

**EFFECTS OF AUDITOR TENURE ON AUDIT QUALITY: CASE STUDY OF LISTED
BANKS IN NAIROBI SECURITY EXCHANGE.**

BY

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DECLARATION

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

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ABSTRACT

Large and small companies are collapsing even after an auditor has issued unqualified opinion. With the collapsing of these firms there is a decline in the trust from the public on the audited reports issued by an auditor. The decline comes from the experience that many companies have collapsed and their financial statements were audited by an independent auditor giving a qualified opinion on audit report. The issuance of unqualified opinion is suspected to be because of a long term relationship between the auditor and the client. Therefore audit tenure is suspected to have an effect on the quality of audit. The objectives of the study were to determine the effects of auditor independence on quality, the effectiveness of human capital on quality when the auditor audit the same client over time and finally to identify the measures to be in place in order to avoid auditor being compromised when auditing the same client. Purposive sampling technique was employed to identify the respondent. Questionnaire was used for collecting data, descriptive statistics was used in the analysis and multiple regression model to find out the relationship between the dependent and independent variables. The research study established the effects of audit tenure on audit quality where the research found out that there is a positive relationship between effectiveness of human capital and audit quality and a negative relationship between auditor independence and human capital.

Key Words

Audit tenure, audit Quality and auditor independence.

OPERATIONAL DEFINITION OF TERMS

Auditor: Is an approved or authorized accountant with the capacity to carry out audit, not to be declared bankrupt or subject to trading and consultancy prohibitions, have an education and experience required for the audit business, have passed the examination of professional competence as an approved or authorized accountant set by the Supervisory Board of Public Accountants or Supervisory Board of Authorized Accountants, and be fit and proper person to carry on audit process”

Auditor tenure: Audit tenure is a situation where an auditor offers audit services to the same client for consecutive number of years (Almutairi, Dunn and Skatz, 2009).

Audit Quality: A chance or probability in which an auditor can identify and report the client’s material misstatement on the financial system through the period of audit work (DeAngelo, 1981).

Auditor Independence: This can be measured by checking on the books of accounts of and audit to determine the types of income from the client. This can be also as a result of a long term auditor-client relationship. Lack of innovation, complacency, less rigorous audit procedures and learned confidence in the client can affect auditor’s independence. These elements are brought about by fear of losing a client and depending on the client for audit firm revenues (Wahid and Nasser, 2006)

Human Capital Effectiveness: Effectiveness of human capital can be checked on by comparing the reports prepared by auditors over time. Human capital is the vital element in public accounting organization. For the firm to be effective it has to have enough personnel who have the required skills and professional characteristics.

Audit Tenure Risks: when an auditor provide audit services to the client for a long term. this compromises on how the audit work is performed. there are risks associated with long term auditor-client relationship such as issuing substandard or biased audit reports and material misstatements

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DEDICATION

This Research Paper is lovingly dedicated to the late Mr. and Mrs Juma Mriwa who were my constant source of inspiration. They gave me the drive and discipline to tackle any tasks with enthusiasm and determination. I also dedicate it to my sisters, brother and my fiancée Zainab Hamisi Ganzala without their love and support this project would not have been made possible

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ACRONYMS AND ABBREVIATIONS

CMA: Capital Market Authority

IAASB: International Auditing and Assurance Standard Board

IAS: International Auditing Standards

IFAC: International Federation of Accounts

EC: European Commission

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study.

Users of accounting information use the audited financial statements in making their economic decisions because the audited financial statements are believed to have quality. Therefore it is the responsibility of those entrusted to run the affairs of an organization to provide the organizational true and fair financial information of business through financial statements (Al Thunabeit, Issa and Ata, 2011). Managers are entrusted with the operations of the organization by shareholders and they will always do their best to switch auditors from one to the other so as to get unqualified opinion and this kind of opinion will increase the confidence of shareholders. Because they will have trust in that the organizational financial statements reflects the true and fair view of financial transactions of an organization (Jackson, Moldrich and Roebuck, 2008). An audit report helps in verification of the accounting and financial transaction of a firm so as to identify whether what is reflected in the financial documents gives true and fair picture of the financial data for an organization and audit quality has been identified to be an important element for financial credibility in Nigeria, that is the higher the audit quality the more believability the financial reports by the users (Mgbame, Tragbhe and Osazuwe, 2012).

Audit tenure is as a situation where an auditor offers audit services to the same client for consecutive number of years (Wuchun, HUichi and Yichum, 2004). It is believed that CPA firms are at a greater risk of losing their independence if they have performed audit in the same firm for a period exceeding five years than firms which have performed the audit for less than five years (Shockley, 1981)

Auditor tenure is suspected to affect an auditor's ability to identify the misstatements and correct them; short term audit tenure will not give an opportunity to an auditor to identify any misstatements because of lack of proper information about the entity while a very long tenure on

the other hand might make the auditor less objective. The objectivity comes with the issue of correcting them or reporting those misstatements. This was evidently in U.S. after research done on restatements and audit quality (Woodlands et al, 2003).

As stipulated by the International Auditing and Assurance Standard Board (IAASB) on International Standard on Auditing (ISA) (220) the audit firm shall ensure that it maintains and provide a system of quality control in carrying out the audit work. The auditor is required to be in compliance with the code of ethics when carrying out the audit work.

Today the relationship between audit tenure and audit quality has attracted a lot of research, this is believed to be because in most cases auditors give out unqualified opinion when they offer service to the same client for a long duration. Al Thuneibeit et al (2011) realized that in Jordan most firms retain the same auditor since they trust the big firms to provide quality audit and also acknowledged that long client relationship do affect the quality of audit as a result of lack of independence created by the closeness of the client and the auditor.

It has been proven and widely accepted that audit quality provide three important functions and this include helping in checking the performance of managers, provision of better information in the market and giving insurance about business operations. There is much confidence in the quality of audit work that has been conducted by big firms. This has been observed in the most firms of Jordan where the audit firms are retained for a longer duration with the view of high audit quality (Wallace, 1980)

However in Malaysia audit tenure is not clear as compared to other countries where the audit tenure is restricted to be five years where after this period they should switch to another client that is audit rotation (Nasser et al, 2006). It is always that a company which has been audited by the same audit for a longer period raises some questions to those who own share on whether the audited reports reflect the true fair view of the financial transaction of the organization.

It is believed that when an audit firm offers services to the same client for a long duration the auditors' independence is suspected to be compromised and this could lead to a low audit quality. As it is believed in Malaysia that audit tenure is one factor which affects auditor's independence which in turn could affect the quality of audit (Wahid et al, 2006).

A policy for auditor change has been in place for more than 20 years in Italy and it has been discovered that as audit tenure increases the audit quality tends to increase and when comparing rotation in terms of mandatory and voluntarily, voluntary auditor rotation is suspected to increase audit quality than mandatory rotation and this is due to the fact that auditors tend to be more independent when they offer audit services for a short period of time (Cameran, Prencipe and Trombetta, 2006). Since this was the first European country to enforce audit rotation since 1974, it was not in a position to avoid financial scandals and which led EC (European Commission) to suggest that audit tenure should be within a period of six years with a cooling off period of four years (Velte et al 2012).

Audit tenure helps an organization to have lower cost of capital, the accrual discretionary are at lower levels and good debt rating and this is as a result of employing and using the same auditors for a long period of time. This means that firms which retain their auditors for a while assist in improving the audit quality (Almutairi et al 2009)

The failure of high corporate firms such as Enron in U.S. indicates that it is much important to focus on the quality of audit work and the other factors affecting audit process such as audit tenure, independence, due diligence, competency familiarity and other related factors.

Chadegani (2011) highlighted different variables used to measure audit quality in Singapore and these measures are direct (financial reporting with GAAP, performance in SEC, review of quality control) and indirect measure (reputation, size of audit firm, fees charged for audit work, cost of obtain capital, being the expert in the field of audit). Kaklar (2012) in Iran advocated that

audit quality cannot be directly observed and it is also hard to measure audit quality but there are some proxies used to measure audit quality one of them being accrual measure.

Audit quality is defined by DeAngelo (1981) as chance or probability in which an auditor can identify and report the client's material misstatements on the financial system throughout the period of the audit work. This likelihood depends on the auditor's professional conduct where the auditor's conduct is being guided by auditing principles such as objectivity, due profession and conflict of interest. With the chances of seeing the material misstatements and reporting them enable the users of financial information to have trust on the audited financial information in decisions making.

Audit quality is viewed from two dimensions and these include actual and perceived audit quality. Actual quality is seen in the reduction of material misstatements risks by the way auditor reports them and on the other hand perceived is how the financial statements is believed to reduce the level of misstatements after the audit work (Taylor 2005).

Audit helps in reducing the level of conflicts in information asymmetry by giving out high quality audit in a situation where the shareholders are monitoring the work of managers in running the affairs of the organization Dang (2004), and this was also supported by Almutairi et al (2009) where they reported that audit quality helps in reducing information asymmetry where high audit quality will enable to identify and prevent accounting errors and misstatements than lower audit quality.

Auditors in most cases give out quality report so to avoid losing audit fees from the client and this may include the larger share of the auditor's income (Hotaish, 2007).

This is also evident in Texas where auditor could give a low audit quality with a view of retaining the client or as a result of pressure from the client to replace the auditor, however large firms prefer to maintain the professionalism and provide high audit quality rather than giving out low audit quality for the purposes of retaining the client, the researches concluded that audit

quality is affected by two aspects that is the number of clients and the amount of fees audit is expecting when retains a clients. (Deis and Giroux 1992).

There has been a high-profile fraud and misstatements by big firms which had led to increase in the assessment of the work done by the auditors. This assessment is due to the conflict which arises from information asymmetry between insiders and outsiders (Mansi et al 2004).

