMSEA is an outright measure of fit based on the non-centrality factor and it estimates the amount of error of approximation per model degree of freedom and takes samples size into account. GFI is a fitness index that looks at the variances and covariances taken care of by the model. A RMSEA value of 0.216 and a CFI value above 1.000 and NFI values between  $0.8 \leq \& \leq 1$  are indicators of perfect fit.

**TABLE 15**

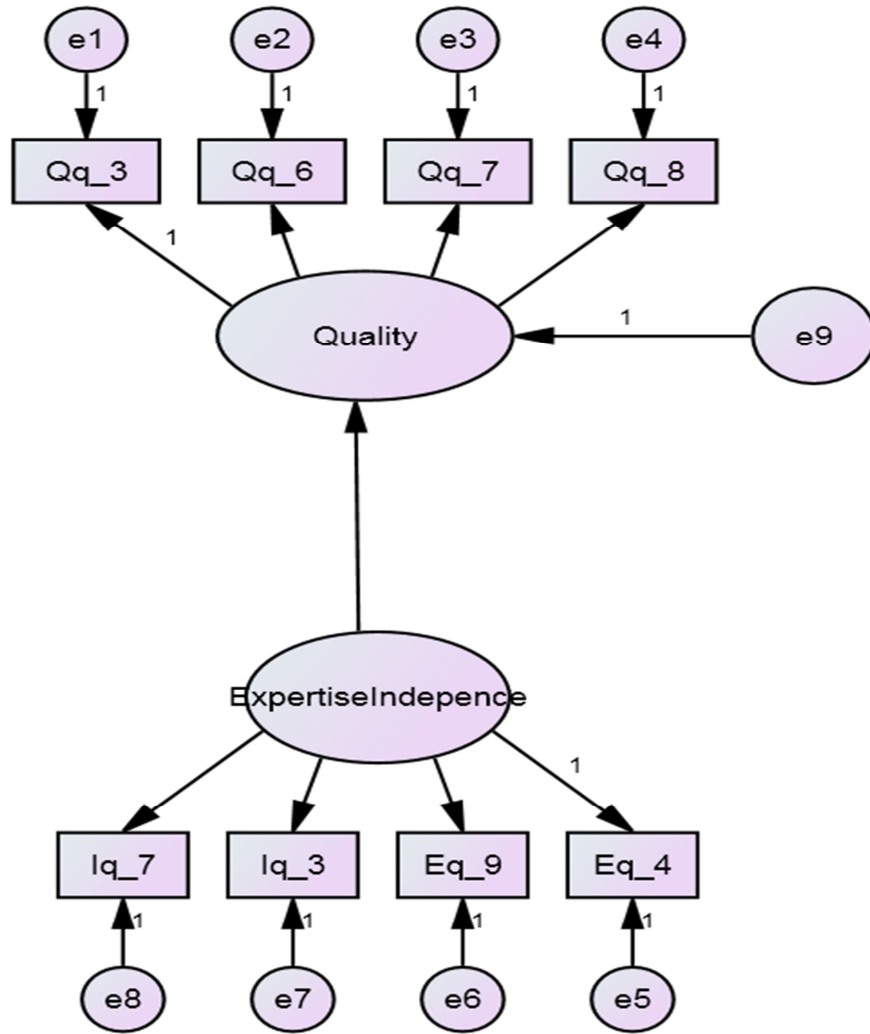
**Model Fit Indices for Audit Quality in Small and Medium Practitioners**

| <b>Criteria</b> | <b>Cut off Value</b> | <b>Model Result</b> | <b>Description of fit</b> |
|-----------------|----------------------|---------------------|---------------------------|
| Chi-Square      | $P < 0.05$           | 21.754              | Good                      |
| p-value         | $\geq 0.05$          | 0.29667             | Good                      |
| CFI             | Above 0.8            | 1.000               | Perfect fit               |
| NFI             | $0.8 \leq \& \leq 1$ | 1.000               | Perfect Fit               |
| GFI             | Above 0.8            | 1.000               | Perfect Fit               |
| RMSEA           | $\leq 0.08$          | 0.216               | Not a good fit            |

*Source: Author (2016).*

FIGURE14

Path Diagram To Explain Audit Quality



Source: Author (2016).

