EFFECT OF RISK BASED AUDITING ON FINANCIAL REPORTING QUALITY OF OIL MARKETING FIRMS IN KENYA

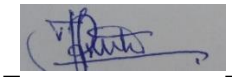
FRED RATEMO AGIKA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

OCTOBER, 2023

DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

Signed:  Date: ____13/10/2023_____

FRED RATEMO AGIKA

D61/39996/2021

This research project has been submitted for examination with my approval as the University Supervisor.

Signed:  Date: 02/11/2023

PROF. JOSHUA WANJARE, PHD

DEPARTMENT OF FINANCE AND ACCOUNTING

FACULTY OF BUSINESS AND MANAGEMENT SCIENCES

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENT

This work was completed successfully through the support from different persons to who I am greatly indebted. First of all, I give honor and glory to Almighty God for it is by His grace that I was in a position to pursue and complete my studies.

I extend my gratitude to Prof. Joshua Wanjare, my supervisor for modeling this research, his availability, consistency and guidance as well as insightful reviews and encouragement. I thank also my entire family, friends and colleagues for their irreplaceable support, understanding and encouragement that they rendered to me.

DEDICATION

This research project is dedicated to my dear family members: my wife Linet Mosoba, my two sons Braeden and Liam whose constant encouragement, social, emotional, and holistic support aided my studies and completion of this project and lastly to my parents Reuben Agika, my late mother Agnes Nyanchera and my late grandmother Priscilla Oyuma who contributed immensely in my earlier academic journey that has led to this great milestone.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
CMA	Capital Markets Authority
EPRA	Energy and Petroleum Regulatory Authority
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
NSE	Nairobi Securities Exchange
SPSS	Statistical Package for Social Sciences
VIF	Variance Inflation Factors
OTS	Open Tender System
KRA	Kenya Revenue Authority
KPC	Kenya Pipeline Company

ABSTRACT

With an evolving financial landscape and increasing demands for transparency and accountability, it becomes imperative to understand the impact of risk-based auditing on the quality of financial reporting, especially in specialized sectors like oil marketing. The Kenyan context, with its dynamic oil marketing industry, provides a unique setting to explore this relationship. The study sought to assess the influence of risk-based auditing on the financial reporting quality of oil marketing firms in Kenya. Specifically, it aimed to understand how various components of risk-based auditing, namely risk identification, risk assessment, risk mitigation, and audit planning, relate to the quality of financial reporting. The study also considered the potential controlling effects of firm size and financial leverage on this relationship. A mixed-method approach was adopted, combining primary data sourced from structured questionnaires administered to heads of internal audit in 125 licensed oil marketing firms in Kenya and secondary data extracted from these firms' annual financial statements from 2018 to 2022. The study employed descriptive statistics to outline general trends and regression analysis to pinpoint the relationships between the independent variables (components of risk-based auditing, firm size, and financial leverage) and the dependent variable (financial reporting quality). Regression analysis unveiled that risk identification, risk assessment, risk mitigation, and audit planning significantly predict the quality of financial reporting. Specifically, audit planning exhibited the strongest positive relationship with financial reporting quality ($\beta=0.746$, $p<0.001$), followed by risk mitigation ($\beta=0.323$, $p<0.001$), risk identification ($\beta=0.295$, $p<0.001$), and risk assessment ($\beta=0.217$, $p=0.004$). On the other hand, firm size and financial leverage did not emerge as significant predictors in the model. The study conclusively highlighted the pivotal role of risk-based auditing in enhancing the quality of financial reporting among oil marketing firms in Kenya. While all components of risk-based auditing exhibited significant positive relationships with financial reporting quality, audit planning stood out as the most influential. Given the demonstrated significance of risk-based auditing components, regulatory bodies are advised to emphasize the adoption of these practices in their guidelines and standards. Oil marketing firms should invest in continuous training for their internal audit teams, focusing on the latest methodologies and tools in risk-based auditing. Additionally, fostering a risk-aware corporate culture and periodic reviews of audit processes are recommended to ensure that firms remain adaptive and responsive to the evolving risk landscape.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The hypothesized relationship between risk-based auditing and the financial reporting quality of a firm is expected to be positive (Khaddafi, Heikal & Falahuddin, 2022). Risk-based auditing is designed to identify and address risks that could impact the accuracy and reliability of a firm's financial statements. This approach allows auditors to tailor their procedures based on identified risks, ensuring more robust and comprehensive testing (Lois, Drogalas, Nerantzidis, Georgiou, & Gkampeta, 2021). Mardessi (2022) holds that by promoting transparency and stakeholder confidence, risk-based auditing contributes to enhancing the overall quality of financial reporting, although it does not eliminate all risks entirely.

