

**THE EFFECTS OF AUDIT QUALITY ON THE FINANCIAL PERFORMANCE  
OF COMMERCIAL BANKS IN KENYA**

**BY**

**ABDIRAHMAN HASSAN MOHAMUD**

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## DECLARATION

This research project is original work that has not been presented to any university or college for examination.



**Signed**

**Date.....10/11/2021.....**

**Abdirahman Hassan Mohamud**

**D63/34249/2019**

The research project has been presented for examination with approval as the university supervisor.



**Signed... ..**

**Date...18/11/2021**

**Dr. Kennedy Okiro**

**Lecturer, Department of Finance and Accounting**

**School of Business, University of Nairobi**

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>AC</b>	Audit Committee
<b>BCBS</b>	Basel Committee on Banking Supervision (BCBS)
<b>BoT</b>	Bank of Tanzania
<b>CBK</b>	Central Bank of Kenya
<b>CIIA</b>	Chartered Institute of Internal Auditors
<b>IAA</b>	Institute of Internal Audit
<b>ICPAK</b>	Institute of Certified Public Accountant of Kenya
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>ROI</b>	Return on Investment



## ABSTRACT

In today's business world, many corporations have followed diverse strategies in governing and monitoring tools to address the developing competitiveness and economic needs. Commercial banks play a key strategic role in the development of the financial sector and are the primary drivers of the economic growth of the country. Hence, their performance is of imperative performance within any economy. This study therefore sought to establish the effects of audit quality on the financial performance of commercial banks in Kenya. The study will significantly contribute to auditing functions to financial management to foster quality service delivery. It will additionally add to the existing body of knowledge as well as create bases of literature review for future researchers. This research study was anchored on the following theories; lending credibility theory, stakeholder theory, and contingency theory. The study employed cross-sectional research design, with a target population of the 42 registered and licensed commercial banks in Kenya. Within these banks, the researcher targeted the officers within the audit department and the audit committees. Simple random sampling was employed and thus the sample size was 199 respondents. The study used questionnaires to collect primary data. The data was analyzed using descriptive and inferential statistics with the help of the Statistical Package for Social Sciences (SPSS). Descriptive statistics included percentages, means and standard deviations represented by way of tables and figures. Inferential statistics will include correlation and regression analysis to measure the relationship between the study variables. Descriptive statistics included percentages, means and standard deviations represented by way of tables and figures. Inferential statistics included correlation and regression analysis to measure the relationship between the study variables. The findings indicated an  $R^2$  of 0.632 implying that all the predictor variables explained 63 percent of variations in financial performance. The research concluded that Audit quality is an audit that is both systematic and an objective evaluation of financial accounts. Audit quality is achieved when performed by a competent auditor with the professional experience. Audit quality is important to a company because when the accounts are found to be in good order, it is a demonstration of sound financial position and performance and this predisposes the company to investors and other venture partners. The main drivers of audit quality espoused by the findings of the current study are compliance with auditing standards and auditor independence. The study recommended that organizations would be assured of audit quality by creating an environment that promotes auditor independence, In addition, audit staff should be given opportunities to practice so that they can gain the required experience and thus improve on the quality of their work.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the study

Many organizations in contemporary business have used a variety of governance and monitoring methods to address changing competitiveness and economic demands. Yemen's financial industry, for comparison purposes, faced numerous significant problems and significant factor in the development from 1990 to 1994 for a variety of reasons, including a lack of modern auditing systems, the absence of manipulate structures, and a lack of ready auditors who can contribute to raising the level of auditing, in addition to political and financial difficulties at the time (Qatinah, 2012). In Tanzania for example, Banks have been struggling to show improvement in financial performance (BOT, 2018). These poor financial performances of banks may be attributed to various factors such as poor management, poor internal audit control system, inadequate human resource skills, and economic hardship in the country.

Commercial banks are the principal drivers of the country's economic growth and play a crucial strategic role in the development of the financial sector. As a result, inside any economy, their success is critical. The role of audit committees is critical in ensuring that quality and trustworthy financial reporting is maintained within these organizations (Musa and Shehu, 2014). The independence, composition, and technical competence of audit committees in emerging countries have frequently been jeopardized by both internal and external influences at commercial banks.

Despite the guidelines set out by the CBK by the Banking Act Cap, there were numerous cases of financial institution disasters in performance because of fraud and lack of

elaborate internal controls as well as compliance with internal and external regulations in the enterprise (FLSTAP, 2011). For example, inside 9 months, the central financial institution of Kenya positioned 3 banking establishments below receivership. Because of what the regulator called "inappropriate banking operations," the Imperial Bank of Kenya was placed under receivership (Kuo, 2015). In another example, the Dubai Bank of Kenya was placed in receivership after years of violating banking regulations. Chase Bank was later placed into receivership due to "unsafe financial conditions," as defined by the regulator (Ngigi, 2015).

### **1.1.1 Audit quality**

An audit, according to the Institute of Internal Audit (IIA) (2011), is an objective and impartial activity that aims to improve the quality of institutions' operations and provide value to them. The quality of the institutions' financial evaluations and auditing skills have a strong link, which helps them compete (Alzoubi, 2019). The success of an audit may be divided into two categories: first, discovering financial statement misstatements and mistakes, and second, reporting such misstatements and errors. Researchers employed one-of-a-kind proxies to grade audit satisfaction, which included audit timeframe, inspection hours, inspection charges, credibility, dispute charge, and dividend payouts, due to the fact that such attributes are in large part undefinable (Krishnan and Schauer, 2000).

Auditing is best at safeguarding companies from the hazards of a crash; this is the goal that all organizations strive for, which means that entities whose activities are audited with the help of competent auditors are far less vulnerable (Chae et al., 2020).

This same audit is one of the most crucial parts that contributes to the payment of fees to establishments by way of increasing the tracking and follow-up device to enhance outputs (Coram et al., 2008). It is a large instrument that maximizes the outcomes of organizations for businesses (Drogalas et al., 2015). The auditing process has a significant high-quality influence on adding rate to the task and improving overall performance (Postula et al., 2020). Outside audits, for example, when performed in accordance with high auditing standards, may help strengthen the application of accounting principles to relevant businesses and ensure that their financial assessments are meaningful, transparent, and reliable. An unbiased audit may be able to aid agencies in reinforcing a solid internal control mechanism, risk management, and business governance standards, resulting in better financial overall performance (Hassan and Farouk, 2014).

The characteristic of internal audit as an example has advanced due to shifts in global company practices for example, Mihret, James, and Mula (2010) and Lenz and Hahn (2015) concluded that session with manage and supporting boards of directors to mitigate threats have emerged as possibilities for internal Auditors. internal auditing being an unbiased activity allows a firm obtain its goals with the resource of the use of a well-prepared method to manipulate their risk, manipulate and governance (Stewart and Subramanian, 2010), as the final goal of internal audit is to attain higher returns for the business enterprise inside the form of progressed corporation standard performance (Saud, 2012).

### **1.1.2 Financial performance**

Financial performance is a description of an institution's modern reputation and correct identification of the areas it used to reach dreams with the aid of studying the final results

of its commercial enterprise, assets, and liabilities (Farhan and Al-Mashhadani, 2011). Economic performance is normally a subjective degree that measures how properly a particular firm can employ the assets to generate profits. It's also a standard measure of the complete financial fitness of a firm over a predefined duration. In this regard, it may be used to observe comparable firms across similar industries. It could additionally be used to have a look at industries/segments within the mixture.

In the past, a company's performance was assessed by looking at sales or profits at the end of the year, or by using important economic statistics (Parmenter, 2015). Accounting reports such as return on property, return on equity, and return on funding are used to measure a company's internal efficiency. These ratios are used to assess a company's normal financial health over a period of time, as well as to compare similar firms in the same industry or to look at industries or sectors in aggregate. ROA is used to degree the efficiency of assets in producing profits even as ROE measures the overall performance of the company relative to shareholder's investment (Marshal, 1920). A number of the constraints of accounting are that best capture historic factors of the firm's performance are the problem to predisposition from administrative manage and contrasts in accounting strategies (McGuire, Schneeweis and Hill, 1986).

Many factors, other from auditing, affect bank financial overall performance, and a number of those aspects are connected to control. According to Majeed et al. (2020), the size of a financial institution's board of directors corresponds with the return on property while being adversely related with the return on shareholders' equity, which are two key indicators for determining financial typical performance. The overall financial performance necessitates the improvement of proper auditing processes (Ondieki, 2013).

The macroeconomic system productivity of Kenyan commercial banks may be examined in terms of the institution's profits in this study. Profitability is constantly assessed as the ratio of pre-tax earnings to shareholder fairness (Chen and Chen, 2011). Profitability is quantified in a variety of ways, including return on assets (ROA), fee extra amount of money (according to), and return on equity (ROE) (ROE). This study used ROA as the primary metric for assessing institutional investors' economic health in Kenya.

### **1.1.3 Audit quality and financial performance**

A well-preserved and operating market environment is generated when an audit is independent and produces quality audits. This instills trust in the integrity and dependability of financial data, which are essential in a green marketplace (Ugwunta, Ugwuanyi, and Ngwa, 2018). Researchers have focused their attention on the direct impact of audit-friendly qualities on a company's financial performance. Walker (2004) highlights that audit committee independence provides for effective management oversight since impartial audit committee contributors are far more likely to make objective decisions and demand less argument and deliberation.

Many stakeholders have expressed their concerns about the firm's performance and the application of audit has been recognized as one of the ways to enhance firms' value (Sayya, Basiruddin, Abdulrasid and Elhabib, 2015). Nevertheless, an assessment with first-rate qualities in terms of auditor independence and the adoption of updated management equipment adds to increased patron joy, allowing for increased economic gain (Phan et al., 2020). Many parts of audit contribute to enhancing a company's financial overall performance, the most important of which is the adoption of professional auditing standards (Ondieki, 2013).