A reported 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 statement of the banks. Therefore this has raised concerns in eyes of the public about the quality of auditing in Kenya. Kenyan banks were not legally required to follow the IASs 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 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 Market 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 study focuses on auditor tenure because in Kenya less research has been done on audit tenure and audit quality and many companies are retaining their auditors. Therefore this study seeks to determine whether audit tenure affect audit quality in Nairobi.

1.2 Statement of the Problem.

Scandals from different parts of the world have focused a lot of attention on the audit tenure and audit quality such as the case of CMC motors (IAB editorial 2012). Researchers, regulators, and other stakeholders alike express concerns on two important issues which they believe could compromise the auditor's independence (Chi et al, 2004). These are the client importance and audit tenure. There is a continuing decline in trust on the quality of audit report from the public, this is evidently seen when most of audit firms which have audited their clients and issue audit reports (unqualified audit opinion) which turnout to be different from the actual view (IAB editorial 2012). Many auditors issue unqualified opinion after they have audited their clients and this report shows that the information reflected in the financial statements is a true and fair view of organizational financial transactions. Since some firms have been collapsing even after an auditor issued unqualified opinion there is a suspicion that the auditor get compromised on how they work or they just assume that they understood everything about the firm when they audit the same client for long duration in order to retain the client (Sajad, Farazmand and Gorbani, 2012). This brings in a dilemma for many firms as to whether to change auditors after some time or maintain the long-term relationship with their current auditor. The study aimed at identifying the effects of audit tenure on quality using the banks listed in the Nairobi Security Exchange.

1.3 Objectives of the Study.

The general objective of the study was to determine the effect of audit tenure on audit quality.

1.3.1 Specific Objectives.

The specific objectives of the research are to:

1. Determine the continued effectiveness of existing human capital where the same clients are audited by the same audit firm over long period.
2. Assess elements of continued independence in cases where auditors audit the same client over a long period.

3. Identify the measures put in place by the selected audit firms to mitigate the risks associated with long term audit tenure.

1.4 research Questions

The research questions are:

1. Does the auditor employ effective human capital when auditing the same client over a long period?
2. Is the auditor independent when auditing the same client over along period?
3. What are measures to be in place to mitigate the risks associated with long term audit tenure?

1.5 Significance of the Study.

Quality audited financial statements provide confidence to the users of financial information in making economic decision such as shareholders who may decide whether to put in more capital or making drawings. The results of the study assist users of audited financial information. This is because a quality audit reflects the true picture of a company's affairs. The study provides a clear picture to the corporations and individual investors whether the duration of an auditor with the client can affect the quality.

It is also important to the users of policy regulators in setting the policies on areas such as duration for auditing a given client because there is no standard on the duration of auditing a given client. Since the research on effect of auditor tenure on audit quality has not been enough done therefore it is useful to the academian in literature reviewing.

1.6 Scope of the study

The study was limited to the banks which are listed in the Nairobi Security Exchange. The study focused on a 5 years period between 2008 to 2012. The study covered five year period because most audit companies do audit rotation after a period of 5 years. The study only concentrated on

the quality of audit work done by the auditors when auditing the same client and using banks listed in the Nairobi Security exchange.

1.7 Limitations of the study.

The study covered the banks which are listed in Nairobi Security Exchange. There were many banks which includes the branches for the study to cover. The study focused only their headquarters to overcome the challenge. All the banks listed in the Nairobi Security Exchange have their national head offices in Nairobi therefore the study had less challenge of getting respondents to be used in data collection.

CHAPTER TWO LITERATURE REVIEW

2.1 Empirical literature.

In many researches audit tenure has been considered as one of the independent variable affecting dependent variable. Since audit independence is an important element for users to be confident with financial information, therefore audit quality will be important to the same users of financial report for the purpose of making economic decisions.

A research conducted by Yuniarti (2012), on the factors that affect audit quality and the study focused on audit tenure and dysfunctional behavior on audit quality, the study used successive interval method where ordinal scale is converted into interval scale. The study found that audit quality can be affected by both factors that is tenure and dysfunctional behavior, as when the audit tenure is increased the audit quality also increases and audit quality can be affected by dysfunctional behavior due to lack of research. Al Thuneibat et al (2011) had contrary findings where they found out that audit quality and audit tenure are negatively related and they used discretionary accruals as a measure of audit quality. Where they concluded that this relationship arises due to the fact that close relationship brings loyalty and this impair auditor independence and objectivity in carrying out the audit work. They also found out that the size of a firm do not have any effect on audit quality. They recommended that there should be audit rotation of audit firms in order to have independent and objective audit which in turn will lead to a high audit quality.

Audit effort as described by the hours taken in carrying out an audit and it has been also seen as the most important aspect that affects the audit quality. A study carried by Leventis and Constantinos (2005) to find out the determinant of audit quality and using time as a proxy of audit quality. The two focused on variables such as company size, gearing, public issue and type of auditor as a class of audit effort. A multiple regression method was used by the researchers

and they found out that firms which source funds from the public will have high audit quality, locally auditor conduct low audit quality, as size of a company increases and the audit effort also increases and finally the firm with high gearing will always have a high audit quality.

Yuniarti (2011) studied on the audit firm size and audit fee on audit quality, using a descriptive research design where the study was to find out if there is any correlation between these two factors on audit quality. By the use of r table to test on the validity of the items used in the analysis the study found out that audit quality can not be significantly measured by the size of the firm and on the other hand audit quality can be affected by audit fee that is the higher the fee the higher the audit quality. Fernando et al (2010) used audit size, audit tenure and audit specialization as factors which affect audit quality on the cost of equity of a firm. Their focus was whether these audit quality characteristics affect the cost of equity of a firm. They use a regression model to regress the independent variables against the dependent variable and the find out that audit industry specialization and cost of equity are negatively related and the client of big audit firms incur the low cost of equity in financing and this is consistent with the work of Leventis and Constantinos (2005) because high audit quality leads to more confidence on financial information by users.

Mandatory audit rotation is an important aspect on the quality of audit report. Using the level of discretionary accruals and issuance of going concern as the main reasons for mandatory rotation Jackson et al (2008) found out that going concern opinion will actually improve audit quality due to increase of audit tenure and the level of discretionary accruals has no effect on audit quality.

A study by Cameran et al (2006) on the different effects on audit rotation in compulsory and voluntary nature with audit quality and audit tenure using earning management, they found out that when audit rotate voluntarily than mandatory the audit quality improves while mandatory change reduces audit quality. They also found out that overtime audit quality tend to improve as audit tenure increases.

Ding (2004) carried out research assessing the actual audit quality where the aim was to distinguish between perceived and actual audit quality and if market thinks on the right direction about audit quality that is if the perception about audit quality gives real quality. By the use of accounting information the study reveals that the market assess quality on the right direction therefore market perception on audit quality can used as a measure of audit quality.

In most cases audit tenure is associated with audit quality, a research conducted by Almutairi et al (2009) studied on the audit tenure, audit specialization and information asymmetry where their focus was to determine whether audit specialization and audit tenure are the main determinant for a quality financial information perception from the market. The findings shows that tenure assists in reducing information asymmetry to some extent and audit specialization and information asymmetry are inversely related. This was after undertaking the research on how bid-ask price is associated with these two factors.

An empirical analysis research was conducted by Mgbame et al (2012) on audit partner tenure and audit quality using Binary Logit Model Technique to analyze the relationship between audit quality and audit tenure. Their research concluded that there is a negative relationship between audit tenure and audit quality after which the variables used in carrying out the research were not significant.

A research conducted by Deis and Giroux (1992) focusing on the factors which determine the quality audit for independent school districts provided by small, independent CPA firms in Texas. They studied on different factors which determine the quality of audit by looking onto QCR (Quality Control Review) results to know the exact measure of quality audit. The conclusion was that as audit tenure increases the audit quality is expected to decrease.

Carey and Simnett (2006) carried out a research to examine the extent to which audit quality decreases as audit partner tenure is prolonged, their study used a cross-sectional analysis for all listed companies in Australia to determine whether there was any association between audit

quality and the audit tenure. The research found out that there is a reduction of audit quality as the audit tenure is extended.

2.2 Theoretical literature.

The theory of relationship marketing brings in some benefits between the seller and the buyer. In the audit practice the auditor-client relationship is important as marketing tool for them to sustain existing service and promote cross-selling. Therefore it helps in reducing costs for example setup costs that can be amortized over a long duration. The reduction in setup cost is generally viewed as benefits from the audit-client long-term relationship. Therefore the firm can sustain an auditor for a period of time for the purpose of ensuring they get some benefits (Clark and Payne, 1994).

In the agency theory (managers –owners), auditor plays an important function in reducing information asymmetry and agency problems. The principal and the agent (manager) differ in information and contradictory motives. Information asymmetry comes in when one party has more information than the other and contradictory motives include compensation, labor market opportunities and the relationship with other parties not directly engaged with the principals. Differences on the two issues decrease reliability of information which causes lack of trust between them. The auditor as third party comes in to ensure the interests of the two parties are aligned. This introduces a new relationship where the auditor acts as an agent for the principal and this will lead to lack of independence, lack of trust and also lack of objectivity. When auditors conduct the audit they are the agents for principals and this liaison therefore brings similar issues of trust and confidence as the relationship of director and shareholder, leading to questions on who is auditing the new agent (auditor) (Aamir and Farooq, 2012).