The agency theory, information economics theory, and stakeholder theory were all used to support this study. The anchor theory was the agency theory by Jensen and Meckling (1976) as it holds that risk-based auditing helps mitigate agency conflicts by providing assurance to shareholders that management is effectively managing risks that could impact financial reporting. Information economics theory by Arrow (1963) emphasizes the importance of information quality in decision-making processes. Risk-based auditing aligns with stakeholder theory by Freeman (1984) by ensuring the reliability and transparency of financial reporting. By focusing on areas of higher risk, auditors demonstrate their commitment to identifying and mitigating risks that could impact stakeholders' interests.

The oil marketing industry involves complex operations, including procurement procedures under OTS, storage, transportation, and distribution of petroleum products. These operations encompass various financial transactions, inventory management,

pricing mechanisms, and regulatory compliance (Muazu, Tasmin & Javaid, 2021). Assessing the impact of risk-based auditing on financial reporting quality within this industry is crucial, as the effectiveness of internal controls and risk management practices can significantly influence the accuracy and reliability of financial statements.

1.1.1 Risk Based Auditing

Risk-based auditing is an approach to auditing that focuses on identifying and assessing risks within an organization's processes, operations, and financial reporting. It is designed to help auditors prioritize their efforts by concentrating on areas that are most likely to pose significant risks to the organization (Eulerich, Georgi & Schmidt, 2020). Risk-based auditing is a methodology that integrates risk assessment into the entire audit process. It involves understanding the business environment, identifying significant risks, and developing appropriate audit strategies and procedures to address those risks (Bhaskar, 2020). This approach acknowledges that not all areas of an organization or financial statements carry the same level of risk (Sutisman, Ermawati, Mariani, & Putra, 2021).

Risk-based auditing is of paramount importance as it enhances the effectiveness and efficiency of the audit process, ensuring that audit resources are allocated to areas with the highest risks (Sani & Abubakar, 2021). This approach provides a systematic and proactive framework for evaluating and addressing risks, leading to more reliable and accurate financial reporting. Additionally, risk-based auditing helps organizations improve their risk management practices, strengthen internal controls, and enhance stakeholder confidence in the integrity and transparency of financial information (Jia, Li, & Munro, 2019).

Previous researchers have operationalized risk-based auditing by utilizing various approaches and methodologies. One common operationalization involves the use of risk assessment tools and techniques to identify, evaluate, and prioritize risks within an organization. Researchers have also incorporated risk indicators and control assessments to measure the effectiveness of internal controls in managing identified risks (Eutsler, 2020). The current study operationalized risk based auditing in regards to risk identification, risk assessment and prioritization, risk mitigation and control activities, and audit planning and execution as used before by Anugraheni, Setiawati and Trisnawati (2022).

1.1.2 Financial Reporting Quality

Financial reporting quality refers to the accuracy, completeness, transparency, and reliability of a company's financial statements (Chulkov & Wang, 2023). It reflects the degree to which financial information provided by a company fairly represents its financial position, performance, and cash flows (Alsuhaibani, Houmes & Wang, 2023). Another definition of financial reporting quality is the degree to which financial information presented in a company's financial statements is relevant, reliable, and understandable to its stakeholders (Alruwaili, Ahmed & Joshi, 2023).

High-quality financial reporting provides stakeholders with accurate and relevant information that can inform their investment decisions and help them understand a company's financial health and future prospects. Conversely, low-quality financial reporting can mislead stakeholders, leading to poor decision-making and financial losses (Hung,Binh, Hung, Ha, Ha, & Van, 2023). To ensure high-quality financial reporting, companies must maintain effective internal controls over financial reporting, adhere to accounting standards and regulations, and provide clear and transparent

financial statements that are easy to understand (Rahman, Chen, Al-Faryan, Ahmad, Hussain & Saud, 2023).

Financial reporting quality is often measured by the extent to which a company's financial statements comply with accounting standards, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) (Raimo, Rubino, Esposito & Vitolla, 2023). Another common approach is to measure accruals quality, which assesses the extent to which a company's earnings are based on accounting estimates (accruals) rather than on actual cash flows (Kinyenze & Ondabu, 2023). The current study measured financial reporting quality using 2014 IFRS/IAS disclosure checklist where organizations scored 1 for disclosure and 0 for non-disclosure of an item in the checklist.

1.1.3 Risk Based Auditing and Financial Reporting Quality

Risk-based auditing is expected to enhance financial reporting quality through improved risk identification (Sahaib, 2023). By utilizing risk assessment methodologies and tools, auditors can identify areas of higher risk within an organization's financial reporting process. This enables auditors to focus their efforts on those areas that are most susceptible to errors, fraud, or misstatements. Through a thorough risk identification process, auditors can uncover potential risks and vulnerabilities, leading to more accurate and reliable financial reporting (Al-Aamri, Al-musallami, Ahmed & Qazi, 2021).