Audit quality has a strong implication on investors' confidence, financial reporting, and firm value at large (Levit, 2008). The new level of effectiveness and efficiency that is created by audit functions increases a firm's performance in a given industry and pulls many investors who in turn provide more capital and enhance further the firm's value (Bedard et al, 2010). Audit forms part of the internal control system and helps in detecting, preventing, and reporting fraud and errors of material misstatement in financial statements.

Adigwe, Onyenwe, and John (2016) investigated the regulation and supervision and cash flows of Nigerian banks, finding that board external auditors, board structure, and committee technical capabilities were all connected to return on assets. Managerial ownership, internal auditors (size and the number of meetings), and member salary were all favorably associated to the profitability of listed Indonesian banks, according to Chou and Buchdadi (2017). Kallamu and Saat (2015) studied audit committee qualities and business performance in a Malaysian research, finding that organization, character, processing expertise, and objectivity had a beneficial impact on Malaysian financial company performance.

#### **1.1.4 Commercial banks in Kenya**

The Companies Act, the Banking Act, the valuable financial institution of Kenya Act, and the many prudential guidelines made by the main financial institution of Kenya govern the banking business in Kenya (CBK). Commercial banks are financial institutions that accept deposits, make business loans, and provide associated services. Furthermore, they provide the dispersion of deposit payments when used in conjunction with checking, savings, and time deposits. The institutions in question are run for profit. Commercial banks are

licensed and regulated by the largest banks in the jurisdictions (global locations) in which they operate. As stipulated by the Banking Act, the significant financial institution of Kenya (CBK) authorizes, monitors, and manages industrial banks in Kenya. Capital, assets, income, and delivery of products have all increased in Kenya's banking sector in recent years.

In Kenya, commercial banks especially those quoted at the NSE have continued to exhibit poor performance as evident in many profit warnings despite the government's concerted effort in ensuring there is a favorable environment for doing business (Ayako et al, 2015). For instance, in 2019, The National Bank issued a profit warning to its existing and potential shareholders as a result of declining performance (Guguyu, 2019).

## **1.2 Research Problem**

Recent corporate accounting scandals, as well as the resulting demand for greater openness and honesty in reporting, have given rise to two seemingly unrelated but logical outcomes. First, auditing skills have become increasingly important in deciphering the sophisticated accounting practices that have muddled financial accounts (Soltani, 2014). Second, the company's governance has been transformed as a result of a public call for exchange and following regulatory action. Company executives and administrators are increasingly being scrutinized on moral and criminal grounds (Soltani, 2014). Each trend has the same goal of resolving investor concerns regarding the financial reporting device in a responsible manner. However, there has been a lack of adherence to audit results and points.



Commercial banks are the principal drivers of the country's economic growth and play a crucial strategic role in the development of the financial sector. As a result, inside any economy, their success is critical. The role of audit committees is critical in ensuring that quality and trustworthy financial reporting is maintained within these organizations (Musa and Shehu, 2014). Both internal and external influences of commercial banks have frequently harmed the independence, composition, and technical competence of audit committees in developing countries. Commercial banks and other financial intermediation firms have the recently formed the hub of recent financial crises and poor performance. This has been occasioned by the drop in firms' value, coupled with fictitious financial reporting which resulted from fraudulent acts of management, non-adherence to corporate governance practices, and distorted credit management policies (Qatina, 2012). Audit failure has also been attributed to firms like Enron, Tyco, and World Com among others (the Guardian Newspaper, 2018).

Tepalagul and Lin (2015) offered a comprehensive evaluation of academic literature on audit quality and auditor independence in Ghana. The report went on to say that the combined proof, together with recent regulatory changes, opens up new avenues for future auditing and auditor independence research. Vienot (1995), Bouton (2002), Lin et al. (2006), and Baxter and Cotter (2009) challenged the inclusion of an audit committee inside agencies and verified that the audit committee had no powerful authority inside the organization. The findings from the have a look at by using De Angelo (2011) display that the audit quality isn't suffering from the auditor's experience that's contrary to Kolodner's (2006) findings. These studies present blended and inconclusive findings which creates contextual, conceptual, and empirical studies gaps. Despite the Central Bank of Kenya's

recommendations established in accordance with the Banking Act Cap, there have been several incidents of bank failures in performance owing to fraud and a lack of extensive internal controls as well as compliance with internal and external rules within the industry (FLSTAP, 2011). The Central Bank of Kenya, for example, placed three financial institutions under receivership in less than nine months. Because of what the regulator called "inappropriate banking operations," Imperial Bank of Kenya was placed into receivership (Kuo, 2015). In another example, the Dubai Bank of Kenya was placed in receivership after years of violating banking regulations. Chase Bank was later placed into receivership due to "unsafe financial conditions," as defined by the regulator (Ngigi, 2015).

In Kenya, there have been numerous incidences of bank failure, ethical malpractice, and cases of fraud within commercial banking institutions (Waweru, 2015). In the recent past, at least two commercial banks have been put under receivership due to poor adherence to prudential guidelines and lack of reliable governance practices. This has led to criticism of the role played by the auditors in protecting shareholders and depositors (Mandala, Kaijage, Aduda, and Iraya, 2015). There have been numerous studies on the effects of audit quality on financial performance. However, most of these studies have been overtaken by time. This current study sought to fill in the knowledge and research gap by making available updated findings that resonate with trends and developments in the current times. The study sought to establish the effect of audit quality on the financial performance of commercial banks in Kenya.

### **1.3 Research objectives**

The overall objective of this study was to establish the effects of audit quality on the financial performance of commercial banks in Kenya.

### **1.4 Value of the study**

The study assures the contribution of auditing functions to financial management to foster quality service delivery. It is anticipated that commercial banks in Kenya may use the findings and recommendations from this study to adopt new internal policies as well as make changes to existing internal policies that will encourage the full utilization of audit as a tool for improving the financial performance of commercial banks not only in Kenya but world-over.

This research will greatly contribute to providing shareholders, stakeholders, and participants in the financial institution's governance with a clear understanding of the vital function of audit in commercial banks. This will help students understand the importance of auditors (both internal and external). The study and its conclusions are intended to help strengthen the role and image of audit in commercial banks, making it more strong and professional. It will assist shareholders in understanding the role of auditing as one of the most significant managerial management systems in a firm that is necessary to protect their interests.

The study would gain the industrial bank's Audit Committees utilizing assuring them that suitable tactics are functioning efficiently to screen the risks to which the banks are exposed and that the structures of inner management are powerful in decreasing those risks to an appropriate level. The findings could be of exquisite use to financial

institution's control in accounting to the board for developing, operating, and tracking the device of internal management and for supplying a warranty to the board that it has carried out so.

Ultimately, this discovery will be extremely useful to academics and researchers in general. First, the research will add to the body of information about the impact of audit quality on the financial performance of Kenyan commercial banks. Second, it will serve as a reference point for future study in this subject, and third, it will elaborate on theoretical knowledge in the field of finance and accounting, therefore demonstrating the value of the accepted theories.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

A review of the literature relevant to this investigation is presented in this chapter. The theoretical review, empirical, conceptual framework, and a summary of the literature review are all presented in this chapter.

#### **2.2 Theoretical review**

The following theories will be the bases of the study; lending credibility theory, stakeholder theory, and contingency theory.

##### **2.2.1 Lending Credibility Theory**

This hypothesis suggests that audited financial statements can strengthen stakeholder trust in corporate leadership, according to Volosin (2007). The argument reinforces the notion that the fundamental purpose of auditing is to give financial statements more credibility. Customers, the government, and creditors are all stakeholders in banks who must make investment decisions based on the information they receive (Stone, 2002). As a result, an audit minimizes the asymmetry of knowledge between management and stakeholders. According to this hypothesis, audited financial statements can increase shareholder trust in management's stewardship (Ittonen, 2010).

The shareholders, which include persons with relatively minor shareholdings, and large organizations, such as banks or insurance companies, are the primary receivers of annual reports (Holt, 2012). Their decision is frequently based on financial statements and the

performance of the company's management, who must act in the best interests of the purchasers, which is the basis for the financial statements. The auditor's report will examine how honestly the agency presents its financial situation and how its miles are responding (DeZoort, Holt & Taylor, 2012). This should reassure shareholders that their investment is safe, as well as reduce the use of deceptive accounting techniques to portray the company in a more favorable light (Brei & Schclarek, 2015).

Internal auditors being employees are in a position to ensure strict compliances with policies and reporting standards and ensure accuracy of financial reports. This theory is relevant to this study because it highlights the need for financial statements to be audited to enable stakeholders to have faith in the management and assurance that their investments are secured. Auditors must be competent, independent, and have a good relationship with management and the audit committee to help the commercial banks cost-effectively achieve their objectives. Since internal auditors are based within the banks, errors and misrepresentations will be detected and corrected earlier, they also offer consultancy services to management and also evaluating and improving the effectiveness of risk management, control, and the management process, hence improved financial performance.

### **2.2.2 Stakeholder Theory**

The stakeholder theory is a form of organizational management and business ethics that focuses on morals and values in the administration of a firm. It was first published in Ian Mitroff's book *Stakeholders of Organizational Thoughts* (1983 in San Francisco) and then updated by R. Edward Freeman in 1983. This theory describes current conditions or predicts motive-impact relationships in addition to recommends attitudes, structures, and

practices that, taken collectively, constitute stakeholder management (Jones, Wicks, and Freeman, 2017). Stakeholder management requires, as its key characteristic, simultaneous interest in the legitimate hobbies of all appropriate stakeholders, each in the status quo of organizational systems and fashionable policies and case-by means of case choice making.

As a result, Sundaram and Inkpen (2004) are well-known for attempting to cope with the organization of stakeholders that demand control's attention. Many businesses have built and governed their organizations in ways that are notably consistent with stakeholder ideals. Companies such as J&J, eBay, Google, Lincoln Electric, AES, and those featured in *Built to Close and Suitable to Excellent* (Collins 2001, Collins & Porras, 1994) provide compelling examples of how managers understand the central insights of stakeholder principle and use them to create exceptional groups. This duty, according to Harrison and Wicks (2013), applies to anybody dealing with or influencing corporate regulations, including not only professional managers, but also shareholders, the government, and others.