Audity quality theory by Watkins, Hillison and Morecroft (2004) differentiated audit quality from perception of audit quality. The two were viewed to be different using factors such as

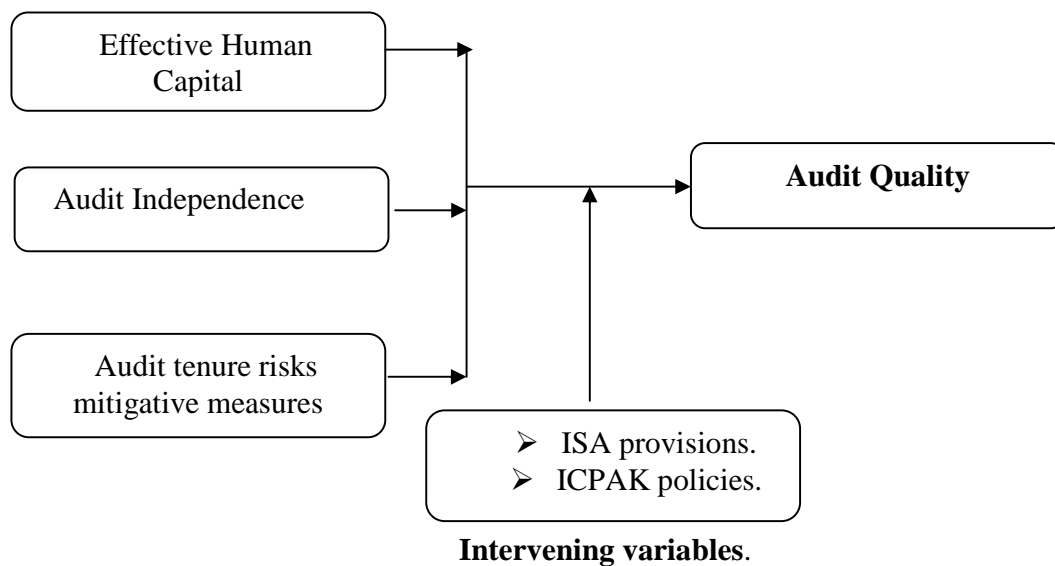
monitoring strength and reputation which are the actual and perceived audit quality. Monitoring strength can be measured using the elements audit quality which includes the degree of competence and auditor's independence. The perception on the two elements' degree as a measure for audit quality from the market would refer to as auditor reputation.

2.3 Conceptual Framework.

The study aims at determining the kind of relationship between audit tenure and audit quality.

Independent variable

Dependent variable.



Source: Author (2013)

2.4 Interpretation of the variables.

With an increase in audit tenure the auditors may assume to understand client system to an extent they may use personnel with low level of education, lack of experience and lack of professional qualification of which this could lead to low audit quality.

Auditor independence could be affected by the revenues received by the auditor and fear of loosing the client. Given that the auditor as a rationale economic agent can be assumed that the revenue of auditing client has an impact on auditor's independence. If the auditor has recently loose some clients this could lead to fear of loosing the current client.

As tenure increases the auditor becomes to close with the client the auditor is compromised therefore auditors should put in place measures to ensure they are not compromised.

Level of measurement of variables

Conceptual framework	Measurement/ Operational/level of measurement of variables.
Effectiveness of Human Capital	-Educational level, -work experience, -Audit reports comparativeness. -professional qualification.
Elements of Independence	-revenues (audit fees) -fear of losing a client -checking on the books of accounts and check the payments.
Measures to put in place	-audit rotation -disclosure of non audit services -partner review.

2.5 The Gap to be Filled.

Several studies have been done on audit quality and from the literature review we have seen that audit quality is affected by many aspects such as audit size, audit fees, independence and tenure. Cameran et al (2006) compared audit rotation on voluntarily and mandatory and with their study it shows that voluntary rotation increases audit quality. Al Thuneibat et al (2011) found out that audit quality and audit tenure are negatively related and they used discretionary accruals as a measure of audit quality. Where they concluded that this relationship arises due to the fact that close relationship brings loyalty and this impair auditor independence and objectivity in carrying out the audit work. With all this different studies our research is aimed at determining the effect of audit tenure on audit quality in Nairobi using the banks listed in the Nairobi Security Exchange.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design.

The research design was descriptive design. This is because the study seeks to establish the effects of audit tenure on audit quality.

3.2 Population of Study.

The study seeks to determine the effect of audit tenure on audit quality therefore we will be focusing on the banks listed in Nairobi Security exchange. There are 180 accountants in 10 listed banks in the Nairobi Security exchange during the year 2013, therefore the study will be focusing on the accountants in these banks as the target population.

3.3 Sample Design.

The study focused on the banks listed in the Nairobi Security Exchange. There are 10 banks listed in the Nairobi Security Exchange. The study included all banks listed in Nairobi Security Exchange in gathering the data and purposive sampling was used to select the respondents based on the criteria that the chief financial accountant and other assistants deal with the auditor.

3.4 Sample Size.

Since there are only 10 banks in the Nairobi Security Exchange, it is manageable to conduct a study on all listed banks. Out of these banks the study will use 18 accountants in each bank, that is the chief financial accountant and other assistant financial accountants will be picked giving the number to 180 accountants as respondents. This will enable the study to gather more information on audit tenure because the auditors do interact with the financial accountants.

3.5 Data Collection Method.

The data was collected using questionnaire that's open ended and closed ended questions in the questionnaire. The questions gave our respondents the freedom to express the views about the study. Questionnaires enabled us to gather accurate information since the respondents filled the questionnaires according to the instructions provided by the researcher.

3.6 Pilot Test.

A pilot study was done to detect the face validity of the instruments used in collecting the information from the respondents. This assists in correcting errors which may occur during actual the actually time of research.

3.7 Validity and Reliability

After the pilot study have been conducted and assured that the instruments used in collecting data meets the criteria of face validity. The study analyzed the data collected from the pilot test using Cronbach's alpha. The cronbach's alpha =0.710 therefore the elements in the study were reliable to be included in the study. The study ensured that the questionnaires were administered to the right sample population. The questionnaires were given out to the accountants of listed banks in Nairobi Security Exchange and this is because auditors do highly interact with accountants of a firm.

3.8 Data Analysis.

The study employed descriptive statistics method, multiple regression model was used to test the relationship between the dependent variable and the independent variables, with the assistant of SPSS to analyze the data collected. The study seeks to determine the effect of audit tenure on audit quality therefore the model to be used has to achieve the objective in determining the relationship between audit tenure and quality. The regression model to be adopted will take the form of the regression equation of X and Y as expressed below.

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \dots \text{equation 1.}$$

Depending with the number of variables in the study

Where: Y= the dependent variable, the audit quality.

X_1 = Human Capital.

X_2 = independence.

X_3 = measures put in place.

e= error term

β =the determinant of relationship.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Response Rate.

The study used 18 questionnaires in each bank giving a total of 180 questionnaires and only 150 questionnaires were filled and given back after two weeks. This represents 83.33% rate. This reasonable response was achieved after the researcher made frequent visits in order to remind the respondents to fill the questionnaires.

4.2 Background Information.

The respondents were from the listed banks in Nairobi Security exchange. They were asked to provide information based on gender, years of service in the bank and the type of education they possess. The findings are discussed below.

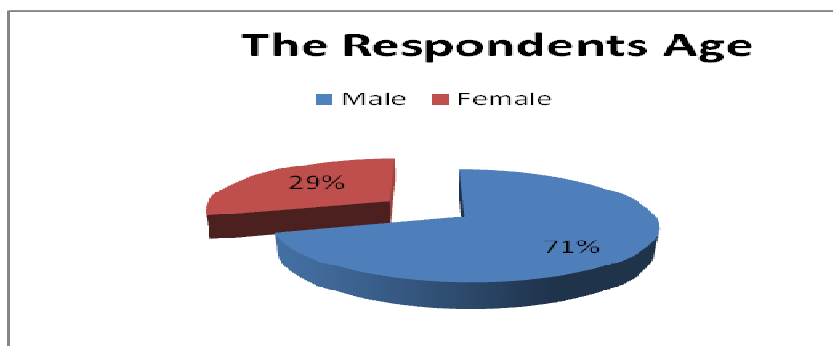
4.2.1 Gender.

Table 1: The Respondents Gender.

Gender				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	106	70.7	70.7	70.7
Female	44	29.3	29.3	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 1: The Respondents Gender.



Source: Research Data, 2013.

In the study 70.7% of the respondents were male and 29.3% were female. This shows that majority of employees in the accounting department in banks are male.

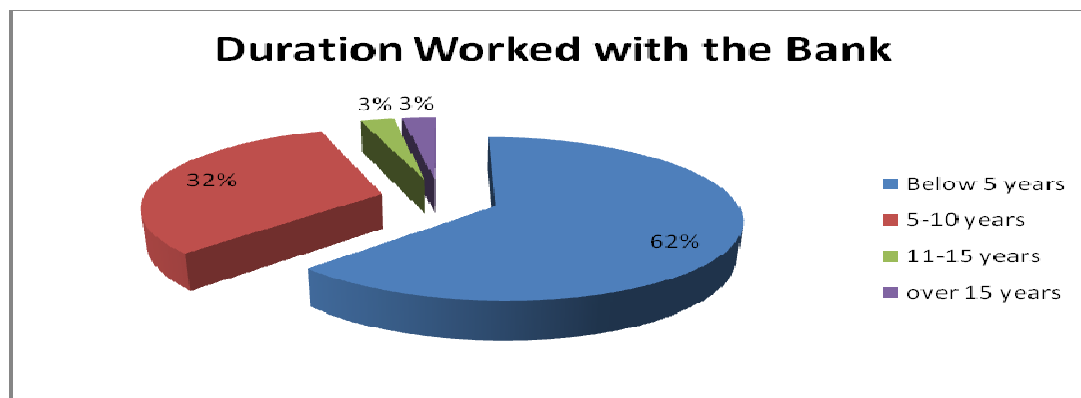
4.2.2: Years of service to the bank.

Table 2: Duration of the Respondent has Worked with the Bank.

	Frequency	Percent	Valid Percent	Cumulative Percent
Below 5 years	94	62.6	62.6	62.6
5-10 years	48	32.0	32.0	94.6
Valid 11-15 years	4	2.7	2.7	97.3
over 15 years	4	2.7	2.7	100.00
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 2: Duration of the Respondent has Worked with the Bank.



Source: Research Data, 2013.