Risk-based auditing is anticipated to contribute to higher financial reporting quality by promoting effective risk mitigation practices. Once risks are identified, auditors can assess the existing internal control systems and evaluate their effectiveness in mitigating the identified risks (Lois, Drogalas, Nerantzidis, Georgiou, & Gkampeta,

2021). This assessment allows auditors to provide recommendations for improving internal controls, addressing control deficiencies, and reducing the likelihood of errors or misstatements in financial reporting (Dombrovskaya, 2021).

Risk-based auditing provides assurance to stakeholders, reinforcing the credibility of financial reporting. By focusing on areas of higher risk and conducting rigorous audit procedures, risk-based auditing provides a higher level of assurance regarding the accuracy and reliability of financial statements (Madawaki, Ahmi &Ahmad, 2022). Stakeholders, including investors, lenders, and regulatory authorities, rely on audited financial statements to make informed decisions. The application of risk-based auditing enhances the perceived quality of financial reporting, instilling confidence and trust in the financial information (Bensaid, Ishak & Mustapa, 2021).

1.1.4 Oil Marketing Firms in Kenya

The oil industry in Kenya witnessed significant government participation before the industry was liberalized in 1994. Consequently, the role of the private sector was minimal. The National Oil Corporation, incorporated in 1981 under the Companies Act (Cap 486), was mandated to supply as much as 30% of the crude oil required in Kenya and coordinate activities towards oil exploration on behalf of the government. The sector boasts of 125 oil marketing companies comprising of five major companies namely Vivo Energy Kenya Ltd, Total Kenya Ltd, Rubis Energy Kenya Ltd, Petro Oil Ltd, and the government owned National Oil Corporation of Kenya. Major oil marketers have maintained their dominant market share status even after new entrants have joined the industry through mergers and acquisitions (EPRA, 2023).

The oil marketing industry in Kenya is subject to specific regulations and reporting requirements imposed by regulatory bodies such as the EPRA, KRA, KPC and the

CMA (Takase, Kipkoech, & Essandoh, 2021). Evaluating the effect of risk-based auditing on financial reporting quality can help determine the extent to which oil marketing firms comply with these regulations and whether risk-based auditing practices adequately address industry-specific risks. Further, oil marketing industry involves complex operations, including procurement, storage, transportation, and distribution of petroleum products. These operations encompass various financial transactions, inventory management, pricing mechanisms, and regulatory compliance (Gacu, 2021).

The oil marketing industry, like any other sector, faces the risk of fraud and irregularities. Risk-based auditing can help identify areas vulnerable to fraud and assess the effectiveness of internal control systems in mitigating these risks (Olujobi, 2021). Oil marketing firms often operate in a competitive market with fluctuating oil prices, and their financial reporting involves considerations such as cost accounting, pricing mechanisms, and revenue recognition. Assessing the impact of risk-based auditing on financial reporting quality can shed light on how these firms address risks related to pricing accuracy, cost allocations, and revenue recognition, ensuring that financial statements accurately reflect the economic reality of their operations (Sutisman, Ermawati, Mariani, & Putra, 2021).

1.2 Research Problem

Risk-based auditing helps improve transparency and accountability within an organization. When stakeholders, such as investors, lenders, and regulators, see that a firm has adopted a risk-based approach to auditing, it provides assurance that the firm is actively managing and addressing risks that may affect financial reporting (Tamimi, 2021). This, in turn, enhances stakeholders' confidence in the accuracy and reliability

of the financial information disclosed by the firm. Further, through risk-based auditing, potential issues and risks are identified and addressed in a more proactive manner (Yudianto, Mulyani, Fahmi & Winarningsih, 2021).

In Kenya, the oil marketing industry's contribution to the Kenyan economy is multifaceted, encompassing employment generation, revenue generation for the government, energy supply and infrastructure development, economic growth facilitation, and investments in innovation. Its role extends beyond the sector itself, impacting various other sectors and supporting the overall socio-economic development of the country (Nderitu & Njuguna, 2017). The accuracy and reliability of financial reporting in the oil marketing sector are critical for regulatory compliance, investor decision-making, and stakeholder confidence. Understanding the impact of risk-based auditing on financial reporting quality can help inform regulators, investors, and other stakeholders about the effectiveness of current auditing practices and the level of assurance provided by such audits.