The idea does no longer mean that each one stakeholder (however they will be identified) ought to be equally involved in all procedures and selections (Hörisch, Freeman and Schaltegger, 2014). The stakeholder theory is applicable to this study; it offers a concept approximately how commercial enterprise structures without a doubt work. It states that just about any commercial firm must charge consumers, providers, customers, societies and lenders, stockholders, organizations, and certain other humans with money in order to be successful. In the Kenyan commercial banks' stakeholder's interests and contributions must be taken into account as decisions are made. Auditors have the responsibility to

provide advisory services to the commercial banks that conforms to the standards and interests of stakeholders.

### **2.2.3 Contingency Theory**

Contingency theory contends that there may be no great manner to prepare an organization, to guide a corporation, or to make choices. Alternatively, the foremost course of movement is contingent (established) upon the internal and outside state of affairs (Mansbridge, 2014). A contingent manager efficaciously applies their very own fashion of management to the right scenario. The features of audits are themselves, varieties of organizations that are tormented by various factors inside the surroundings, inner and outside. The contingency concept comes in to solve the existence of the following problems. (Otley, 2016).

Because of developments, communication, industry, and new laws imposed by the Kenyan monetary authority or even the University of Audit Committees, employment conditions at banking institutions are changing increasingly often (IIA). A company's records, rules, methods, and techniques are all put to the test during an audit. Government requirements compel some financial organizations to undergo independent financial audits, but corporate standards might also demand audits in other areas, such as security and erasure (Badara, 2017). The audit sub-procedures, especially in making plans and area paintings consist of contingencies consisting of business type, worker ability level, relevant legal guidelines, to be had audit staff, to be had technology and systems, and cut-off date (Lenz and Sarens, 2012).



Daft (2012) sees contingency as something that is dependent on other factors, such as the Contingency notion. Audit functions are task-oriented and might be implemented in a haphazard manner. The functions can also differ significantly based on the location of an audited organization and the type of business model, so auditors must carefully modify their inspections and remember variables to finish the procedure. The theory of contingency is pertinent to this topic since the quality of audit reports is extremely important to commercial banks. While audit groups employ sources in line with knowledge and enjoyment, and while auditors are flexible and can adjust to system variations, the quality and output of audits remain reliable.

## **2.3 Empirical review**

### **2.3.1 Audit quality**

An audit is important as it increases the trust users have in a firm's financial report. Thus, an audit adds value to an organization's financial statements and the users can use the audit information to make financial decisions. There has however been a decrease in 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 the 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 to improve the audit quality. If the audit is independent, then the necessary external check on the audit integrity is guaranteed.

The audit's independence ensures that it is credible and of the required integrity, hence boosting its quality. If there is no audit independence, the auditor's neutrality in conducting the audit is harmed, and the user's confidence in the audit is harmed (Treasury, 2010). Zureigat (2011) investigated the impact of financial health on audit quality among Jordanian publicly traded enterprises. Using a total sample of 198 organizations and a logistic regression analysis, the study's final results show a strong and statistically significant relationship between the financial structure and audit quality criteria.

### **2.3.2 Following international standards on financial performance**

Since the results of an audit are important to many people, the auditor needs 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, the auditor must find 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 client's trust. The auditor is expected to learn by monitoring any new regulations provided by ICPAK and implementing 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).

### **2.3.3 Competence and experience of the auditors and financial performance**

The code of professional ethics regulates the accountant's job. This code is regulated by the Kenyan Institute of Certified Public Accountants (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 by the provided rules and regulations (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 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 completed. The auditor's expertise increases if he has a long experience in doing audit work. The audit quality increases if the auditor has more experience especially regarding making judgments on audits. Coklin (2013) explains that if one has more experience in a particular field then he can make quality judgments regarding cases presented to them that are regarding cases related to such a field. The findings by De Angelo (2011) however, show that the audit quality is not affected by the auditor's experience which is contrary to Kolodner's (2006) findings.

### **2.3.4 Independence of audit and financial performance**

Internal audit independence, according to Cohen and Sayag (2010), decreases misleading perceptions and conflicts of interest inside managerial operations. Despite the fact that

inner auditors are part of the control and are similarly expected to assess the activities of the whole control, their organizational independence allows them to characterize the corporation's overall routine performance effectively. According to Alim (2007), there is empirical evidence that the auditor's independence has an influence on the audit's quality. If the audit isn't conducted by an impartial birthday party, then the reliability of the file or the monetary statements does no longer exist. Consistent with a have a look at with the aid of Alzeban and Gwilliam (2014), severa troubles make a contribution to activating the feature of audit in agencies which encompass the independence and efficiency of the audit device. Many factors contribute to improving the overall performance of internal auditing; some are related to auditors, such as independence and objectivity, and others are related to senior control, such as providing the critical guide for auditing management so that the work can be carried out effectively (Dellai and Omri, 2016). Because the independence of audit committee members is inextricably linked to the 86f68e4d402306ad3cd330d005134dac of earnings in institutions and organizations, chiefs of boards of departments must no longer serve on audit committees owing to the negative impact on performance and earnings (Al-Absy et al., 2020). Auditors are assumed to be independent in all implications at some point over the course of an audit. This is critical in order to ensure that the interests of all stakeholders are adequately protected (Dakhlallah, Rashid, Wan Abdullah, and Al Shehab, 2020).

The neutrality of a competent auditor promotes fairness and instills confidence and trust in the financial assessments' end users. DeAngelo (1981) defines an auditor's independence as the chance that the designated auditor will reveal any fabric distortion in financial reviews if the fabric distortion has been previously identified. According to Chia-Ah and

Karlsson (2010), auditors' worries of objectivity are often highly important, and as a result, the efficacy of auditors in providing unbiased auditing services is jeopardized.

Hassan and Farouk (2014) have looked at the relationship between audit first-rate and the economic success of indexed cement enterprises in Nigeria. According to the findings of their research, auditor independence has the greatest impact on the performance of listed cement companies in Nigeria. According to the Basel Committee's (2012) principles for improving corporate governance, banks should have an internal audit department with sufficient power, stature, independence, assets, and access to the board of directors. Inner auditors who are objective, capable, and accredited are critical to good company governance.

Furthermore, the Basel Committee on Banking Supervision (BCBS, 2015) stated that internal audit must provide unbiased evaluation and goal assurance to the board and senior management on the pleasant and effectiveness of internal control, risk management, and company governance systems and approaches, assisting the board in securing the company's reputation. Because the independence of members of audit committees is inextricably linked to the high of profits in organizations and agencies, chiefs of forums of departments should no longer be concerned about serving on audit committees owing to the negative impact on overall performance and earnings quality (Al-Absy et al., 2020)

### **2.3.5 Size of the audit committee and financial performance**

In the banks, the audit committee has a dual purpose. On the one hand, contributors are in charge of monitoring financial cost generation, safeguarding bank wealth, ensuring the efficacy of governance measures, and resolving bank capacity conflicts of interest. On the other hand, it functions as a governance mechanism that aligns executives' interests with

those of shareholders. In a difficult economic environment, the audit committee's efficacy isn't always strong, and it suffers from a governance catastrophe. As a result, the necessity to establish this body within banks has grown considerably, particularly since the subprime crisis. For indexed companies and banks, the existence of an audit committee (ac) is required. 2013 (darmadi)

According to Anderson et al. (2004) and Krishnan and Lee (2009), the inclusion of a big audit committee offered strong supervision, improved governance, and increased disclosure and openness. Similarly, Anderson et al. (2003) and Wan et al. (2014) observed that the higher the audit committee size, the more information on governance quality is available to financial statement readers. As a result, earnings were positively and instantly enhanced. According to other investigations, the larger the acs, the less adjusted the effects would be (Yang and Krishnan 2005; Lin et al. 2006; Cornett et al. 2009).

The audit committee, because of its role in monitoring and managing control operations, takes the necessary remedial steps in the event of fraud. However, according to Gul (1989), the existence of an audit committee did not increase the auditor's sense of independence. Except for Vienot (1995), Bouton (2002), Lin et al. (2006), and Baxter and Cotter (2009), who attacked the inclusion of an audit committee within corporations and shown that the audit committee had no authority within the company. If the number of auditors (audit committees) is large, this will lead to a loss of interest in the job and a lack of collaboration among the auditors in making informed decisions. As a result, their knowledge and abilities remain underutilized (Dharmadasa et al., 2015).