Regarding the number of years the accountants has worked with the bank, 62.6 % of the respondents had worked with the bank below five years, of the respondents 32% had worked with the bank for 5-10 years, of the respondents 2.7% had worked with the bank for 11-15 years and of the respondents 2.7% had worked with the bank for over fifteen years. From the

information it shows that organizations have a high turnover of employees in accounting department within a period of 5 years and below.

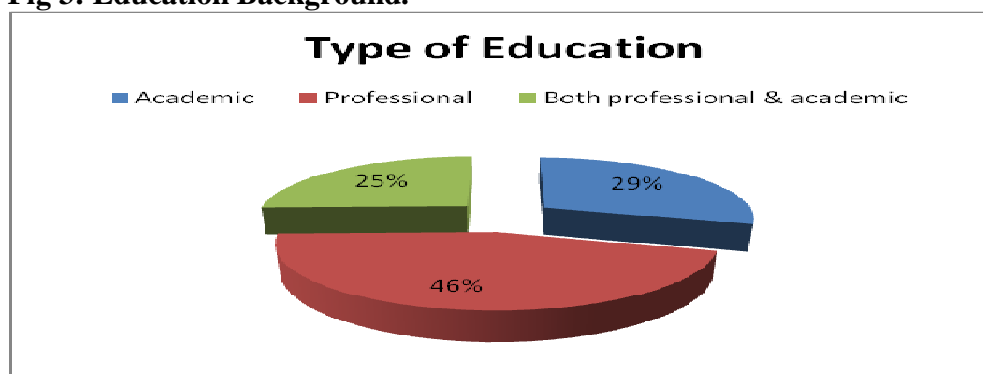
4.2.3: Type and Level of Education.

Table 3: Education Background.

	Frequency	Percent	Valid Percent	Cumulative Percent
Academic	44	29.3	29.3	29.3
Professional	68	45.3	45.3	74.7
Both professional & academic	38	25.3	25.3	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 3: Education Background.



Source: Research Data, 2013.

According to the findings 29.3% of the respondent's possess academic qualification, 45.3% of the respondents possess professional qualification and out of the respondents 25.3% possess both academic and professional. The majority of employees are in professional qualification and this is because professional qualification has wider information in accounting field.

4.3: Effectiveness of human Capital.

This part captures how the auditing team works, it involves the procedures they used in order to carry out the audit work and also if the auditing work is done in accordance with the set principles.

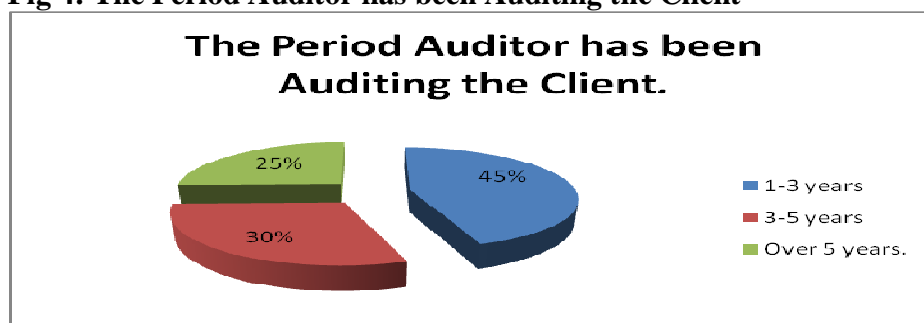
4.3.1 Years of service by auditor.

Table 4: The Period Auditor has been Auditing the Client.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3 years	67	44.7	44.7	44.7
	3-5 years	45	30.0	30.0	74.7
	Over 5 years.	38	25.3	25.3	100.0
	Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 4: The Period Auditor has been Auditing the Client



Source: Research Data, 2013.

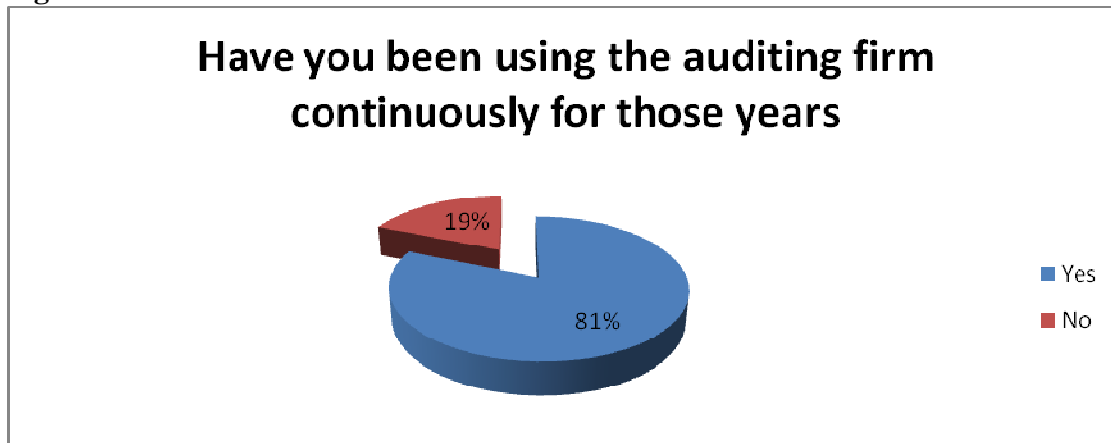
The research sought to find out the period that auditor has offered auditing their client. According to the respondents 44.7% of the respondents showed that auditor has offered auditing services for a period of 1-3years, of the respondents 30.0% of the respondents showed that auditor had offered services for a period of 3-5 years and of the respondents 25.3% of the respondents showed that auditor has been auditing their company for over 5years. The study discovered that most banks retain their auditors for over three years.

Table 5: Continuous Use of Auditor.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	122	81.3	81.3	81.3
	No	28	18.7	18.7	100.0
	Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 5: Continuous Use of Auditor.



Source: Research Data, 2013.

The research study found out that out the respondents 81.3% indicated that auditor audit the bank continuously and out of the respondents 18.7% of the respondents said that the bank do not use the auditor continuously. Banks have been retaining their auditors for over three years and this shows that there is familiarity between the auditor and banks.

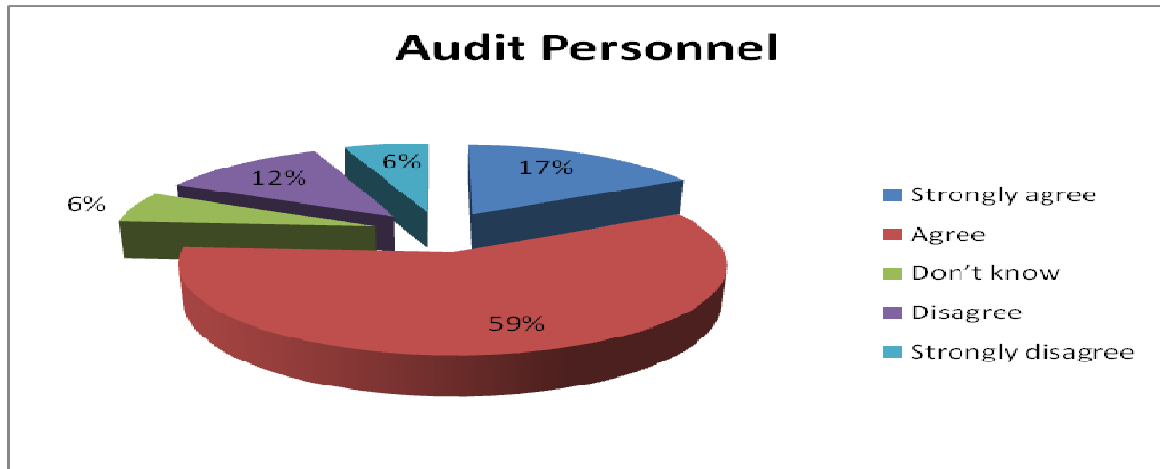
4.3.2: Personnel Involved.

Table 6: The Capacity of Human Resources.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	26	17.3	17.3	17.3
Agree	88	58.7	58.7	76.0
Valid Don't know	9	6.0	6.0	82.0
Disagree	18	12.0	12.0	94.0
Strongly disagree	9	6.0	6.0	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 6: The Capacity of Human Resources.



Source: Research Data, 2013.

The findings shows that 17.3% strongly agreed that the audit firm have enough personnel to carryout audit work, 58.7%of the respondents agreed that the audit firm have enough personnel to carryout audit work,6.0% don't know that the audit firm have enough personnel to carryout audit work, 12% that the auditor carry out their work in accordance with the auditing standards, and 6% of the respondents strongly disagreed that the auditor carry out their work in accordance with the auditing standards. The highest number of respondents agreed that audit firms have enough personnel to carryout audit work this shows audit firms do have the necessary capacity to audit their clients.

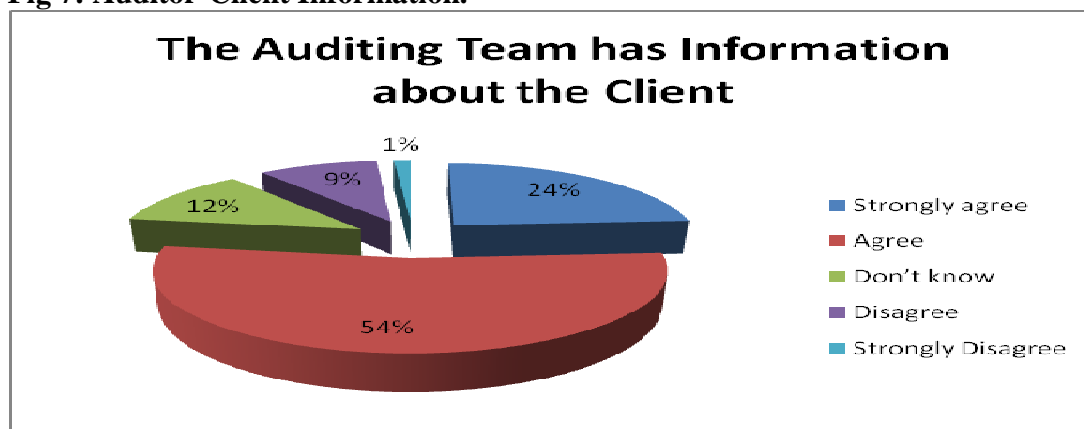
4.3.3: Information about the Client.