Globally, there exist empirical studies in this area but they exhibit conceptual, contextual and methodological research gaps. Mardessi (2022) sought to address the impact of audit quality on financial reporting quality proxied by real earnings management. The study found that audit quality moderates the audit committee – real earnings management links. The research presents a contextual gap as it was performed in Netherlands which has a different economic and social situation from Kenya. Le, Nguyen and Ngo (2022) considers factors affecting to audit performance by risk-based approach as well as audit quality in Vietnam. Risk based approach positively and significantly affect the quality of independent audit firms. The research offers a conceptual gap as it did not address the effect of risk based auditing on financial

reporting quality. Madawaki, Ahmi and Ahmad (2022) sought to demonstrate the relationship between internal audit functions and financial reporting quality and whether such a relationship is moderated by senior management support in listed companies in Nigerian Stock Exchange. The findings indicate a positive and significant relationship between internal audit qualities of work performed and financial reporting quality. The study presents a conceptual gap as risk based auditing was not taken into account.

Locally, numerous studies have extensively studied the influence of board diversity across fields. For instance, Jamhuri, Mwangi, Okiro and Wainaina (2022) sought to establish the relationship between board diversity and the financial reporting quality of the companies listed at the Nairobi Securities Exchange in Kenya. The study found that financial reporting quality was significantly predicted by the average age of directors, board gender, and board independence. The research presents a contextual gap as oil marketing firms were not considered. Mulwa and Opuodho (2022) sought to determine the influence of risk-based audit practices on financial performance of registered fruit processing firms in Thika Municipality, Kenya. The study found a positive relationship between risk based audit practices and financial performance. The research presents conceptual gaps as financial reporting quality was not considered. Midecha (2022) examined the effect of internal auditor's role on corporate financial performance in Kenya. The study found a positive relationship between internal auditor functions and financial performance. This research was a review of literature and therefore lacks empiricism.

Although there are previous studies in this area, most of the previous studies have focused on the effect of risk based audit on other aspects such as financial performance leaving a gap on financial reporting quality. The previous studies have also used various

operationalization and methodologies to achieve their objectives and this might explain the differences in findings. Different contextual backgrounds might also explain the differences. This study leveraged on these research gaps by providing answer to the research question: what is the effect of risk based auditing on financial reporting quality of oil marketing firms in Kenya?

1.3 Research Objective

The objective of this study was to determine the effect of risk based auditing on financial reporting quality of oil marketing firms in Kenya

1.4 Value of the Study

This study can provide valuable insights into the potential benefits and challenges of risk based auditing adoption among oil marketing firms in Kenya. These insights may be used by policymakers to develop laws and rules that encourage oil marketing firms to implement risk based auditing responsibly and sustainably. The report also highlights the importance of risk based auditing in enhancing financial reporting quality.

For oil marketing firms in Kenya, the study can offer useful advice. The study can pinpoint the best risk based auditing options for various oil marketing firms and offer insights into the most efficient ways to deploy risk based auditing. These insights may be used by oil marketing firms to guide their strategic planning and investment choices relating to the implementation of risk based auditing, thereby improving financial reporting quality.

The study can add to the body of knowledge on how risk based auditing affects financial reporting quality in developing economies. The study can shed light on the distinct issues and possibilities faced by oil marketing firms in emerging economies by concentrating on oil marketing firms in Kenya. The study may contribute to the creation

of a theoretical framework for comprehending how the use of risk based auditing impacts financial reporting quality in emerging economies by offering insights into the mechanisms via which adoption of risk based auditing affects financial reporting quality.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers the theoretical framework, the determinants of financial reporting quality, empirical literature review, a summary of research gaps and a conceptual framework.

2.2 Theoretical Framework

This segment examines the theories that underpin the study of risk based auditing and financial reporting quality. The study was anchored on agency theory and supported by information economics theory as well as the stakeholder theory.

2.2.1 Agency Theory

This theory was developed by Jensen and Meckling (1976) and it is the anchor theory for the current study. The theory postulates that in situations where there is a separation between ownership and control, conflicts of interest arise between the principals and agents due to divergent goals and information asymmetry. The theory suggests that agents may act in their own self-interest, prioritizing personal objectives over the interests of the principals. The principals, on the other hand, seek to align the agents' behavior with their own objectives and maximize the value of their investments.

Agency theory has faced several criticisms. It is argued that the theory oversimplifies the complex nature of the principal-agent relationship by assuming that individuals are purely self-interested and rational, neglecting other factors such as trust, social norms, and ethical considerations (Susilo & Ria, 2022). In addition, the theory has been criticized for its limited scope in addressing non-financial goals and outcomes, such as environmental sustainability and social responsibility. The theory has also been accused

of offering little guidance on how to effectively address agency problems and implement practical solutions (Shrestha et al., 2019).

The theory was relevant to the current study as risk-based auditing helps mitigate these conflicts by providing assurance to shareholders that management is effectively managing risks that could impact financial reporting. By focusing on areas of higher risk, risk-based auditing enhances the monitoring and control mechanisms, reducing the agency costs associated with unreliable financial reporting.