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

The aim of the study was to establish factors influencing audit quality among small and medium audit practitioners in Kenya. The specific objectives of the study were to determine the effect of auditor's independence, audit expertise and accountability on audit quality among small and medium audit practitioners in Kenya. This chapter presents the summary of findings, conclusion made in the study and recommendations.

#### 5.2 Summary of Major Findings

The theory that underpinned the study was the audit quality theory by Watkins et al. (2004) which differentiated audit quality from perception of audit quality. The theory depicts audit quality as a consequence of expertise, independence and accountability. The study established that auditor independence was insignificantly related to audit quality ( $\beta = .026$ ;  $p > 0.05$ ). these findings concurred with the audit quality theory. The results also indicated that the behaviours of auditors in the surveyed firms portray integrity to a great extent (mean = 4.21) and auditors to a great extent had state of mind independence to make objective and unbiased audit decisions (mean = 4.21). Study findings also indicate that, to a great extent, auditors were assigned to firms in which they had no pecuniary relations or interest (4.20). The findings further indicated that auditors to a great extent portrayed objective and professional skepticism (mean = 4.20). Similarly study results revealed that auditors to a great extent indicated independence of appearance (4.16) and also that auditors of the surveyed firms were always keen to avoid circumstances that could create a conflict of interest (4.15). Study findings also indicated that

auditors of the surveyed firms did not perform other non-audit services for clients that they audited (mean 4.07). Correspondingly, study results indicated that auditors, to a great extent, maintained a fair approach while performing their tasks (mean = 4.07).

The results further indicated that auditor expertise had insignificant effect on audit quality ( $\beta = -0.05$ ;  $p > 0.05$ ). The findings revealed that to a great extent, auditors in the surveyed firms had good audit planning skills that considered client 's internal control system, audit risk, and substantive testing procedures (mean = auditors in the surveyed small and medium audit firms had professional knowledge (mean = 4.25). The results also established that the firms assigned auditors who had experience in the client's industry (mean = 4.25) and auditors in the firms had attained the minimum qualifications set by ICPAK (mean = 4.20). Further results indicated that auditors perceived as professionals (mean = 4.14) and the required professional knowledge (Mean = 4.09). However, findings indicated that auditors in the surveyed firms created a professional working relationship with clients to a moderate extent (mean = 3.22) and also and also attended professional seminars for continuous training to a moderate extent (mean = 3.40). Moreover, results indicated that auditors in the surveyed firm had to a moderate extent met the CPD hours as set by ICPAK (mean = 3.33).

The results also indicated that accountability did had a significant positive effect on audit quality ( $\beta = .298$ ;  $p < 0.05$ ). Further, the results indicated that auditors in the surveyed firms were aware of current regulations on auditing (mean = 4.25), ensured that the reports they issued were reliable and valuable to shareholders of the client firm (4.23) and had high professional commitment and showed love and courage to carry duties based on rules and norms within the profession. Results also established that auditors worked as per the contract signed between the firm and the client (mean = 4.18). The surveyed firms continually monitored and supervised their

auditors to ensure that they adhered to set standards (mean = 4.08). Correspondingly, the surveyed firms and their auditors adhered to the rules set by ICPAK, IAS and ISA. These results indicated that there was a high level of accountability of the auditors and the small and medium firms surveyed.

### **5.3 Conclusion**

From the findings, the study makes the following conclusions. First, auditor independence had no influence on audit quality in small and medium audit practitioners in Kenya. Independence of mind, independence of appearance and not engaging in transactions that can bring in conflict of interest enables auditors to provide quality reports that met laid down objectives. Independence was also strengthened as auditors did not perform other non-audit services for clients that they audited.