According to Anderson et al. (2004), the size of the audit committee will be determined by the organization's current requirements and culture, as well as the extent to which the

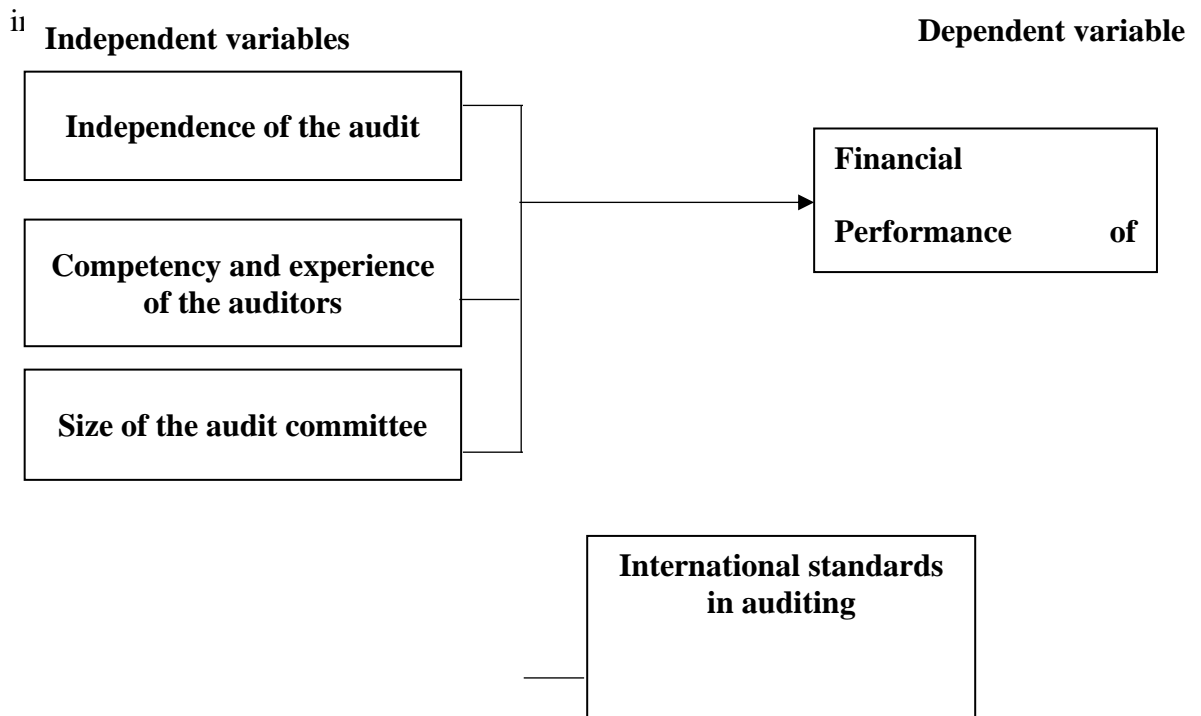
board assigned tasks and responsibilities to the audit committee. A large number of participants may have a detrimental impact on the quality of the conversation and the presentation's result. Similarly, only a few people would intercede with the audit committee chair if they had enough facts and opinions to make an educated decision. The size of the audit committee is an important factor to consider when it comes to successful execution and fulfillment of tasks, which leads to fraud reduction.

According to the Cadbury Committee (1992), various business governance reports recommended that at least three audit committee directors be appointed (New York Inventory Trade, 2002). According to the document, a large committee has more authority, organizational popularity, and a larger pool of ideas. However, if it grows too large, it may be vulnerable to inefficiencies, slow procedures, and authority dispersion. This might help you avoid being caught up in a scam. The audit committee's short duration, in this case, may be considered more feasible and therefore green in terms of carrying out their tasks because their methods are rapid and powerful.

The growth of audit committees necessitates the company allocating additional resources to support its internal control and financial reporting oversight role. Due to specific abilities and insights in assuring detailed data, precision, and dependability in financial accounts, an extensive audit committee is much more likely to be powerful in their tasks. In contrast to small audit committees, Anderson et al. (2004) found that a big audit committee successfully regulates and defends the procedures and strategies concerned in accounting and finance. Large committees provide openness for shareholders and lenders, which helps significantly to the audit committee's increased performance.

## 2.4 Conceptual framework

The conceptual framework for this study illustrates the interrelationship between the dependent variable and the independent variable. The dependent variable was financial performance measured using ROA. The independent variables were independence of the audit, size of the audit committee, competency and experience of the auditors, and following international standards in auditing. Figure 2.1 below illustrates this



**Figure 2.1: Conceptual framework**

**Source: Researcher, 2021**



## **2.5 Summary of literature and research gaps**

The integrity of the personnel in command of accounting in universities, as well as the frequency and regularity with which they meet, as well as the size of the audit committee, have a favorable effects on the success of organisations and the quality of their deliverables (Bansal and Sharma, 2016). The size of an AC helps businesses improve their financial performance by including all members in the process of regulating operations, which helps to improve the quality of financial reporting (Commey et al., 2020).

Although much study has been done on audit and financial performance, the majority of studies have focused on the impact of external and internal audit on performance. Other academics have focused on how audits affect cooperative governance. The research has primarily focused on determining whether or not there is an audit expectation difference in various nations. Other research have delved deeper into the origins and remedies to the audit quality problem. Other research has looked at the causes of audit quality and even built a quality model to represent the various components. Internal auditors' independence is under jeopardy, especially with the formation of the audit committee and its accountability to the board of directors and shareholders, making this role worth studying and researching.

Tepalagul and Lin (2015) offered a comprehensive evaluation of academic literature on audit quality and auditor independence in Ghana. The report went on to say that the mixed data, together with recent legislative developments, opens the door for more research into auditor independence and audit quality in the future. As a result of this gap and the lack of clear data, the purpose of this study was to determine the impact of audit quality on the financial performance of commercial banks in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section presents the methodology that was adopted by this study. The chapter discusses the research design, research philosophy, sampling and sample size, data collection instruments and procedures, validity and reliability, and data analysis.

#### **3.2 Research philosophy**

The foundation of knowledge on which underlying predispositions of a study are founded is research philosophy, which governs the perception of the nature of reality and forms the basis of knowledge. The pragmatic philosophy served as the foundation for this research. The philosophical foundation for the mixed methods approach is widely recognized as pragmatism (Denscombe, 2008).

#### **3.3 Research design**

A descriptive cross-sectional research approach was used in this study. In descriptive investigations and generalizations of results, survey designs have been shown to be accurate (Ngechu, 2004).

#### **3.4 Target population**

The 42 registered and regulated commercial banks in Kenya were the study's target audience. Within these banks, the researcher targeted the officers within the audit department and the audit committees. There are 42 banks in Kenya with an average of 5 members in the audit committee and an average of 10 members in the audit department. The targeted participants were 630.

### **3.5 Sampling technique and sample size**

Purposive and simple random sampling were the sample strategies used in this investigation. Purposive sampling strategies entail choosing selected units or instances for a specified reason (Cooper and Schindler, 2011). The study utilized purposive sampling in selecting participants from the population of audit committee members. This is because they are knowledgeable about the key issues under study and are responsible for audit oversight within the respective banks. Simple random sampling was used to select participants from the population of members of audit departments in the respective banks.

When the research population is smaller than 10,000, a sample size of between 10% and 30% is a suitable representation of the population, according to Mugenda & Mugenda (2013). The formula suggested by Mugenda & Mugenda was used in this investigation (2013). As a result, the following was used to determine the research sample size:

$$30/100*630=189$$

Considering an allowance of 10 participants, the sample size was  $189+10$

Therefore, the study sample was 199 participants.

### **3.6 Sources of data**

For this investigation, both primary and secondary data were employed. Primary data was collected via self-administered questionnaires. To save time and money, primary data was obtained utilizing a self-administered semi-structured questionnaire through the drop-and-pick approach, which allows for quicker analysis because the data is instantly accessible. To reduce participant reaction time and effort, five-point likert scales were employed (Zainol and Ayadurai, 2011). According to research, a five-point scale is as good as any

other, and increasing the rating scale from five to seven or more points does not improve the ratings' dependability (Kline, 2011). The researcher adopted the drop and pick method in collecting the data. This method involves handing out the questionnaires to the respondents and picking them at a later date.

Taking into account the prevailing Covid-19 pandemic and the containment measures were in place, the researcher was biased to using mailed questionnaires aided by Google forms. This was to make sure that the researcher was compliant with the containment regulations, avoid predisposing himself to the risk of contracting the virus as well as fit into the new world order of social distancing. Non-response was expected, and it did occur with this mode of data collection. To reduce non-response bias, telephone contact with respondents was developed such that calls were made before dropping or mailing the surveys, as well as before picking up the completed questionnaires, urging them to fill them out before giving them over. Calls were made to remind respondents to fill out and return surveys that were sent through the internet.

Secondary data was gathered from audited financial reports of the commercial banks from the last five years (2016 – 2020). From these reports, the banks' performance was obtained by extracting indicators that were used to measure financial performance (ROA). The panel data was summarized through a weighted average for the 5 years. The weighted average for the ROA was used as the dependent variable for the various banks.

### **3.7 Validity**

Cooper and Schindler (2014) distinguish between three types of validity: content validity, criterion-related validity, and construct validity, as well as the assessment procedures for

each. Content validity and construct validity were used in this study, which were assessed using judging discretion and panel evaluations. Content validity ensured that the instrument captured the many meanings of the ideas being examined (Babbie, 2002), whereas construct validity ensured that the instrument captured the concepts that comprise the study's foundation (Houser, 2011). To establish the validity of the data collection instruments, a draft copy was availed to the supervisors and a panel of experts for review. The views, opinions, and recommendations from the supervisors was be factored into the refining of the questionnaire where necessary.

### **3.8 Reliability**

The degree to which a study instrument was consistent is referred to as its dependability. According to the US Census Bureau (2010), reliability is defined as the consistency and dependability of data obtained using the same scientific instrument or data collecting process over and over again under the same conditions. Phelan and Julie claim that (2006).

Cronbach's alpha was used to determine the questionnaire's internal consistency, with a minimum value of 0.7 being set as the goal (Santos, 1999). Cronbach's alpha, which is a measure of internal consistency, or how closely a collection of items are connected, will be used as a scale reliability indicator. Internal consistency refers to how well a group of items may be used to measure a single hidden variable (Cronbach, 1951). Cronbach's alpha ( ) was utilized as a cut-off dependability since it has a suggested value of 0.7. (Fraenkel & Wallen, 2000). The stronger Cronbach's alpha is, the more reliable the internal consistency is (Sekaran, 2003). According to Du Plessis (2010), when calculating Cronbach's alpha coefficient, scores less than 0.60 indicate a lower degree of acceptance.

A high coefficient of 0.80 or more implies a high degree of reliability of the data. Examples of where Cronbach's alpha is used for the same purpose include Okeyo et al, (2014); Hughes and Morgan (2007); Ferreira, Azevedo, & Fernandez (2011).