2.2.2 Information Economics Theory

Arrow (1963) was the pioneer of this theory. The theory postulates that the availability, quality, and distribution of information play a crucial role in economic decision-making and outcomes. The theory recognizes that information is often imperfect, asymmetrical, and costly to acquire and process. It focuses on how individuals and organizations gather, analyze, and act upon information to make informed choices. Information economics theory suggests that the allocation of resources and the efficiency of markets depend on the extent and accuracy of information available to participants.

This theory has been critiqued as it often relies on unrealistic assumptions about individuals' rationality and information processing abilities, disregarding the cognitive limitations and bounded rationality that individuals actually possess (Sharipov, Krotenko & Dyakonova, 2021). Further, critics argue that the theory tends to overlook the social and cultural aspects that shape information sharing and decision-making, thereby neglecting the broader context in which economic transactions occur (Gal-Or & Ghose, 2019).

Information economics theory emphasizes the importance of information quality in decision-making processes. Risk-based auditing plays a vital role in enhancing the

quality of financial information by identifying and addressing risks that could distort the accuracy and reliability of the reported data. By focusing on high-risk areas, auditors provide stakeholders with more reliable and relevant information, reducing information asymmetry and enabling better-informed decision-making.

2.2.3 Stakeholder Theory

The stakeholder theory was developed by Freeman (1984). The theory postulates that organizations have a responsibility not only towards shareholders but also towards a broader range of stakeholders who are affected by or have an interest in the organization's activities. This theory suggests that organizations should consider and balance the interests of various stakeholders, including employees, customers, suppliers, communities, and the environment, in their decision-making and operations. The theory argues that by addressing the needs and concerns of stakeholders, organizations can create long-term value, sustain positive relationships, and enhance overall societal welfare (Freeman, Phillips & Sisodia, 2020).

The argument put up by detractors of the stakeholder theory is that lacks a clear framework for identifying and prioritizing stakeholders, making it difficult to determine which stakeholders should be given precedence in decision-making processes (Barney & Harrison, 2020). This can lead to ambiguity and challenges in practical implementation. Some argue that the theory's focus on balancing the interests of multiple stakeholders may result in conflicting demands and compromises that hinder organizational efficiency and value creation. This criticism suggests that prioritizing the interests of all stakeholders equally may not always lead to optimal outcomes (Langrafe, Barakat, Stocker & Boaventura, 2020).

Stakeholder theory suggests that organizations have a responsibility to consider the interests and needs of various stakeholders, including shareholders, employees, customers, suppliers, and the broader society. Risk-based auditing aligns with stakeholder theory by ensuring the reliability and transparency of financial reporting. This approach enhances stakeholder trust and confidence in the organization's financial reporting, leading to improved relationships and cooperation. Furthermore, risk-based auditing helps organizations fulfill their accountability and transparency obligations to stakeholders, promoting long-term sustainable performance and value creation.

2.3 Determinants of Financial Reporting Quality

This section covers factors that are theoretically expected to influence financial reporting quality of firms. The factors discussed in this section are risk based auditing, firm size and financial leverage.

2.3.1 Risk Based Auditing

Risk-based auditing is anticipated to contribute to higher financial reporting quality by promoting effective risk mitigation practices. Once risks are identified, auditors can assess the existing internal control systems and evaluate their effectiveness in mitigating the identified risks (Young, 2020). This assessment allows auditors to provide recommendations for improving internal controls, addressing control deficiencies, and reducing the likelihood of errors or misstatements in financial reporting (Eulerich, Georgi & Schmidt, 2020).

Risk-based auditing provides assurance to stakeholders, reinforcing the credibility of financial reporting. By focusing on areas of higher risk and conducting rigorous audit procedures, risk-based auditing provides a higher level of assurance regarding the accuracy and reliability of financial statements (Anton & Nucu, 2020). Stakeholders,

including investors, lenders, and regulatory authorities, rely on audited financial statements to make informed decisions (Tamimi, 2021).

2.3.2 Firm Size

The expected relationship between firm size and financial reporting quality is generally positive. Larger firms tend to have more complex operations, greater levels of resources, and a larger stakeholder base, which can all increase the demand for high-quality financial reporting (Andriani, Nurnajamuddin & Rosyadah, 2021). One reason for this is that larger firms tend to face more regulatory scrutiny and oversight, which can increase the pressure to produce accurate and transparent financial reports (Tan & Taufiik, 2022).

However, it is important to note that this relationship is not necessarily linear or uniform across all firms. Some larger firms may face greater challenges in producing high-quality financial reports due to issues such as complexity, resource constraints, or ineffective governance structures. Additionally, smaller firms may be able to achieve high levels of financial reporting quality by focusing on specific areas of expertise or building strong relationships with stakeholders (Adegbite, Che-Ahmad, Maduekwe & Uwuigbe, 2020).