Table 7: Auditor-Client Information.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	36	24.0	24.0	24.0
Agree	80	53.3	53.3	77.3
Don't know	18	12.0	12.0	89.3
Disagree	14	9.3	9.3	98.7
Strongly Disagree	2	1.3	1.3	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 7: Auditor-Client Information.



Source: Research Data, 2013.

The response shows that 24% of the respondents strongly agree that the audit team have client information, 53.3% agreed that the audit team have client information, 12% of the respondents have no idea about whether the audit has client's information, 9.3% disagreed that the audit team have client information and 1.3% of the respondents strongly disagreed that the audit team have client information. The study gathered that the auditing teams auditing the listed banks have more information about their clients this allow them to wok effectively and gather all necessary evidence while a small margin strongly disagree that auditor have information about their clients.

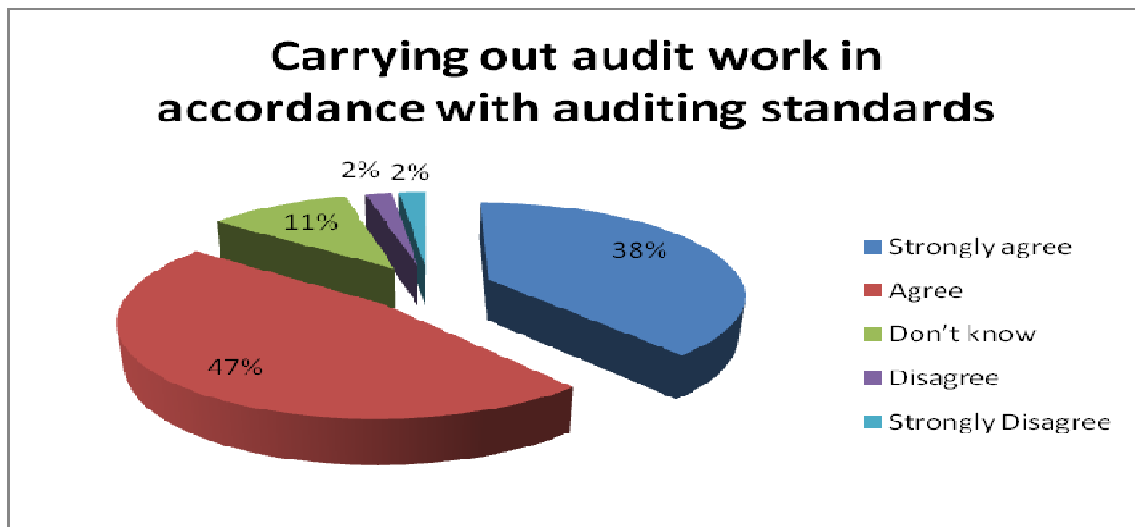
4.3.4: How Audit Team Works.

Table 8: Carrying out Audit Work in Accordance with Standards.

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly agree	58	38.7	38.7	38.7
Agree	70	46.7	46.7	85.3
Don't know	16	10.7	10.7	96.0
Disagree	3	2.0	2.0	98.0
Strongly Disagree	3	2.0	2.0	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 8: Carrying out Audit Work in Accordance with Standards.



Source: Research Data, 2013.

The study found out that 38.7% of the respondents strongly agreed that the auditor carry out their work in accordance with the auditing standards, 46.7% of the respondents agreed that that the auditor carry out their work in accordance with the auditing standards, Since the highest numbers of auditors are accountants the respondents agreed that they work in accordance to the standards. 10.7% did not know that the auditor carry out their work in accordance with the auditing standards, 2.0% of the respondents disagreed that the auditor carry out their work in accordance with the auditing standards and 2.0% of the respondents strongly disagreed that the auditor carry out their work in accordance with the auditing standards.

4.4: Auditor Independence.

This captures data with regards to how independent auditor is. It involves: whether auditor offers other services other than auditing work, if the auditor has interest in the bank and whether auditor depends on the client fees as part of his dependent revenues.

4.4.1: Other Services Offered by auditor.

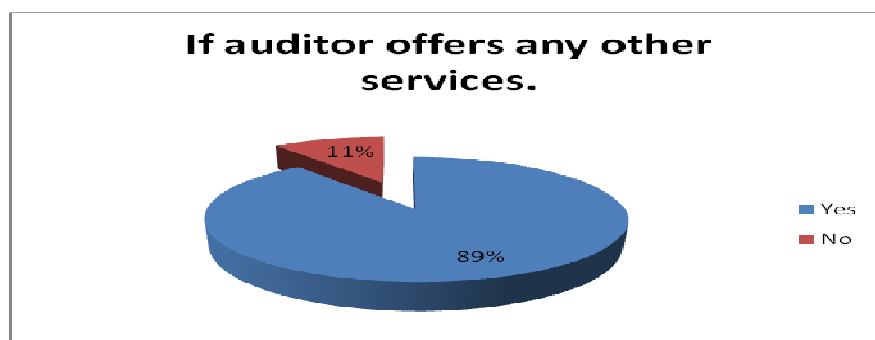
Table 9: Confirmation on whether Auditors offer other Services.

Does the auditor offer any other services other than auditing your bank?

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	134	89.4	89.4	89.4
Valid No	16	10.7	10.7	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 9: Confirmation on whether Auditors offer other Services



Source: Research Data, 2013.

The findings showed that 89.4% of the respondents said that auditor offer other services and 10.7% of the respondents said that auditor does not offer any other services other than auditing the client. Offering of services to the client limits the auditor from making objective decision because if the auditor offers other services they will be auditing their own work.

4.4.2: Other Services offered by Audit Firm.

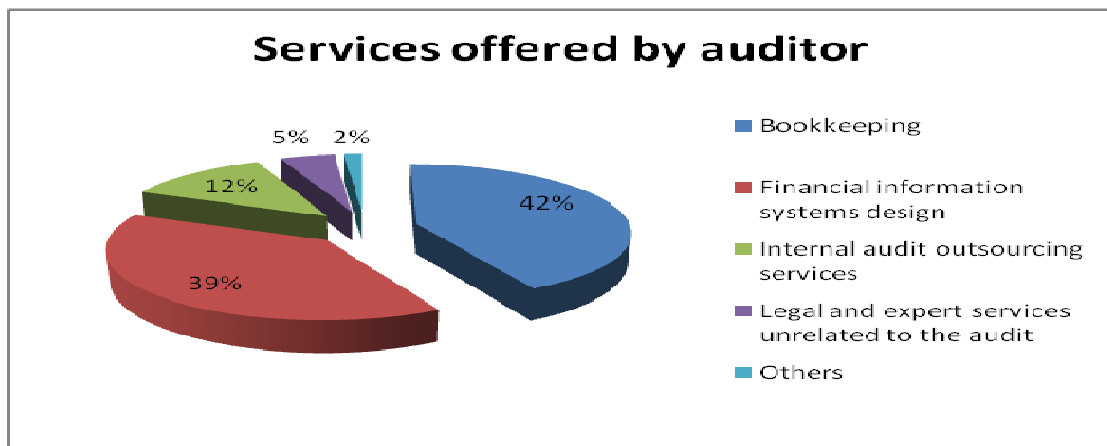
Table 10: Other Services offered by the Audit Firm.

If yes tick any of the following services				
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bookkeeping	54	36.0	42.2
	Financial information systems design	50	33.3	81.3
	Internal audit outsourcing services	16	10.7	93.8

	Legal and expert services unrelated to the audit	6	4.0	4.7	98.4
	Others	2	1.3	1.6	100.0
	Total	128	85.3	100.0	
Missing	System	22	14.7		
	Total	150	100.0		

Source: Research Data, 2013.

Fig 10: Other Services offered by the Audit Firm.



Source: Research Data, 2013.

The table above shows the services which the respondents indicated that are offered by the audit firm other than auditing services. 42 % of the respondents indicated that auditors also offers bookkeeping services, 39% of the respondents indicated that audit firm offers financial information design, 12% of the respondents indicated that audit firm offers internal audit services and 5% of the respondents indicated that audit firm offers legal and expert services. The auditors offer services such as bookkeeping as the highest rated service and this is because they are accountants

4.4.3: Interest in the Bank.

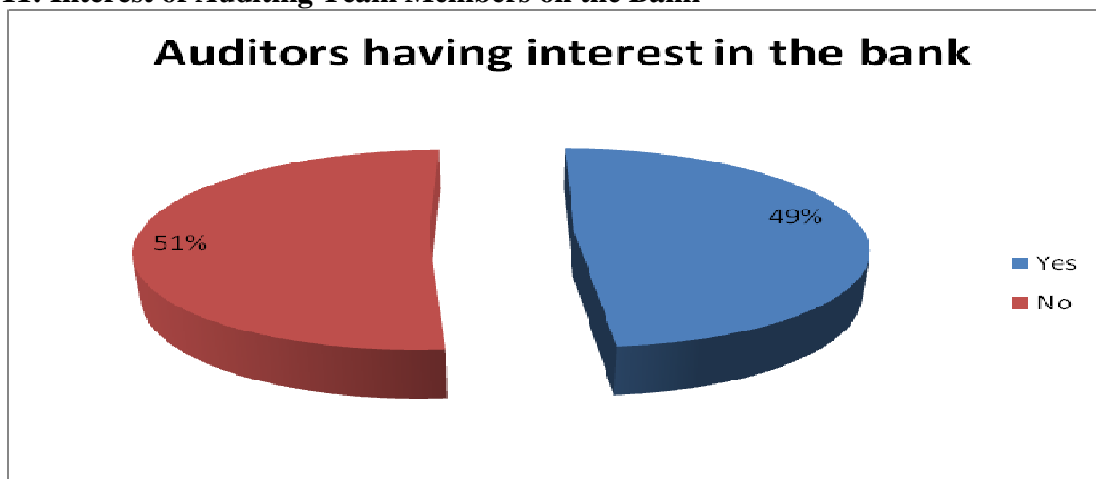
Table 11: Interest of Auditing Team Members on the Bank.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	72	48.0	48.0	48.0
Valid No	76	50.7	50.7	98.7
Valid 3.00	2	1.3	1.3	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

The above table shows that, out of the responses 48% of the respondents indicated that members of the audit firm have interest in the bank while 50.7% of the respondents indicated that audit members do not have any interest in the bank this shows that auditors distinct from the banks and expected to be objective in giving out audit opinion.