### **3.9 Diagnostic tests**

Regression assumptions will be taken into consideration to validate the regression equation and reduce the probability of type I and type II errors. The researcher will therefore conduct the following tests:

#### **3.9.1 Multicollinearity**

Multicollinearity is a statistical phenomenon that occurs when two or more unbiased variables in multiple regression models are clearly associated (Robert, 1967). If the correlation is 1 or -1, the regression coefficients are estimated to be impossible or untrustworthy in the extreme scenario (Robert, 1967). Multicollinearity might not be an issue. Severe multicollinearity, on the other hand, is an issue since it can increase the variance of the coefficient estimates and make the estimates extremely sensitive to small changes in the model.

#### **3.9.2 Heteroscedasticity**

The variance of the errors is constant across the data, which is one of the main assumptions of regression. The errors are said to be homoscedastic if they have a constant variance. To test this assumption, residuals are usually shown. Heteroscedasticity is the number of random variables in a set of records. When errors are heteroscedastic or have non-consistent variance, many estimating procedures are ineffective (Goldberger & Arthur, 1964). The Breusch–Pagan test was employed in this work to assess for

heteroscedasticity in the linear regression model. It becomes used to see if the expected variance of the residuals from the regression is affected by the values of the independent variables.

### **3.10 Data analysis and presentation**

According to Zikmund, Babin, Carr, & Griffin (2010), Bryman (2012), data analysis is the use of logic to comprehend the data acquired in order to identify consistent patterns and synthesize the significant facts disclosed in the research. After the surveys were completed, the raw data was methodically structured in a way that made analysis easier. The raw data was cleaned and altered to allow for both quantitative and qualitative analysis.

The SPSS data analysis tool was used to examine the data acquired using descriptive and inferential statistics. Frequencies in both absolute and relative forms were used in descriptive analysis (percentage). The mean and standard deviation were also employed to assess central tendencies and dispersion. Correlation and regression analysis were among the inferential statistics used. The results was presented using tables, charts, and graphs and accompanied by a narrative of the statistics. A multivariate analysis of the effect of audit quality factors on the financial performance of commercial banks was performed by estimating a linear regression as shown by the regression equation below:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Where;

Y = Financial performance (ROA)

$\beta_0$  = the model intercept

$\beta_1$ - $\beta_4$  = Coefficients of independent variables

X1 – Independence of audit

X2 – Competency and experience of the auditors

X3 – Audit committee size

X4 – International standards of auditing.

$\varepsilon$  = Error Term



## CHAPTER FOUR

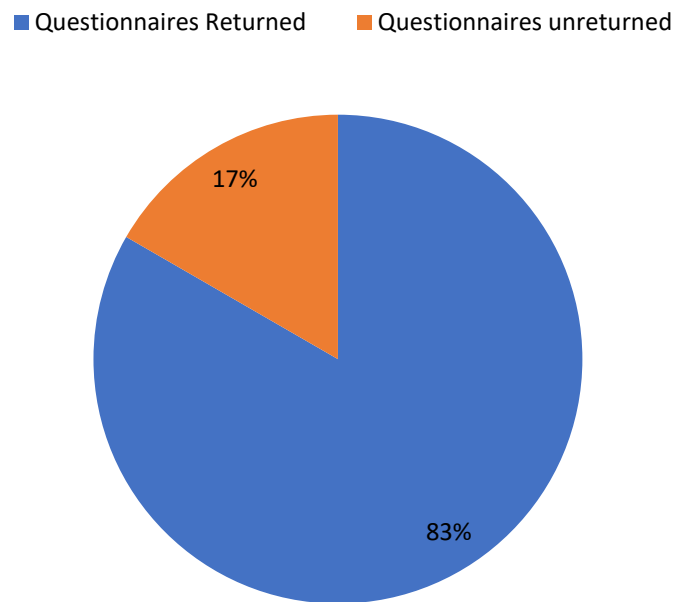
### RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the finding, analysis, interpretation and discussion of the study findings. The descriptive statistics was utilized to analyze the quantitative data. This included mean and standard deviation. The analyzed findings were presented in tables, charts and graphs.

#### 4.2 Response Rate

The study involved all the 42 registered commercial banks in Kenya. The questionnaires were administered to the finance department supervisors, accountants and finance managers. The rate of respondents was as indicated in figure 4.1



### ***Figure 4.1: Response Rate***

Out of the 42 questionnaires 35 were successfully filled and collected leading to a response rate of 83%. Bryman and Bell (2015), alludes that a 50% response rate is satisfactory and a 60% is good and a feedback rate above 71% is considered excellent. Therefore the response rate was sufficient enough for the study.

### **4.3 Test of Reliability Analysis**

A pilot study was conducted to ascertain the reliability of the research instrument. It involved size respondents who had been omitted from the main study were involved. Using Cronbach Alpha (Cronbach, 1951), which tests internal accuracy, the reliability of the questionnaire was assessed. The results are shown in Table 4.2.

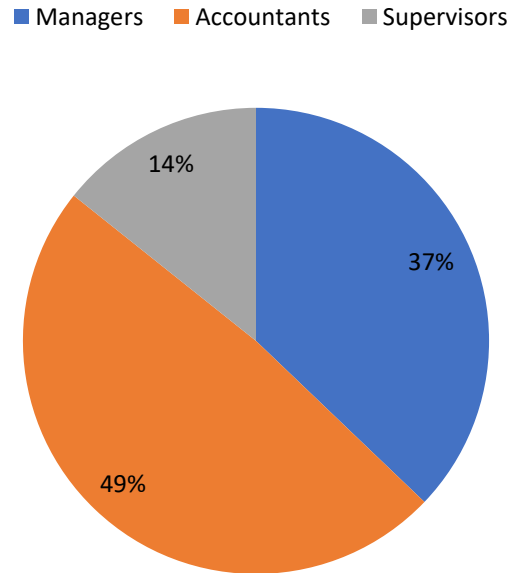
Table 4.1: Reliability Statistics

Variable	Cronbach's Alpha ( $\alpha$ )	N of Items
Size of the audit committee	0.670	4
Independence of the Audit	0.701	5
Competency and experience of the auditors	0.662	4
International standards in auditing	0.891	4

The values of the Cronbach as shown in table 4.2 was above 0.6 which therefore matches the acceptable limit of reliability. Specifically, the Cronbach alpha ( $\alpha$ ) values for the four independent variables are: Size of the audit committee .670, independence of the Audit.701, Competency and experience of the auditors .662 and international standards in auditing.891.

#### 4.4 Profile of the Respondents

The study sought to identify the different positions held by the respondents. This was relevant in establishing the extent to which the data collected was obtained. It included finance managers, accountant and supervisors. The findings were as shown in figure 4.2.



*Figure 4.2: Position held in the Bank*

Out of the 35 respondents who successfully filled and returned the questionnaires the distribution of comprised of the following; 13 finance managers, 17 accountants and 5 supervisors. This translated to 37%, 49% and 14% respectively. The subjects were well conversant with audit standards and financial accounts and performance of the banks since their positions enabled them to interact with such information.

#### 4.5 Test of Normality

The Kolmogorov-Smirnov and Shapiro-Wilk tests were conducted to check for the normality of the distribution of the variables. In both the Kolmogorov-Smirnov and Shapiro-Wilk tests when the p-value is less than the predetermined threshold, which is normally 0.05 for a one-tailed test, there is enough evidence to reject the null hypothesis, that is, that the population is not normally distributed. When the p-value is more than 0.05, there is no sufficient evidence to discard the null hypothesis meaning that the distribution of the population is normal. The results were as shown in table 4.2.

Table 4.2: Test of Normality

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Size of the audit committee	.292	31	.200	.857	31	.466
Independence of the Audit	.233	31	.001	.873	31	.002
Competency and experience of the auditors	.184	31	.200	.923	31	.120
International standards in auditing	.266	31	.000	.858	31	.001

a. Lilliefors Significance Correction

The p-value of the Kolmogorov-Smirnov test in table 4. 2 above are as follows: Size of the audit committee .200, Independence of the Audit .001, Competency and experience of the

auditors .200 and International standards in auditing .000. These results showed that the data for Size of the audit committee and auditor professional competence were normally distributed as indicated by a p-value of .200 for both variables while the data for auditor independence and Independence of the Audit were not normally distributed because the p-values were less than 0.05 i.e. .001 and International standards in auditing .000 respectively. This conclusion was affirmed by the outcome of the Shapiro-Wilk test with the following p-values: Size of the audit committee.466, International standards in auditing .000, Competency and experience of the auditors.120 and Independence of the Audit.000.

#### 4.6 Test of Multicollinearity

Multicollinearity happens when there a significant correlation occurs when there is high correlation between variables that are expected to predict the dependent variable. In this study multicollinearity was tested by use of tolerance levels and variance inflation factors (VIF). Tolerance indicates the extent to which variability of a particular variable cannot explain the other predictor variables in a model. A tolerance value of less than .10 implies the possibility of high multiple correlations signifying existence of multicollinearity. Variance inflection factor (VIF) is the opposite of tolerance, a value of more than 10 indicates that there may be multicollinearity.

Table 4.3: Multicollinearity Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
	Size of the audit committee	.622	1.607

	Independence of the Audit	.717	1.395
	Competency and experience of the auditors	.804	1.244
	International standards in auditing	.777	1.287
	Liquidity	.871	1.148
	Adequacy	.832	1.202

a. Dependent Variable: ROA

Table 4.3 above contains the results of multicollinearity tests for this study. The tolerance values were .622 for Size of the audit committee, .717 for Independence of the Audit, .804 for competency and experience of the auditors, .777 for International standards in auditing, .871 for liquidity and .832 for capital adequacy. On the other hand VIF values were 1.607 for Size of the audit committee, 1.395 for Independence of the Audit, 1.244 for Competency and experience of the auditors, 1.287 for International standards in auditing, 1.148 for liquidity and 1.202 for capital adequacy. The test results revealed no multicollinearity between the variables.