2.3.3 Financial Leverage

The expected relationship between financial leverage and financial reporting quality is mixed and not straightforward. On one hand, high levels of financial leverage may increase the pressure on firms to produce high-quality financial reports. This is because debt holders may be more sensitive to changes in a firm's financial performance and may closely scrutinize its financial reports to assess its ability to meet its debt

obligations. As a result, highly leveraged firms may have a greater incentive to ensure that their financial reports are accurate and transparent (Li & He, 2023).

On the other hand, high levels of financial leverage may also lead to lower financial reporting quality. This is because highly leveraged firms may face greater financial constraints and may be more likely to engage in earnings management or other forms of financial reporting manipulation in order to maintain access to external capital. Additionally, highly leveraged firms may also face greater regulatory scrutiny and oversight, which can increase the pressure to produce high-quality financial reports (Iqbal et al., 2022).

2.4 Empirical Review

Local as well as global researches have determined the link between risk based auditing and financial reporting quality, the objectives, methodology and findings of these studies are discussed.

2.4.1 Global Studies

Mardessi (2022) sought to address the impact of audit quality on financial reporting quality proxied by real earnings management. The study is based on a sample consisting of 90 non-financial companies that are listed in the Amsterdam stock exchange all share index over the 2010–2017 period. Empirical findings demonstrate that corporate governance mechanism, mainly independence members, financial expert and audit committee size has a statistically significant relationship with real earnings management. However, the effect of audit committee meetings on real earnings management is not significant. The study was limited to non-financial firms in Amsterdam, which may limit the generalizability of the findings.

Le, Nguyen and Ngo (2022) considers factors affecting to audit performance by risk-based approach as well as audit quality in Vietnam. A descriptive survey research was adopted using both quantitative and qualitative methods. A purposeful sampling method was used to select intentionally a target audience of 18 qualified experts. Risk based approach positively and significantly affect the quality of independent audit firms. The research offers a conceptual gap as it did not address the effect of risk based auditing on financial reporting quality.

Madawaki, Ahmi and Ahmad (2022) sought to demonstrate the relationship between internal audit functions and financial reporting quality and whether such a relationship is moderated by senior management support in listed companies in Nigerian Stock Exchange. This research is a cross-sectional study, using primary data in the form of a survey sent to 175 listed companies. The findings indicate a positive and significant relationship between internal audit qualities of work performed and financial reporting quality. The study presents a conceptual gap as risk based auditing was not taken into account.

Adegbite, Che-Ahmad, Maduekwe & Uwuigbe (2020) focused on the effect of board gender diversity on financial reporting quality in Nigerian banks. The study used a sample of 14 Nigerian banks listed on the Nigerian Stock Exchange from 2011 to 2016. The researchers collected data on board gender diversity, financial reporting quality, and control variables, such as firm size, leverage, and profitability, from the companies' annual reports and other publicly available sources. The study's results showed a positive relationship between board gender diversity and financial reporting quality in Nigerian banks. The study had a small sample size, which may limit the generalizability of the findings.

The study conducted by Moyo and Moyo (2018) aimed to investigate the relationship between board diversity and financial reporting quality in Zimbabwean parastatals. The study used a sample of 18 parastatals in Zimbabwe. The results of the study showed a positive relationship between board diversity and financial reporting quality in Zimbabwean parastatals. Specifically, the study found that gender diversity had a particularly strong positive effect on financial reporting quality, while the effect of age diversity was insignificant. The study was limited to parastatals in Zimbabwe, which may limit the generalizability of the findings.

2.4.2 Local Studies

Jamhuri, Mwangi, Okiro and Wainaina (2022) examines the relationship between board diversity and the financial reporting quality of the companies listed at the Nairobi Securities Exchange (NSE) in Kenya. The target population consisted of the 61 firms that had complete data and had continually and actively traded at NSE between January 2014 and December 2018. The paper found that financial reporting quality was significantly predicted by the average age of directors, board gender, and board independence but insignificantly predicted by the foreign board members and board qualification. The study was limited to listed firms in Kenya, which may limit the generalizability of the findings.

Mulwa and Opuodho (2022) sought to determine the influence of risk-based audit practices on financial performance of registered fruit processing firms in Thika Municipality, Kenya. The study applied a descriptive research design. The target population was 130 management staff of registered fruit processing firms in Thika municipality Kenya. Census survey techniques were used for the study. Both primary and secondary data were used. The study found a positive relationship between risk

based audit practices and financial performance. The research presents conceptual gaps as financial reporting quality was not considered.