Fig 11: Interest of Auditing Team Members on the Bank



Source: Research Data, 2013.

4.5: Measures put in place.

This part assisted the researcher to capture information on whether there are measures put in place to control auditors being compromised when auditing the same client for a long period of time.

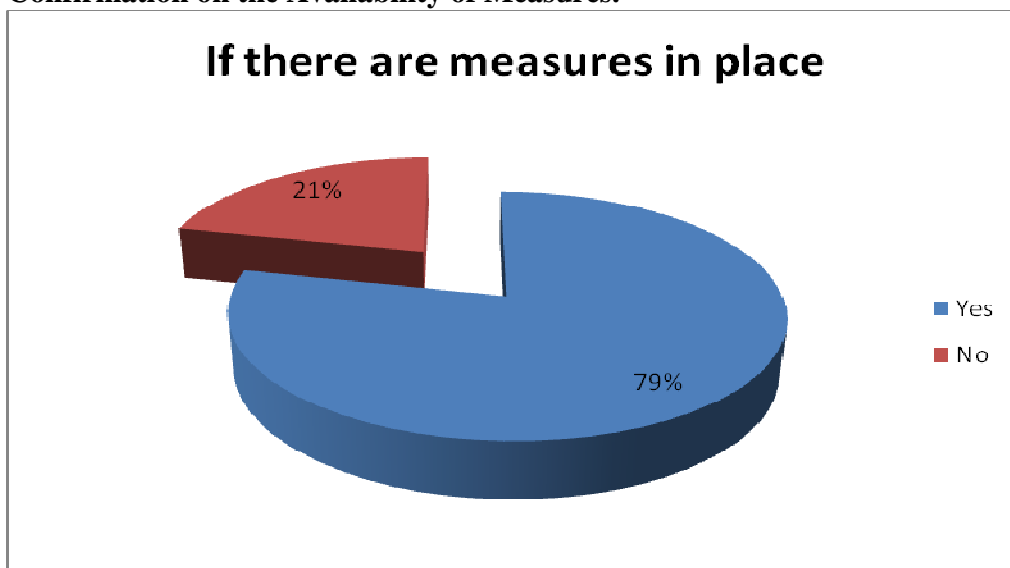
4.5.1: Measures Put in Place.

Table 12: Confirmation on the Availability of Measures.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	110	73.3	74.3	74.3
	No	30	20.0	20.3	94.6
	3.00	2	1.3	1.4	95.9
	4.00	4	2.7	2.7	98.6
	5.00	2	1.3	1.4	100.0
Total		148	98.7	100.0	
Missing	System	2	1.3		
Total		150	100.0		

Source: Research Data, 2013.

Fig 12: Confirmation on the Availability of Measures.



Source: Research Data, 2013.

From the study as shown in the figure above, 79% of the respondents reported that auditors have measures in place and 21% of the respondents reported that auditors do not have measures in place to avoid being compromised as they offer audit services to same client overtime. This shows that most auditors do have measures in place to avoid being compromised by their clients when auditing them continuously.

4.5.2: Auditor Rotation as a Measure.

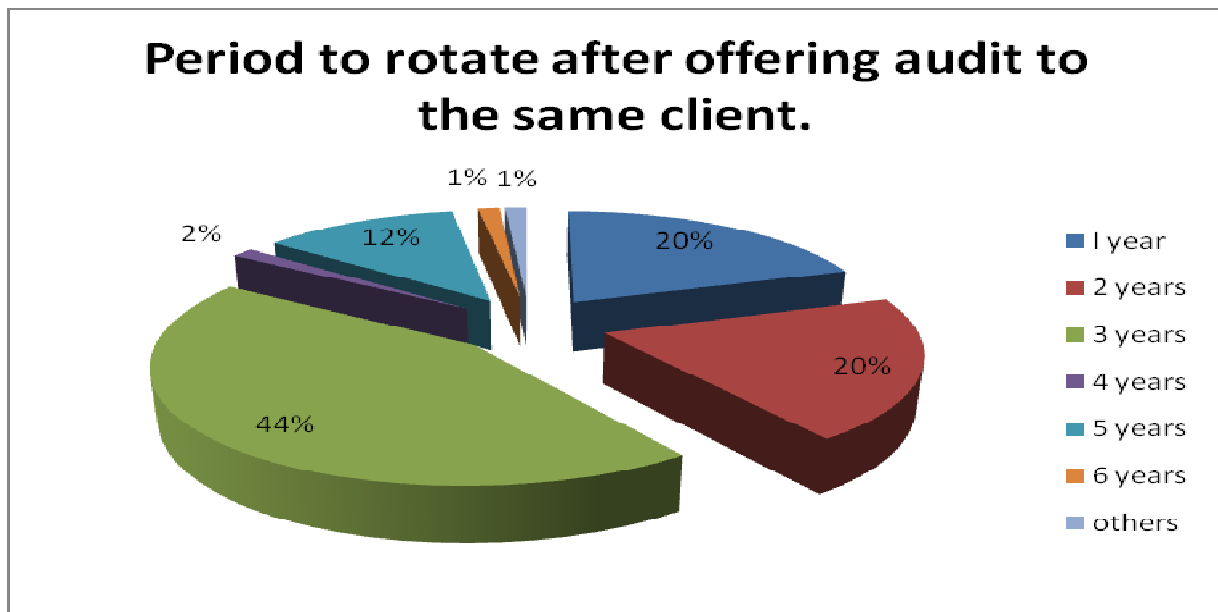
Table 13: Auditors Rotation Period.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	I year	30	20.0	20.0	20.0

2 years	30	20.0	20.0	40.0
3 years	66	44.0	44.0	84.0
4 years	2	1.3	1.3	85.3
5 years	18	12.0	12.0	97.3
6 years	2	1.3	1.3	98.7
others	2	1.3	1.3	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 13: Auditors Rotation Period.



Source: Research Data, 2013.

The above table indicates the auditor rotation period. 20% of the respondents indicated after auditor be rotated after every 1 year, 20% of the respondents indicated after auditor be rotated after every 2 years, 44% of the respondents indicated after auditor be rotated after every 3 years, 1.3% of the respondents indicated after auditor be rotated after every 4 years, 12% of the respondents indicated after auditor be rotated after every 5 years, 1.3% of the respondents indicated after auditor be rotated after every 6 and 1.3% of the respondents indicated after auditor be rotated after a period above 6 years (others). From the study the respondents reported that auditors need to be rotated after every three years.

4.6: Effects of Audit Tenure on Audit Quality.

4.6.1 Effectiveness Human Capital.

Table 14: Effectiveness of Human Capital and Audit Quality.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Large extent	88	58.7	58.7
	Large Extent	44	29.3	88.0
	don't know	10	6.7	94.7
	Small extent	8	5.3	100.0
	Total	150	100.0	100.0

Source: Research Data, 2013.

Fig 14: Effectiveness of Human Capital and Audit Quality.



Source: Research Data, 2013.

The above table shows that out of the responses audit quality is affected to very large extent by 58.7% audit quality is affected to a large extent is 29.3%, and audit quality is affected to a small extent is by 5.3% is to small extent. The study reported that audit quality can be highly affected by effectiveness of human capital and this is because if auditors do not work effectively the reports will not be presenting the true nature as per records.

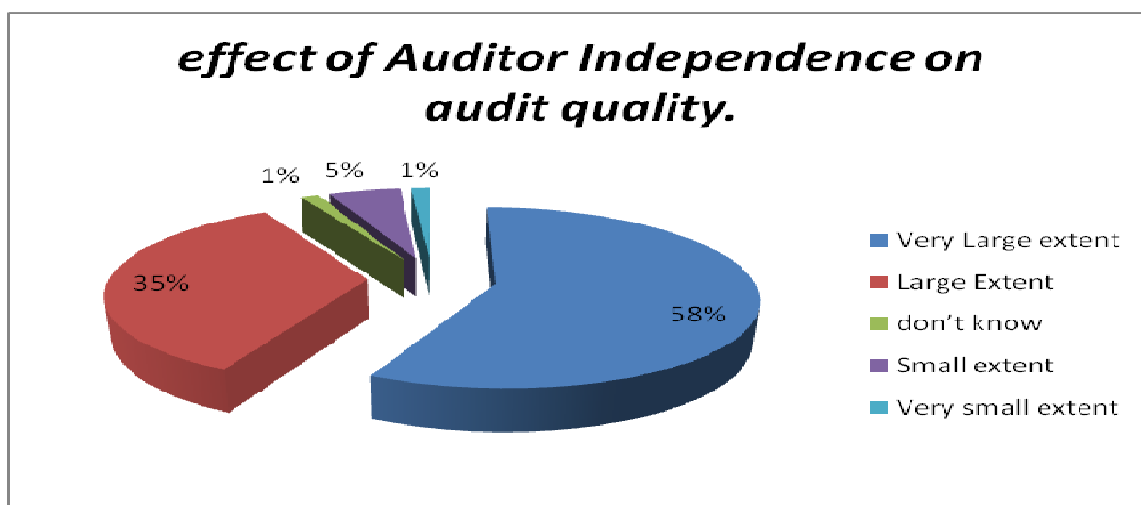
4.6.2: Auditor Independence

Table 15: Auditor Independence and Audit Quality.