Secondly, expertise had insignificant influence on audit quality. The auditors had good planning skills that considered client's internal control system, audit risk, and substantive testing procedures. Moreover, the firms assigned auditors who had experience in the client's industry. Auditors in the firms had attained the minimum qualifications set by ICPAK and hence were able to carry out their functions competently. This enhanced the quality of their audit.

Lastly, accountability had a significant effect on audit quality. This was despite the auditors being aware and conversant with current regulations on auditing. The auditors also had high professional commitment and always ensured that the reports they issued were reliable and valuable to shareholders of their client firms. The small and medium audit practitioners also played a monitoring role to ensure that their auditors adhered to set standards.

#### **5.4 Recommendations**

The study makes the following recommendations. First, small and medium audit practitioners should continue upholding high standards in audit quality so as to enhance their position as credible alternatives to the big 4 which have dominated the Kenya corporate sector.

Secondly, the small and medium audit practitioners should have continuous programs aimed at building capacity of the employees. This is expected to improve audit quality and hence increase clientele for the small practitioners.

Lastly, small and medium practitioners should enhance their capacity by improving their human resource policies so that they can be able to attract and retain qualified professionals. The only way to increase their market presence is to ensure that they have skilled and competent employees.

#### **5.5 Limitations of the Study**

The study was limited to small and medium audit practitioners in Nairobi County. The findings from the study therefore may not be generalizable to other small and medium audit practitioners in the country outside Nairobi. This is because Nairobi County is one of the most developed counties in Kenya and hence the auditors present in the county are expected to have more competencies than auditors in other parts of the country. The study was also limited by some non-response. Some of the respondents did not respond to the questionnaires and there may be some non-response bias.

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- Less than 10 [ ]
- 10-49 [ ]
- 50-100 [ ]
- Above 100 [ ]

**SECTION B: AUDITOR’S INDEPENDENCE**

1. To what extent do auditors and the firm observe the following listed characteristics relating to independence? Use the following rating: 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great extent.

| Statement   | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Auditors have state of mind independence to make objective and unbiased audit decisions         |   |   |   |   |   |
| Auditors maintain a fair approach while performing their tasks                                  |   |   |   |   |   |
| Auditors indicate independence of appearance  |   |   |   |   |   |
| Auditors portray objective and professional skepticism  |   |   |   |   |   |
| Auditors are assigned to firms in which they have no pecuniary relations or interest            |   |   |   |   |   |
| Auditors of this firm are always keen to avoid circumstances that create a conflict of interest |   |   |   |   |   |
| The behaviours of auditors in this firm portray integrity                                       |   |   |   |   |   |
| Auditors of this firm do not perform other non-audit services for clients that they audit       |   |   |   |   |   |

2. In relation to professionalism of an auditor and the client, how can you term the relationship between the firm and its clients?

- 1 - Absolutely inappropriate [ ]

- 2 - Inappropriate [ ]
- 3 - Slightly inappropriate [ ]
- 4 - Neutral [ ]
- 5 - Slightly appropriate [ ]
- 6 - Appropriate [ ]
- 7 - Absolutely appropriate [ ]

3. In relation that a certain client terminates the firm's contract, how concerned is the firm in regard to losing revenue or audit fee from any client?

- 1 - Not at all concerned [ ]
- 2 - Slightly concerned [ ]
- 3 - Somewhat concerned [ ]
- 4 - Moderately concerned [ ]
- 5 - Extremely concerned [ ]

4. To what extent does auditor independence affect audit quality for the audits that this firm conducts?

- 5 - Very great extent [ ]
- 4 - Great extent [ ]
- 3 - Moderate extent [ ]
- 2 - Low extent [ ]
- 1 - Very low extent [ ]

**SECTION C: AUDITOR'S EXPERTISE**

1. Indicate the extent to which auditors in this firm has accomplished the below listed skills and expertise. Use the following rating: 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great extent.