Midecha (2022) examined the effect of internal auditor's role on corporate financial performance in Kenya. The purpose of this study was to ascertain the effects of risk assessment, financial statement audits, and internal auditor evaluations of controls on financial performance. This essay began by outlining the function of internal audit. An empirical study of the literature is then conducted with regard to financial performance and reviews of internal controls, financial statements, and risk management. The study found a positive relationship between internal auditor functions and financial performance. This research was a review of literature and therefore lacks empiricism.

Singoei (2022) conducted a study to investigate the moderating effect of audit committee activities on the relationship board gender diversity on financial reporting quality of firms listed in Nairobi Securities Exchange. The study employed a longitudinal research design and also a positivism philosophy was adopted in the study. A census approach was used whereby all the firms that remained continuously listed for 7 years for the period 2011-2017 inclusive were studied. The findings revealed that gender diversity had negative and statistically significant effect on financial reporting quality. The study presents a conceptual gap as the impact of risk based auditing on financial reporting quality was not explored.

Mwangi (2018) studied audit committee characteristics impact on financial reporting quality in Kenya's non-commercial state corporations. The study used a 72 state non-commercial corporation's census sample and used a descriptive research design. In addition, descriptive and inferential analysis approaches were used in the research. The research's conclusions revealed that audit committee meetings had a statistical

substantial link with financial reporting quality. Nevertheless, the previous research focused on audit committee characteristics, while the current research's scope will be confined to risk based auditing.

2.5 Summary of the Literature Review and Research Gaps

Based on the available literature, there are several research gaps in the relationship between risk based auditing and financial reporting quality of oil marketing firms in Kenya. Conceptually, there is a need for a theoretical framework that explicitly outlines the underlying mechanisms through which risk based auditing affects financial reporting quality of oil marketing firms. Contextually, most of the existing literature on risk based auditing and financial reporting quality has focused on developed economies, with limited attention given to emerging markets such as Kenya. Methodologically, most of the existing literature on risk based auditing and financial reporting quality is qualitative, descriptive, and based on case studies. There is a need for more quantitative studies that can provide robust statistical evidence.

2.6 Conceptual Framework

Displayed in figure 2.1 is the predicted relationship between the variables. The predictor variable was risk based auditing given by risk identification, risk assessment and prioritization, risk mitigation and control activities, and audit planning and execution. The control variables were firm size and financial leverage. The response variable was financial reporting quality given by 2014 IFRS/IAS disclosure checklist where organizations scored 1 for disclosure and 0 for non-disclosure.

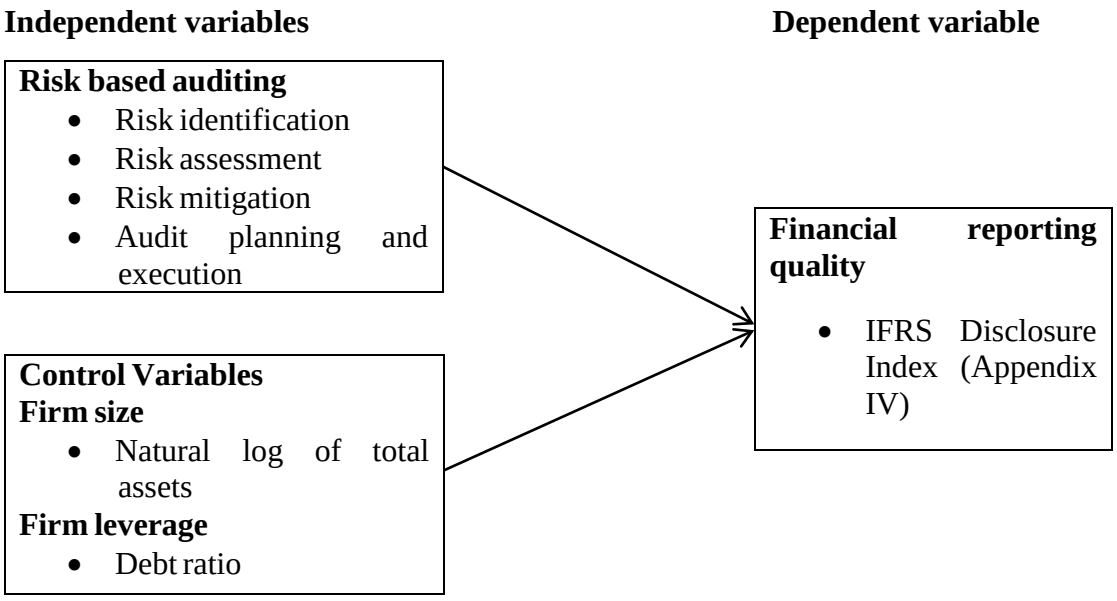


Figure 2.1: The Conceptual Model

Source: Researcher (2023)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the methodology that was adopted to answer the research objective. The chapter covered the research design, the target population, data collection and analysis procedure.