#### **4.7 Independence of Audit**

This study's purpose was to investigate the effects of audit quality on the financial performance with the respondents drawn from commercial banks in Kenya as measured by proxies which consisted of

Independence of audit, Size of the audit committee, competency and experience of the auditors and International standards in auditing. The respondents' views were collected by use of a questionnaire.

Table 4.4: Independence of Audit

	SA	A	N	DA	SA
There is high independence in the relationship of personnel of the bank to the auditors					
Auditors have state of mind independence when making audit decisions					
There is high independence in the relationship of the Directors of the bank to the auditor					
Auditors are involved in the day-to-day activities of the banks					
Auditors portray high interest in having no conflict of interest					
Auditors are not involved in the day-to-day internal control process					
Financial performance of the bank can be attributed to the level of independence of its auditors					
Threat to the bank's audit independence is significant and can reduce the auditors' efficiency in offering the auditing services.					
Lack of rotation of auditors by the bank may end up having their independence compromised.					
The bank's both internal and external auditors are independent of personnel and operational activities of the organization.					
The bank utilizes the independent auditors report to enhance stakeholder confidence.					
The independent and objective approach are key to auditors independence in our bank					

**SECTION C: COMPETENCY AND EXPERIENCE OF THE AUDITORS**



Financial performance of the bank can be attributed to the level of independence of its auditors	4.01	.764
Threat to the bank's audit independence is significant and can reduce the auditors' efficiency in offering the auditing services.	3.51	.845
Lack of rotation of auditors by the bank may end up having their independence compromised.	4.14	.627
The bank's both internal and external auditors are independent of personnel and operational activities of the organization.	4.87	.819
The bank utilizes the independent auditors report to enhance stakeholder confidence.	4.07	.624
The independent and objective approach are key to auditors independence in our bank	3.78	.745

On the importance of auditor independence the results in table 4.4 above showed that the respondents concurred with the statements that there the three is high independence in the relationship of personnel of the bank to the auditors with a mean of 4.21 and a standard deviation of .559; that auditors have state of mind independence when making audit decisions with a mean of 4.07 and standard deviation .753; that there is high independence in the relationship of the directors of the bank to the auditor, mean 3.90 , standard deviation of .860; that auditors are involved in the day-to-day activities of the banks, mean 4.21 , standard deviation of .620; that auditors portray high interest in having no conflict of interest, mean 4.11, standard deviation of .519; that auditors are not involved in the day-to-day internal control process, mean 3.71, standard deviation of .507; that financial performance of the bank can be attributed to the level of independence of its auditors, mean 4.01 , standard deviation of .764;

	SA	A	N	DA	SA
There is high independence in the relationship of personnel of the bank to the auditors					
Auditors have state of mind independence when making audit decisions					
There is high independence in the relationship of the Directors of the bank to the auditor					
Auditors are involved in the day-to-day activities of the banks					
Auditors portray high interest in having no conflict of interest					
Auditors are not involved in the day-to-day internal control process					
Financial performance of the bank can be attributed to the level of independence of its auditors					
Threat to the bank's audit independence is significant and can reduce the auditors' efficiency in offering the auditing services.					
Lack of rotation of auditors by the bank may end up having their independence compromised.					
The bank's both internal and external auditors are independent of personnel and operational activities of the organization.					
The bank utilizes the independent auditors report to enhance stakeholder confidence.					
The independent and objective approach are key to auditors independence in our bank					

### **SECTION C: COMPETENCY AND EXPERIENCE OF THE AUDITORS**

#### **4.8 Competency and experience of the auditors**

Table 4.8: Competency and experience of the auditors

From table 4.8 above the results of the responses were: Audit departments with professional and talented auditors decorate performance via bringing a better concordance of the surplus and deficit with the typically everyday Accounting concepts with mean of 4.45, standard deviations of .506; all auditors have met the CPD hours set by ICPAK with a mean 4.31, standard deviations of .471, auditors have met the minimum requirements set by ICPAK, mean 4.12, standard deviations of .461; auditors attend refresher courses and workshops to keep up with new trends as part of continuous professional development, mean 4.52, standard deviations of .442; the bank's audit experiences and practices improve the bank's performance through enhanced integrity and good values, mean 4.37, standard deviations of .438; the auditors' experience influence its performance through enhanced employee working style and ethics, mean 4.28, standard deviations of .421; the auditors' experience impact the manner in which the banks distributes authority and commitment thus its financial performance, mean 4.08, standard deviations of .411; the auditors' experience usually entail aspects of the auditors' integrity and quality which influence its financial performance, mean 4.14, standard deviations of .465.

#### 4.9 International standards in auditing

	Mean	Standard Deviation
The bank subscribes to Generally Accepted Accounting Principles	3.52	1.153
Adherence to Generally Accepted Accounting Principles leads to accurate financial and accounting statements	3.52	.986
Auditors adhere to the rules and guidelines set by ICPAK, IAS and ISA	3.90	.900
Performing auditing work according to international auditing standards contributes significantly financial performance of the bank	3.66	.857
Complying with professional standards is the most important contributor to IA's added value	3.42	.842
Standards for audits and audit-related services influence the performance of commercial banks	3.56	.918
Bank auditors carry out their role objectively and in compliance with accepted criteria for professional practice	3.47	.916
Adherence to international standards contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking	3.53	.853

**Table 4.9: International standards in auditing**

From table 4.9 above the results of the responses were: The bank subscribes to Generally Accepted Accounting Principles, mean of 3.52, standard deviations of 1.153; adherence to Generally Accepted Accounting Principles leads to accurate financial and

accounting statements, mean of 3.52, standard deviations of .986; auditors adhere to the rules and guidelines set by ICPAK, IAS and ISA, mean of 3.90, standard deviations of .900; performing auditing work according to international auditing standards contributes significantly financial performance of the bank, mean of 3.66, standard deviations of .857; Complying with professional standards is the most important contributor to IA's added value, mean of 3.42, standard deviations of .842; standards for audits and audit-related services influence the performance of commercial banks, mean 3.56, standard deviations of .918; bank auditors carry out their role objectively and in compliance with accepted criteria for professional practice, mean of 3.47, standard deviations of .916; adherence to international standards contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking, mean 3.53, standard deviations of .853.

#### 4.10 Size of the audit committee

	Mean	Standard Deviation
The bank uses the number of years in service to determine audit committee size	3.97	.731
The bank uses the number of branches to determine audit committee size	4.21	.675
The bank uses the number of customers to determine audit committee size	4.31	.471
The bank uses the number of shareholders to determine audit committee size	3.87	.631
The bank uses the number of audit committee meetings to determine audit size	4.29	.687
The bank uses the size of its human resource to determine audit committee size	4.29	.675
The bank's performance is enhanced by the size of its audit committee	4.23	.633
Large audit committees offer the diversity that would enhance quality, service delivery	4.38	.684
Large audit committees have assisted the banks minimize internal and external risks thus enhancing performance.	4.27	.628

**Table 4.10: Size of the audit committee**

From table 4.10 above the results of the responses were: The bank uses the number of years in service to determine audit committee size , mean of 3.97, standard deviations of .731; the bank uses the number of branches to determine audit committee size, mean of 4.21, standard deviations of .675; the bank uses the number of customers to determine audit committee size, mean of 4.31, standard deviations of .471; the bank uses the number of shareholders to determine audit committee size, mean of 3.87, standard deviations of .631; the bank uses the number of audit

committee meetings to determine audit size, mean of 4.29, standard deviations of .687; the bank uses the size of its human resource to determine audit committee size, mean 4.29, standard deviations of .675; the bank’s performance is enhanced by the size of its audit committee, mean 4.23, standard deviations of .633; large audit committees offer the diversity that would enhance quality, service delivery, mean 4.38, standard deviations of .684; large audit committees have assisted the banks minimize internal and external risks thus enhancing performance, mean 4.27, standard deviations of .628;

#### 4.11 Financial Performance

The banks financial performance was evaluated using return on asset ratio (ROA) for the five years period from 2016 to 2020. The ROA was calculated as profit before interest and tax divided by total assets. The ROA descriptive statistics, that is, the mean, standard deviation, skewness and kurtosis are presented in table 4.11 below. Kurtosis was used to measure the peakedness or flatness of the distribution of the data. In a normally distributed data kurtosis  $k = 3$ . When the data distribution forms a curve with a high peak kurtosis  $k > 3$ . On the other hand, the distribution of data that results in a flat curve kurtosis  $k < 3$ .

Skewness was used to measure the symmetry or asymmetry of the data. When data is perfectly symmetrical the skewness is equal to zero. A normally distributed data has a skewness of zero.

Table 4.11: Return on Assets (ROA) Descriptive Statistics

Year	N	Min	Max	Mean	Std. Deviation	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error

							r		r
2020	34	-14.14	6.49	1.35	3.73	-2.354	.403	8.537	.788
2019	34	-7.01	7.91	2.38	2.91	-1.068	.403	2.317	.788
2018	34	-4.53	6.56	2.63	2.64	-1.114	.403	1.141	.788
2017	33	-2.78	6.42	2.65	2.26	-.361	.409	-.362	.798
2016	33	-.98	7.65	3.27	2.19	.011	.409	-.387	.798
<b>Average (2016-2020/5) ROA</b>	<b>34</b>	<b>-5.89</b>	<b>6.09</b>	<b>2.46</b>	<b>2.34</b>	<b>-1.230</b>	<b>.403</b>	<b>3.505</b>	<b>.788</b>
Valid N	33								

From table 4.8 above the ROA had a mean value of 2.46 and a standard deviation of 2.34. The coefficient of skewness for the ROA was -1.230 which means that the distribution of the data was negatively skewed because the skewness is less than zero. The value of the kurtosis was 3.505, denoting that the distribution of the data formed a leptokurtic curve, i.e. a curve with a high peak. This is because the kurtosis value was greater than 3.

#### 4.12 Capital Adequacy

The capital adequacy ratio was used to appraise the banks' capital adequacy. The ratio was computed by dividing total capital by the total risk weighted assets. The data of the banks' capital adequacy ratio was collected for the period 2013 to 2017. The minimum statutory adequacy ratio required by the Central Bank of Kenya is 14.5%. The average and standard deviation were calculated and the results are presented in table 4.9 below.