	Frequency	Percent	Valid Percent	Cumulative Percent
Very Large extent	86	57.3	57.3	57.3
Large Extent	52	34.7	34.7	92.0
don't know	2	1.3	1.3	93.3
Small extent	8	5.3	5.3	98.7
Very small extent	2	1.3	1.3	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Fig 15: Auditor Independence and Audit Quality.



Source: Research Data, 2013.

The above table captures the extent to which audit quality is affected by auditor independence. The findings showed that 57.3% of the respondents indicated that audit quality affected to very largely extent, this shows that as auditor becomes less independent the quality of audit is low because the auditor will not be objective. 34.7% of the respondents indicated that audit quality is affected to large extent, 1.3% of the respondents indicated that they don't know to what extent audit quality is affected, 5.3 % of the respondents indicated that audit quality is affected to small extent and 1.3% of the respondents indicated that audit quality is affected by audit tenure to a very small extent.

4.7 Audit Quality in Banks listed in Nairobi Security Exchange.

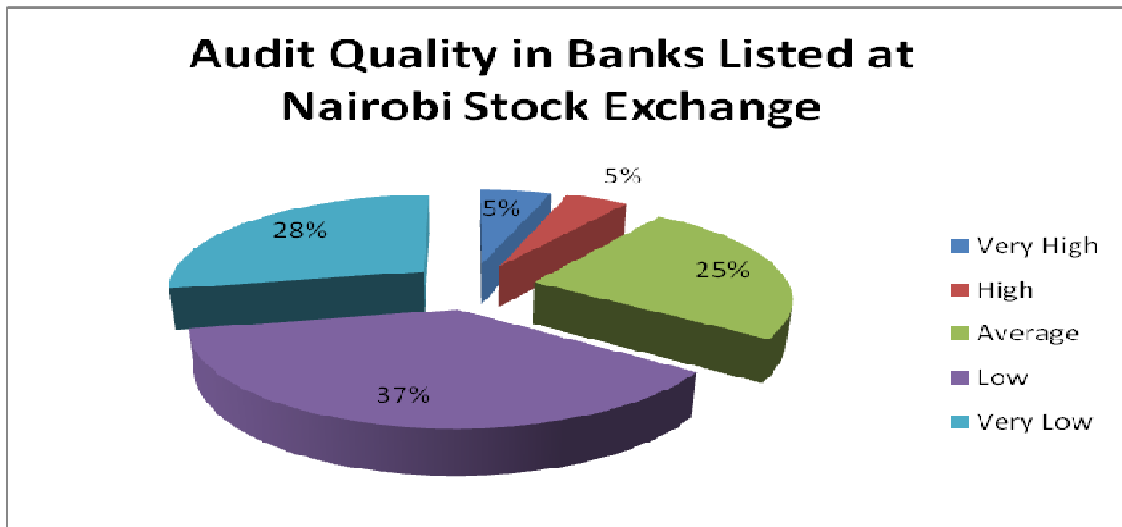
Table 16: Audit Quality in Banks listed in Nairobi Security Exchange.

	Frequency	Percent	Valid Percent	Cumulative Percent
Very High	8	5.3	5.3	5.3
Valid High	7	4.7	4.7	10.0
Average	37	24.7	24.7	34.7
Low	56	37.3	37.3	72.0

Very Low	42	28.0	28.0	100.0
Total	150	100.0	100.0	

Source: Research Data, 2013.

Figure 17: Audit Quality in Banks listed in Nairobi Security Exchange.



The study reported that, of the respondents 37% reported that the quality of audit is at low level in the banks listed in Nairobi Security Exchange, 28% reported that the quality of audit is at a very low level in the banks listed in Nairobi Security Exchange, 25% reported that the quality of audit is at average level in the banks listed in Nairobi Security Exchange and 5% reported that the quality of audit is at high level in the banks listed in Nairobi Security Exchange and 5% reported that the quality of audit is at very high level in the banks listed in Nairobi Security Exchange. The study indicated that in banks majority of auditors do not provide a high quality audit as indicated in the above figure.

4.8 Reliability Test.

Table 17: Reliability Test.

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items

.710	.663	42
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Source: Research Data, 2013.

According to Beuningen (2012) the satisfaction with life scale examining construct validity with a Cronbach coefficient reported of 0.85. In the current study the researcher carried out reliability test using the variables and the results appeared as above table (16) indicating a Cronbach's Alpha 0.710.

4.9 Multiple Regression Analysis.

In addition to the above frequencies the researcher conducted a multiple regression analysis so as to analyze the influence of auditor tenure on audit quality. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

4.9.1 Testing for Significance.

Table 18: Anova Table

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.399	4	3.100	2.821	.027 ^a
	Residual	159.341	145	1.099		
	Total	171.740	149			

Source: Research Data, 2013.

A one way between-groups analysis of variance was conducted to study the effect of audit tenure on audit quality. The above table shows that the variables used in the study are significant as indicated the p is 0.027 which shows to be less than 0.05 suggesting that the independent variables combined well explain the variations in the dependent variable.

Table 18: Regression Table.

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1	(Constant)	3.656	.373		9.807	.000
	How many auditors are in the auditing team?	.327	.125	.230	2.616	.010
	For how long have you been audited by the current auditor?	-.294	.104	-.245	-	.005
	There should be partner to the auditor to review the work of the auditor	-.029	.090	-.026	2.828	.750
	The auditors do rely mostly on information from the management rather than their own evidence	-.048	.060	-.065	-.319	.430

a. Dependent Variable: How do you rate the quality of audit in your bank.

Source: Research Data, 2013.

The researcher conducted a multiple regression analysis so as to determine the relationship between audit tenure and audit quality. The regression equation ($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \alpha$) was:

$$Y=3.656+3.27 X_1-0.048 X_2-0.029X_3.$$

Where Y = audit quality

X_1 = human capital

X_2 = auditor independence

X_3 = measures put in place

According to the regression equation established, taking all factors constant at zero, the audit quality as a result of these independent factors will be positive 3.656. The data findings analyzed also shows that taking all other independent variables at constant, a unit increase in effectiveness of human capital will lead to 3.27 increases in audit quality in the listed banks in the Nairobi Security Exchange assuming other variables are constant; a unit increase in auditor independence will lead to 0.048 decrease in audit quality and a unit increase in measures such as rotation will lead to 0.029 decrease in quality assuming other variables are constant. This implies that human capital has a positive relationship with audit quality that is when auditors work as required by the standards the quality of audit will increase and auditor independence and measures have a negative relationship with audit quality.

4.10 Discussion of Findings.

This part discusses the interpretation of data analysis and gives the discussion on the outcome of the research based on the findings obtained and interpreted from the data collected. The objective of the study was to determine the influence of audit tenure on audit quality in the listed banks in the Nairobi Security Exchange. The specific variables that determined the influence of audit quality were three namely: effectiveness of human capital, auditor independence and measures put in place to mitigate the risks of auditor being compromised.

4.10.1: Summary of Findings.

The research study was to establish the effect of auditor tenure on audit quality. The results showed that auditor quality is affected by the effectiveness of human capital and auditor independence as the period of audit tenure increases. The study also reported that audit quality in banks is low and as tenure increases the quality decreases and this is in contradiction to other researchers such as Yuniarti (2012) where the study concluded that the longer the tenure the audit quality increases but it is inconsistent with the research by Simnett and Carey (2006) concluded that as tenure increases the quality of audit decreases.

4.10.2: Effectiveness of human capital.

The study found out that 44.7% of respondents indicated that their firms were audited by the auditor within a period of 1-3 years and they have been using the auditor for continuously for the number of years. Most of the auditing firms have enough personnel to carry out their audit work when auditing the same client continuously and the teams have more information about the client business. This is more important because an audit needs to have information about the client in order to carry out the duties as required per the auditing standards and this improves the quality of audit. The study also reported that the audit team involved in carrying out the audit does its work in accordance to the stipulated auditing standards. This means the auditor has been working

within the framework required therefore the auditors were more effective in carrying out the audit.

4.10.3: Auditor Independence.

On the basis of auditor independence, the study findings indicate that the auditor has been offering other services to the client other than auditing work. Respondents indicated that their auditor offers other services such as book keeping, legal services, internal audit outsourcing and financial system design. Most respondents (42.2%) agreed that auditor provide bookkeeping as the other services and this reduces the auditor objectivity due to the fact that the auditors are auditing their work. The provision of other services to the client leads to loyalty with the client and it increases the chances of an auditor not to be objective and thus impair independence as in consistent with Al Thuneibat et al (2011) where they generalized that loyalty impair auditor independence.

In this current study most of the respondents indicated that the audit firm used to audit banks above average do not have interest with the banks and therefore most auditors can not be compromised when auditing the client.

4.10.4 Measures Put in Place to Avoid Auditor being compromised.

The respondents have indicated that auditors have measures in place to avoid being compromised by the client firm. The study indicated that when auditing a client for a number of years there should be measures in place so as to avoid being compromised. Such measures include disclosing all information with regards to offering of non audit services and giving the audit report to a partner for review. The respondents also indicated that even though auditors have measures in place to avoid being compromised they also suggested that auditor need to be rotated after a period of three years of services to the client while other researchers, this is in agreement with Jackson et al (2008) where they studies on imposing mandatory audit and the

concluded there is minimal benefits on rotating audit firms. However in the current study is in contrary to other studies, Nasser et al (2006) suggested that tenure is not clear as compared to other countries where the audit tenure is restricted to be five years where after this period the auditor should switch to another client. Other researchers concluded that rotation affects audit quality, Vanstraelen (2000) who studied on the impact of renewable long-term mandates on audit quality and concluded that firms give clean audit report during the first two years while during the last years the audit quality reduces.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1: Introduction.