| Statement   | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| The professional knowledge  |   |   |   |   |   |
| Auditors perceived as professionals   |   |   |   |   |   |
| Firm's staff have met the CPD hours as set by ICPAK   |   |   |   |   |   |
| Auditors in this firm have attained the minimum qualifications set by ICPAK   |   |   |   |   |   |
| Auditors in this firm always create a professional working relationship with clients  |   |   |   |   |   |
| Auditors in this firm attend professional seminars for continuous training  |   |   |   |   |   |
| Auditors in this firm have adequate experience in the auditing field  |   |   |   |   |   |
| The firm assigns auditors who have experience in the client's industry  |   |   |   |   |   |
| The firm sponsors its staff to workshops and trainings to improve and update their skills   |   |   |   |   |   |
| Auditors in this firm have good audit planning skills that considers client's internal control system, audit risk, and substantive testing procedures |   |   |   |   |   |

2. To what extent does auditor expertise affect audit quality for the audits that this firm conducts?

5 - Very great extent      [   ]

4 - Great extent            [   ]

3 - Moderate extent        [   ]

2 - Low extent                [   ]

1 - Very low extent         [   ]

**SECTION D: AUDITOR' ACCOUNTABILITY**

1. To what extent do auditors and the firm observe the following listed accountability issues? Use the following rating: 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great extent.

| Statement  | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Continually monitors and supervises its auditors to ensure that they adhere to set standards   |   |   |   |   |   |
| Auditors in this firm are aware of current regulations on auditing   |   |   |   |   |   |
| This firm and its auditors adhere to the rules set by ICPAK, IAS and ISA   |   |   |   |   |   |
| Auditors works as per the contract signed between the firm and the client  |   |   |   |   |   |
| Auditors always ensure that the reports they issue are reliable and valuable to shareholders of the client firm                                |   |   |   |   |   |
| The firm's auditors have high professional commitment and show love and courage to carry duties based on rules and norms within the profession |   |   |   |   |   |

2. To what extent does auditor accountability affect audit quality for the audits that this firm conducts?

- 5 - Very great extent [ ]
- 4 - Great extent [ ]
- 3 - Moderate extent [ ]
- 2 - Low extent [ ]
- 1 - Very low extent [ ]

## **SECTION E: AUDIT QUALITY**

1. To what extent does auditing by this firm attain the following listed qualities in its auditing and reporting? Use the following rating: 1 = Very low extent, 2 = Low extent, 3 = Moderate extent, 4 = Great extent and 5 = Very great extent.

| <b>Quality factor</b>   | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Reliable reporting  |   |   |   |   |   |
| Timeliness in reporting   |   |   |   |   |   |
| Accomplishing established audit objectives                        |   |   |   |   |   |
| Complaints regarding the audit work by this firm                  |   |   |   |   |   |
| Thorough auditing   |   |   |   |   |   |
| Compliance with accounting and auditing standards                 |   |   |   |   |   |
| Audit without bias  |   |   |   |   |   |
| Audit findings are correctly justified                            |   |   |   |   |   |
| Accuracy of audit reports   |   |   |   |   |   |
| The language used in audit reports is simple and straightforward. |   |   |   |   |   |
| The firm has had no disciplinary action regarding its auditing    |   |   |   |   |   |

**‘Thank you’**

## APPENDIX II: Pattern Matrix

|   | Component |      |      |
|---|-----------|------|------|
|   | 1         | 2    | 3    |
| The behaviours of auditors in this firm portray integrity   | .724      |      |      |
| Auditors in this firm have attained the minimum qualifications set by ICPAK                                     | .647      |      |      |
| The firm sponsors its staff to workshops and trainings to improve and update their skills                       | -.533     |      |      |
| Auditors indicate independence of appearance  | -.522     |      |      |
| Auditors in this firm are aware of current regulations on auditing  |           | .724 |      |
| Auditors always ensure that the reports they issue are reliable and valuable to shareholders of the client firm |           | .696 |      |
| Auditors of this firm do not perform other non-audit services for clients that they audit                       |           |      | .882 |
| Auditors in this firm have adequate experience in the auditing field  |           |      | .617 |

Extraction Method: Principal Component Analysis.

Rotation Method: Promax with Kaiser Normalization.

a. Rotation converged in 5 iterations.