Table 4.9: Capital Adequacy Descriptive Statistics

Year	N	Min	Max	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
2020	34	.00	38.80	19.63	7.93	.033	.403	.994	.788
2019	34	7.20	43.30	22.09	7.83	.865	.403	1.312	.788
2018	33	9.40	32.10	20.09	5.27	.601	.409	-.056	.798
2017	32	.00	37.20	18.93	6.50	-.038	.414	2.656	.809
2016	32	.00	65.00	22.36	10.95	1.962	.414	6.996	.809
Average (2016- 2020/5) ROA	<b>34</b>	<b>10.24</b>	<b>34.52</b>	<b>20.77</b>	<b>6.00</b>	<b>.624</b>	<b>.403</b>	<b>-.237</b>	<b>.788</b>

From table 4.12 above capital adequacy had a mean value of 20.77 and a standard deviation of 6.00. The skewness factor was .624 which means that the data is positively skewed because the coefficient for skewness is greater than zero. The value of the kurtosis was-.234 signifying a platykurtic curve i.e. the data distribution formed a flat curve since kurtosis value was less than 3.

### 4.13 Inferential Statistical

To establish the degree and nature of correlation between audit quality and financial performance, the researcher conducted inferential statistical analysis including, regression analysis, correlation analysis and analysis of variance. The results of the analysis are presented below.

#### Correlation Analysis

Correlation analysis was conducted to establish the extent and direction of correlation between financial performance and audit quality as measured by proxies comprising of Size of the audit committee, Independence of the Audit, Competency and experience of the auditors and International standards in auditing. Correlation analysis was done to determine the relationship between financial performance and capital adequacy. The outcomes are contained in table 4.13

Table 4.10: Correlation Coefficients

		ROA	Size of the audit committee	Independence of the Audit	Competency and experience of the auditors	International standards in auditing	Capital adequacy
ROA	Pearson Correlation	1					
	Sig (2-tailed)						
Size of the audit committee	Pearson Correlation	.136	1				
	Sig (2-tailed)	.472					
Independence of the Audit	Pearson Correlation	.455*	.185	1			
	Sig (2-tailed)	.011	.328				
Competency and experience of the auditors	Pearson Correlation	.211	.291	.109	1		
	Sig (2-tailed)						

	tailed)						
International standards auditing	Pearson Correlation Sig (2-tailed)	-.277	-.709	-.648	-.257	1	
Capital Adequacy	Pearson Correlation Sig (2-tailed)	.282 .132	.195 .302	.445* .380	-.020 .917	-.186 .324	1

N=31; \*P<.05; \*\*P<.01

The results of correlation analysis in table 4.10 above indicates that there was a positive correlation between ROA with Size of the audit committee with a Pearson correlation of .136, Independence of the Audit with a Pearson correlation value of .455, Competency and experience of the auditors, correlation value of .211 which means that as ROA increased the three variables increased as well. International standards in auditing had a negative correlation of -.277 meaning that as financial performance increased the International standards in auditing decreased. The Pearson correlation between financial performance and Independence of the Audit was .455 which was statistically significant as verified by a p- value of .011. However, the relationship between financial performance and Size of the audit committee was insignificant at  $p < .05$  because the p-values of the variables are .472.

In addition, capital adequacy had a positive correlation with financial performance with a Pearson correlation of .282 and p-value of .132.

### **Regression Analysis**

Regression analysis is a quantitative method used in scientific research for predicting the behavior of a dependent variable in response to the behavior of the predictor variable or

variables. In the current study, regression analysis was conducted to determine the relationship between financial performance, audit quality and capital adequacy.

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.632 <sup>a</sup>	.400	.340	1.90235

a. Dependent Variable: ROA

b. Predictors: (constant), Audit Quality, Capital Adequacy

The results of the coefficient of determination ( $R^2$ ) in table 4.11 was .400 which means that there was a change of 40% (.400 x 100) in the financial performance as a result of changes in audit quality and capital adequacy. The outcome of the study likewise showed a moderate correlation between commercial banks' financial performance and external audit quality as depicted by the correlation coefficient of .632

### Analysis of Variance

Table 4.12: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	72.303	2	24.101	6.660	.001 <sup>b</sup>
	Residual	108.569	31	3.619		
	Total	180.872	33			

a. Dependent Variable: ROA

b. Predictors: (Constant), Audit Quality, Capital Adequacy

To determine if there was significant variation between the means of the groups, analysis of variance (ANOVA) was conducted. Table 4.12 above contains the results of the analysis of variance. From the findings the ANOVA analysis resulted in an F- significant p-value of .001. The ANOVA results indicate that the model provides a good basis of making conclusions on the variables as the significance level is less than 5% with a p-value of .001. As such, the model can be applied in predicting how audit quality affects financial performance of commercial banks in Kenya for it shows that there is less than 0.1% chance of the regression model giving incorrect information.

### Regression Coefficients

Multiple regression analysis generates the significance of the coefficients of the effects of the respective predictor variables on the dependent variable. The significance or insignificance of each variable is evaluated. The values of beta ( $\beta$ ) are also appraised to find out which variable makes the most contribution. The outcome of the regression coefficients are contained in table 4.13 below.

Table 4.13: Regression Coefficients

Model	Unstandardize Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	2.698	.333		8.089	.000
1 Audit quality	2.579	2.791	.191	.924	.363
Capital adequacy	3.495	2.706	.331	1.291	.206

a. Dependent Variable: ROA

The resulting regression equation is as follows based on the results contained in table 4.13 above.  $Y=2.698+2.579X_1+3.495X_2+\varepsilon$

where Y- Financial performance (ROA),  $\alpha$ - Regression Constant,  $X_1$ - audit quality and  $X_2$ - capital adequacy.  $\beta_1$ -  $\beta_2$  are the regression coefficient for each of the independent variable and  $\varepsilon$ - is the estimation of error.

Table 4.13 showed that a unit of audit quality would increase financial performance (ROA) of commercial banks by 2.579 while capital adequacy would increase financial performance by 3.495. At 5% level of significance audit quality had a p-value of .363 while capital adequacy had a p-value of .206 implying that the two variables were not statistically significant.

#### **4.14 Discussion of Findings**

Auditors have a crucial role of contributing to the authenticity of the financial statements on which they report. It is therefore imperative that the audit conducted is of high standard so as to build the trust and confidence of the public in the financial statements and in the entire financial reporting process. This study established that audit quality measured using four key parameters, that is, Size of the audit committee, Independence of the Audit, Competency and experience of the auditors and International standards in auditing. This was demonstrated by the resulting adjusted R of .400 which means that a variability of 40% of commercial banks' financial performance was a result of the independent variables while 60% of financial performance of the banks was the outcome of factors not covered by this study. The R value of .632 showed that there was a moderate relation between financial performance and

audit quality. This denotes that the model provides an adequate basis for predicting correlation between financial performance and audit quality.

#### **4.15 Size of the audit committee**

The results obtained for correlation analysis in table 4.11 showed that the relationship between financial performance and Size of the audit committee was affirmative as represented by a Pearson correlation of .136. The relationship was however not significant at the 0.05 level because the p-value was .472. The findings of this study are echoed in the conclusion of a research conducted on Size of the audit committee and financial performance of banks in River State, Nigeria, Enofe, Fyनेface and Oladeji (2013) concluded that complying with auditing standards i.e. all the applicable rules and regulations, gives an audit the mandate to settle corporate governance issues and enhance corporate financial performance.

#### **4.16 Independence of the Audit**

The test results of the correlation between auditor independent and financial performance showed that there was significant positive correlation as demonstrated by a correlation Coefficient of .455 and a p-value of .011. Independence of the Audit increases the capacity of a firm to make considerable net profit margins (Matoke & Omwenga, 2016). This conclusion by Matoke and Omwenga affirms this study's findings on the importance of Independence of the Audit in enhancing corporate financial performance.

#### **4.17 Competency and experience of the auditors**

Competency and experience of the auditors correlates with financial performance at correlation value of .211. The relationship was however not significant statistically as the p-

value was .262. Professional competence encompasses not only professional training, certification and licensing, but also builds up the people's expertise through technical training, stimulating knowledge and understanding of the business and the industry, establishing specialist networks and setting up efficacious consultation processes.

#### **4.18 International standards in auditing**

International standards in auditing negatively correlates with financial performance at a correlation score of  $-.277$ . Nevertheless, the association between the two variable was not statistically significant as the p-value was  $.139$ . The utilization of international standards of auditing is not necessarily a factor when measuring performance.

#### **4.19 Capital Adequacy**

Capital adequacy correlates positively with financial performance as revealed by correlation coefficient of  $.282$  and p-value of  $.132$  in table 4.10. The regression coefficients in table 4.13 indicated that a unit of capital adequacy increased financial performance by  $3.495$ . This conclusion is affirmed by a prior study conducted by Carelle (2016) on factors affecting the financial performance of commercial banks in Kenya which the findings indicated that as capital adequacy increased both ROA and ROE increased as well. Ongare and Kusa (2013) came to the same conclusion in a study they conducted on the determinants of financial performance of commercial banks in Kenya.



#### **4.20 Conclusion**

The intent of this study was to determine the effects of audit quality on financial performance of commercial banks in Kenya. Four proxies of size of the audit committee, independence of the audit, competency and experience of the auditors and international standards in auditing were surveyed. The respondents who participated in the study were composed of finance managers, accountants and supervisors in the finance department and they were all in agreement that audit quality influences financial performance of commercial banks.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of the findings, conclusion, recommendations and propositions for further studies.

#### **5.2 Summary**

The objective of this study was to determine the effects of audit quality on financial performance of commercial banks in Kenya. Audit quality was measured using four proxies comprising of size of the audit committee, independence of the audit, competency and experience of the auditors and international standards in auditing. Of these proxies, size of the audit committee, independence of the audit and competency and experience of the auditors stood out as having strong relationship with financial performance.