This chapter concerns itself with conclusions and making recommendations on the research study.

5.2: Conclusions.

This study examined the relationship between auditor tenure and audit quality, the auditor plays an important role in the financial reporting of an organization, this is because auditors provide a sense of trust to the users of financial information because most users depend on the audited financial information in making economic decision. The study concluded that as auditor offers other services to the clients the independence decreases and this affects the quality. With regards to the effectiveness of human capital the study concluded that as auditor team becomes more effective the quality of audit increases and finally the study concluded that when there are measures in place the audit team do their work without compromise from clients.

5.3. Recommendations.

From the Analysis, the study draws the following recommendations:

5.3.1 Recommendations for Policy

This research recommends that a policy should be put in place to make it compulsory for audit firms to be rotated in order to improve auditor independence and effectiveness of human capital. The auditor should carry out tests to gather audit evidence and not relying mostly on the information as provide by the client in making audit opinion about the financial information. The study suggests that auditors should avoid offering non audit services this is because when an auditing team offers non-audit services they do compromise on their independence. The study found out that auditors do follow the standards when auditing a client therefore the study suggest that more policies need to be enforced in order to ensure auditors provide better services to their clients.

5.3.2: Recommendations for Further Studies.

Future research need to be done to unearth other variables which affect audit quality and identify whether it is necessary for auditor to offer other services to their clients. The potential studies should try to cover on other elements such as auditor size, dysfunctional behavior and audit fees to research as to whether they do have effect on audit quality. It will be better in the future` if other studies be carried out to determine the effects of voluntary and non-voluntary audit rotation on audit quality.

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APPENDICES:

APPENDIX I: QUESTIONNAIRE

INTRODUCTION

I am a student at KCA University and I am conducting a research entitled: “**The effects of auditor tenure on audit quality with reference to banks listed in Nairobi securities exchange**”. I am happy to inform you that you have been selected to be part of the targeted sample population and you are requested to fill the following questionnaire. Your recommendations and suggestions will be highly appreciated.

The nature of my study is academic, and I assure you of utmost confidentiality .This is because the information you provide will only be published as anonymous statistical data.

Instructions.

Please tick on the spaces provided.

SECTION A: PERSONAL INFORMATION

1. Name of your organization (Bank).....

2. Gender Male Female

3. Age
Below 25 years 25--30 31-39 over 40

4. In which of the following levels do you fall.

Top management middle management supervisor

Others specify

5. How many years have you worked in your bank .

Below 5 years 5-10 years 11-15 years over 15 years

6. Which type of education do you fall under?

Academic Professional Both

If professional (CPAK) at which level are you?

Part I Part II Part III

Or if academic which level are you?

Diploma Undergraduate Masters PhD

SECTION B: HUMAN CAPITAL

1. For how long have you been audited by the current auditing firm?

1-3 years 3-5 years over 5 years

2. Have you been using the auditing firm continuously for those years?

Yes No

3. How many auditors are in the auditing team?

1 1-3 4-6 over 6

4. What type of qualification do the members' possess?

Academic Professional or Both

If professional, at which level are they?

Part I Part II Part III

Or if academic which level are you?

Diploma Undergraduate Masters PhD

5. The audit firm have enough personnel to carry out the audit work

Strongly agree	Agree	Don't know	Disagree	Strongly Disagree
1	2	3	4	5

6. How many members are involved in auditing your bank?

1 2-4 5-7 8-10 over 10

Please circle the number that indicates your level of agreement/ disagreement, where **1 is "strongly agree SA", 2 is "Agree A" 3 don't know 4 disagree and 5 strongly disagree."**

7. The auditing team that is involved in carrying out auditing work has more information about the client.

Strongly agree	Agree	Don't know	Disagree	Strongly Disagree
1	2	3	4	5

8. Members of auditing team involved have information on the following auditing practice.

	Strongly agree-	Agree	Don't know	Disagree	Strongly disagree
	1	2	3	4	5
Auditing standards					
Rights of an auditor					
Types of evidence					
Types of opinion					

9. The members in the auditing team undergo thorough training in their institution.

Strongly agree	Agree	Don't know	Disagree	Strongly Disagree
1	2	3	4	5

10. The audit team members carry out the work in accordance with the auditing standards

Strongly agree	Agree	Don't know	Disagree	Strongly Disagree
1	2	3	4	5

SECTION C: AUDITOR INDEPENDENCE

1. Does the auditor offer any services other than the auditing to your bank?

YES NO

If yes tick any of the following services

Service	Tick
Bookkeeping	
Financial information systems design	
Internal audit outsourcing services	
Legal and expert services unrelated to the audit	

Others

2. Do some members of the auditing team have interest in the company?

YES NO

3. If YES **in your opinion having interest in businesses they audit** would members holding any shares in such business tend to compromise their audit firms' independence? Kindly state how?

Please circle the number that indicates your level of agreement/ disagreement, where **1 is "strongly agree SA", 2 is "Agree A" 3 don't know 4 disagree and 5 strongly disagree ."**

	1	2	3	4	5
4. The quality of audit is low in the early years of an audit tenure period					
5. The auditors do rely mostly on information from the management rather than their own evidence					
6. Auditing firms have not been "completely independent" when auditing the same client: a. In appearance					

7. Auditing firms have not been “completely independent” when auditing the same client: a. In Fact					
8. When an auditor depends on the audit fees as their large part of revenue they do compromise on audit quality					
9. Due to long term relationship the auditor does less rigorous audit procedures					
10. With the information from the management the auditor is likely not to come up with new ideas on how to gather evidence for the audit.					
11. Too much pressure from the client for picking another auditor next period makes the current auditor be less objective					

SECTION D: MEASURES TO PUT IN PLACE

1. Do you have audit committee in your bank? YES NO

2. Are there any risks associated with offering services to the same client over a long period of time?

YES NO

3. The audit quality is likely to decrease as the auditor offers audit services for a long period.

Strongly agree	Agree	Don't know	Disagree	Strongly Disagree
1	2	3	4	5

4. Do the auditors have measures in place to avoid auditor being compromised when offering audit services for a long period to?

YES NO

The following are some of the measures put in place with regards to auditor tenure kindly rate them using the following scale. **1 is “strongly agree SA”, 2 is “ agree A” 3 don't know 4 disagree and 5 strongly disagree.”**

Measures	Rate				
	1	2	3	4	5
Auditors should be rotated after a given number of years					
The auditor should have an audit team which collect evidence for the subsequent periods rather than rely on the management information or previous information collected.					
The management should ensure the auditor hired has no relationship with any member in the organization.					
The auditor should not offer any other non audit services to the client					
If the auditor offers non-audit services there should be a full disclosure of the non-audit services carried out by the auditor.					
There should be partner to the auditor to review the work of the auditor					

IF the auditor should be rotated, what should be the audit tenure?

Circle a number in the table

1yr	2yrs	3yrs	4yrs	5yrs	6yrs	Other
-----	------	------	------	------	------	-------

If other Specify.....

SECTION E: AUDIT QUALITY

The following are some of the measures put in place with regards to auditor tenure kindly rate them using the following scale. **1 is “Highest”, 2 is “ High ” 3 “Average” 4 Low and 5 “Lowest”**

	1	2	3	4	5
1. How do you rate the quality of audit in you bank					

2. To what extent do the following affect audit quality?

1 is “ Very Large extent VLA”, 2 is “ Large Extent ” LE 3 don’t know 4 “ Small extent”, and 5 is “ Very small extent” SM.

	1	2	3	4	5
Effective human capital.					
Auditor independence.					
Measures put in place to mitigate the audit tenure risks.					

SECTION F: ADDITIONAL INFORMATION.

Kindly give an opinion based on your understanding on the following statements

1. The auditor developed and documented an audit plan for the audit.

2. Substantive procedures were performed by the auditor in each transaction.

4. Comment on the auditor’s collection of evidence, whether sufficient audit evidence has been obtained or not.

4. In general, comment on the quality of audited financial information released by banks listed in the Security Exchange?

5. Can audit quality be affected by other factors other than audit tenure?

YES NO

IF YES please circle the number that indicates your level of agreement/ disagreement on the following factors, where **1** is “strongly agree SA” **2** is “Agree A” **3** don’t know **4** disagree and **5**strongly disagree.

	1	2	3	4	5
Size of audit firm					
Non audit services					
Audit fees					

List any other factors

END

THANK YOU FOR YOUR TIME

APPENDIX II: WORK PLAN (TIME SCHEDULE FOR RESEARCH)

MONTH	JULY 2012	AUG 2012	SEP 2012	OCT 2012	NOV 2012	DEC 2012	JAN 2013	FEB 2013	MAR 2013	APR 2013	MAY 2013	JUN, JULY, AUG 2013
Familiarizing With My Supervisor												
DISCUSSING THE TOPIC WITH MY												

SUPERVISE												
Drafting the research proposal												
Proposal presentation												
PROPOSAL CORRECTION												
DISSERTATION PREPARATION												
DISSERTATION PRESENTATION												

APPENDIX III: BANKS LISTED IN NAIROBI SECURITY EXCHANGE

1	Barclays Bank Ltd
2	National Bank of Kenya Ltd
3	NIC Bank Ltd
4	Standard Chartered Bank Ltd
5	Equity Bank Ltd
6	The Co-operative Bank of Kenya Ltd

7	CFC Stanbic Holdings Ltd
8	Diamond Trust Bank Kenya Ltd
9	Housing Finance Co Ltd
10	Kenya Commercial Bank Ltd

Source: www.nse.co.ke/listed-companies/list.html

APPENDIX IV: RESEARCH BUDGET

Item	Kshs
Travelling expenses to meet the supervisor	3000
Printing	5000
Browsing for research information	3000
Stationery	4000
Total	<u>15000</u>