Capital adequacy with a positive correlation of 0.282, shows that as capital adequacy increases financial performance also increases. Capital adequacy is the statutory minimum reserve that is used to fund a bank's operations and provide a caution in case of financial distress. It then follows that as the capital reserves are increased the ROA increases implying that the bank has available resources to fund its operations and generate more income.

#### **5.3 Conclusion**

Audit quality is an audit that is both systematic and an objective evaluation of financial accounts. Audit quality is achieved when performed by a competent auditor with the professional experience. Audit quality is important to a company because when the accounts are found to be in good order, it is a demonstration of sound financial position and performance

and this predisposes the company to investors and other venture partners. The main drivers of audit quality espoused by the findings of the current study are compliance with auditing standards and auditor independence.

The responsibility of an auditor is to give an opinion on the financial reports prepared by the management. The opinion given is based on the judgment made after the audit process is complete. The auditor is expected to give an impartial and honest opinion to the shareholders. For this to happen, it is imperative that the auditor maintains independence to avoid undue influence and compromise of his/her work. Sufficient measures ought to be put in place to safeguard the independence of the auditors.

#### **5.4 Recommendations**

Auditor independence correlates significantly with compliance with size of the audit committee would therefore gain competitive advantage by applying competency and experience of the auditors within their operating environment. Organizations would also be assured of audit quality by creating an environment that promotes auditor independence. In addition, audit staff should be given opportunities to practice so that they can gain the required experience and thus improve on the quality of their work. On the other hand, in the vetting process when hiring external auditors by organizations, professional competence and experience should be prioritized.

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

The study population was made up of the 42 registered banks in Kenya. Forty two questionnaires were distributed, one each to every bank. However, 35 questionnaires were returned leaving out 7 banks. Also, due to the sensitive nature of the information required,

some respondents were skeptical and chose not to participate in the study. This may have diluted the quality of the outcome of the study.

The fact that there is no specific or discrete definition and measure of audit quality means that proxies had to be used at the discretion of the researcher. The different studies conducted on audit quality have used various proxies. Equally, the number of proxies used vary from one study to another which means that the studies conducted may not be comparable. The use of proxies may not satisfactorily represent audit quality thus constraining the study.

Time was a restricting factor which hindered a more in-depth study. The bank's working hours coincided with those of the researcher and it was sometimes difficult to distribute and collect the questionnaires because of work commitments. In addition, there are times the researcher had to go back and forth to collect the questionnaires which was very inconvenient.

## **5.6 Areas for further research**

Although studies have been conducted to establish an acceptable definition and measure of audit quality, there is still no universally acceptable definition and measure of audit quality. Different researchers in the area of audit quality have had to use various proxies which limits the comparability of the studies conducted. This is, therefore, an area that would benefit from further researches in order to determine a universally acceptable definition and measure of audit quality.

This study focused on the effects of audit quality on financial performance of commercial banks in Kenya. This is an area that has not been explored by many researchers and it could be extended to other organizations in Kenya specifically because external audit plays a key role in enhancing public confidence in the financial reporting process.

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## APPENDICES

### Appendix I: List of Commercial Banks

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. Charterhouse Bank Limited
7. Chase Bank (K) Limited (SBM)
8. Citibank N.A Kenya
9. Commercial Bank of Africa Limited
10. Consolidated Bank of Kenya Limited
11. Co-operative Bank of Kenya Limited
12. Credit Bank Limited
13. Development Bank of Kenya Limited
14. Diamond Trust Bank Kenya Limited
15. DIB Bank (Kenya) Limited
16. Ecobank Kenya Limited
17. Spire Bank Ltd
18. Equity Bank Kenya Limited
19. Family Bank Limited
20. Fidelity Commercial Bank Limited
21. First Community Bank Limited
22. Guaranty Trust Bank (K) Ltd
23. Guardian Bank Limited
24. Gulf African Bank Limited
25. Habib Bank A.G Zurich
26. Habib Bank Limited
27. Imperial Bank Limited
28. I & M Bank Limited
29. Jamii Bora Bank Limited
30. KCB Bank Kenya Limited
31. Middle East Bank (K) Limited
32. National Bank of Kenya Limited
33. NIC Bank Limited
34. M-Oriental Bank Limited
35. Paramount Bank Limited
36. Prime Bank Limited
37. Sidian Bank Limited
38. Stanbic Bank Kenya Limited
39. Standard Chartered Bank Kenya Limited
40. Trans-National Bank Limited
41. UBA Kenya Bank Limited
42. Victoria Commercial Bank Limited

## Appendix II: Questionnaire

### SECTION A: BACKGROUND INFORMATION

#### SECTION A: BACKGROUND INFORMATION

1. Kindly indicate your gender.

Male ( ) Female ( )

2. Highest Level of Education

Diploma ( )

Undergraduate ( )

Masters ( )

PhD ( )

Other (Specify) .....

3. Have you undertaken any professional course?

Yes ( )

No ( )

4. If yes, please specify:

CPA ( )

ACCA ( )

CFA ( )

5. Please indicate the position you hold in your organization.....

#### SECTION B: INDEPENDENCE OF AUDIT

Does your organisation have an internal audit? Yes [ ] No [ ]

Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements.

The choices given are: Strongly Disagree – SD; Disagree – D; Neutral – N; Agree – A; Strongly Agree – SA

	SA	A	N	DA	SA
There is high independence in the relationship of personnel of the bank to the auditors					
Auditors have state of mind independence when making audit decisions					
There is high independence in the relationship of the Directors of the bank to the auditor					
Auditors are involved in the day-to-day activities of the banks					
Auditors portray high interest in having no conflict of interest					
Auditors are not involved in the day-to-day internal control process					
Financial performance of the bank can be attributed to the level of independence of its auditors					
Threat to the bank’s audit independence is significant and can reduce the auditors’ efficiency in offering the auditing services.					
Lack of rotation of auditors by the bank may end up having their independence compromised.					
The bank’s both internal and external auditors are independent of personnel and operational activities of the organization.					
The bank utilizes the independent auditors report to enhance stakeholder confidence.					
The independent and objective approach are key to auditors independence in our bank					

**SECTION C: COMPETENCY AND EXPERIENCE OF THE AUDITORS**

How many years of experience do you have in auditing?

1-5yrs [ ] 6-10yrs [ ] 11-20yrs [ ] Above 20yrs [ ]

Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements.

The choices given are: Strongly Disagree – SD; Disagree – D; Neutral – N; Agree – A; Strongly Agree – SA

	SA	A	N	DA	SA
Audit departments with skilled and proficient auditors enhance performance through bringing a closer concordance of the surplus and deficit with the Generally Accepted Accounting Principles					
The bank is keen on the auditor's education level, professional qualification and experience as it impacts audit quality and performance through enhanced reliability of reports					
All auditors have met the CPD hours set by ICPAK					
The bank views professional competence, motivation and systematic professional development of an internal auditor as key aspects for the efficiency and effectiveness of the department.					
Auditors have met the minimum requirements set by ICPAK					
Auditors attend refresher courses and workshops to keep up with new trends as part of continuous professional development					
The bank's audit experiences and practices improve the bank's performance through enhanced integrity and good values.					
The auditors' experience influence its performance through enhanced employee working style and ethics					
The auditors' experience impact the manner in which the banks distributes authority and commitment thus its financial performance					
The auditors' experience usually entails aspects of the auditors' integrity and quality which influence its financial performance.					

**SECTION D: AUDIT COMMITTEE SIZE**

What is the total number of number of directors in the audit committee?

.....

Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements.

The choices given are: Strongly Disagree – SD; Disagree – D; Neutral – N; Agree – A; Strongly Agree – SA

	SA	A	N	DA	SA
The bank uses the number of years in service to determine audit committee size					
The bank uses the number of branches to determine audit committee size					
The bank uses the number of customers to determine audit committee size					
The bank uses the number of shareholders to determine audit committee size					
The bank uses the number of audit committee meetings to determine audit size					
The bank uses the size of its human resource to determine audit committee size					
The bank's performance is enhanced by the size of its audit committee					
Large audit committees offer the diversity that would enhance quality, service delivery					
Large audit committees have assisted the banks minimize internal and external risks thus enhancing performance.					

#### **SECTION E: INTERNATIONAL STANDARD OF AUDITING.**

Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements.

The choices given are: Strongly Disagree – SD; Disagree – D; Neutral – N; Agree – A; Strongly Agree – SA

	SA	A	N	DA	SA
The bank subscribes to Generally Accepted Accounting Principles					
Adherence to Generally Accepted Accounting Principles leads to accurate financial and accounting statements					
Auditors adhere to the rules and guidelines set by ICPAK, IAS and ISA					
Performing auditing work according to international auditing standards contributes significantly financial performance of the bank					
Complying with professional standards is the most important contributor to IA's added value					
Standards for audits and audit-related services influence the performance of commercial banks					
Bank auditors carry out their role objectively and in compliance with accepted criteria for professional practice					
Adherence to international standards contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking					

#### **SECTION F: FINANCIAL PERFORMANCE OF BANKS**

	2016	2017	2018	2019	2020
<b>Return on Assets</b>					

Please mark (√) in the box which best describes your agreement or disagreement on each of the following statements.

The choices given are: Strongly Disagree – SD; Disagree – D; Neutral – N; Agree – A; Strongly Agree – SA

	<b>SA</b>	<b>A</b>	<b>N</b>	<b>DA</b>	<b>SA</b>
The bank's undertakings of financial audits have improved its overall financial sustainability and fundraising					
Availability of funds and related fund raising for the bank's activities have been supported by the existence of consistent and reliable audited financial reports.					
Financial audits have resulted to the bank attracting adequate resources to allocate towards the activities it undertakes due to enhanced investor trust and thus enhancing service delivery to customers					