3.2 Research Design

A descriptive research design was adopted in this study. This is because the study aimed to establish the relationship between risk based auditing and financial reporting quality of oil marketing firms in Kenya. The use of quantitative research design enabled the researcher to analyze numerical data and test hypotheses statistically. This provided more accurate and objective results that can be replicated and generalized to a larger population. Additionally, quantitative research allowed for a larger sample size, which increased the representativeness of the findings. The data collected was analyzed using statistical software, which helped to eliminate errors and biases that may arise in manual analysis (Cooper & Schindler, 2018).

3.3 Population and Sample

A population is all observations from a collection of interest like events specified in an investigation (Burns & Burns, 2018). The study population was the 125 licensed oil marketing firms in Kenya as at December 2022 (see appendix I). Since the study population was relatively small, the study was a census.

3.4 Data Collection

This research utilized both primary as well as secondary data. The primary data was collected via a structured questionnaire. The questionnaires consisted of closed ended

questions. Closed questions were designed in a specified sequence with response options. The questionnaire was divided into five sections, namely demographic information, risk identification, risk assessment and prioritization, risk mitigation and control activities, and audit planning and execution. The researcher administered the questionnaire to the heads of internal audit in each oil marketing firm and who were assumed to be well conversant with risk based auditing through Google forms.

The secondary data was extracted from annual published financials of the oil marketing firms in Kenya from 2018 to 2022 and captured in data collection forms. The reports were extracted from the financial publications of the specific oil marketing firm's annual reports. The specific data collected include total assets and total debt. 2014 IFRS/IAS disclosure checklist was also used where organizations scored 1 for disclosure and 0 for non-disclosure of an item in the checklist.

3.5 Data Analysis

SPSS software version 27 was used to analyze the data. Descriptive analysis involved calculating measures such as mean, median, mode, standard deviation, and range to describe the distribution of variables such as risk based auditing, financial reporting quality, firm size, and financial leverage among oil marketing firms in Kenya. Correlation analysis involved examining the strength and direction of the relationship between risk based auditing adoption and financial reporting quality, as well as the relationship between financial reporting quality and other variables such as firm size, and financial leverage. Multiple regression analysis was used to estimate the effect of risk based auditing adoption on financial reporting quality while controlling for other factors that may influence the relationship.

3.5.1 Analytical Model

The following equation was applicable:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where: Y = Financial reporting quality measured using 2014 IFRS/IAS disclosure checklist (1 for disclosure; 0 otherwise)

β_0 =y intercept of the regression equation.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ =are the regression coefficients

X_1 = Risk identification measured using Likert scale questions

X_2 = Risk assessment and prioritization measured using Likert scale questions

X_3 = Risk mitigation and control activities measured using Likert scale questions

X_4 = Audit planning and execution measured using Likert scale questions

X_5 = firm size as measured by the natural logarithm of total assets

X_6 = Financial leverage as given by the ratio of total debt to total assets

ε =error term

3.5.2 Diagnostic Tests

The researcher conducted diagnostic tests to ensure that the assumptions of the statistical tests used in the analysis were met. Diagnostic tests helped to identify potential problems such as outliers, multicollinearity, heteroscedasticity, and normality of residuals, which may affect the validity and reliability of the results. Table 3.1 shows the tests that were conducted.

Table 3.1: Diagnostic Tests

Assumption	Description	Type of Tests	Interpretations	Treatment
Normality Test	Normally distributed data assumes a bell-shaped curve. It implies that errors should be distributed normally.	Shapiro-Wilk test.	$p > 0.05$ suggest that variables are distributed normally.	Data was transformed using logs and square roots.
Linearity Test	This occurs when the outcome variable has a linear function of the explanatory variables in addition to the residuals.	ANOVA test	Deviation from linearity of the linear F test $p > 0.05$	Data was transformed using logs and reciprocal techniques.
Homoscedasticity	Homogeneity of variance is a presumption that outcome variable exhibits similar magnitude of variation across entire values of explanatory variables.	Breusch Pagan Test	$P > 0.05$ implies homoscedasticity	Data was transformed using logs and reciprocal techniques.
Multicollinearity test	Multicollinearity is a situation where the explanatory variables are highly correlated.	Variance Inflation Factor	VIF factor >10 infers presence of multicollinearity.	Obtaining additional data and omitting collinear variables.

3.5.3 Tests of Significance

The t-test and F-test were used to test the significance of individual coefficients and overall model fit, respectively. The F-test was used to test the overall significance of the regression model. It compared the variance explained by the model to the variance that could not be explained by the model. The t-test was used to test the significance of individual coefficients in a regression model.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter primarily presents the analysis of the data collected, the results and the discussion of findings where the current study findings are related with previous studies. Specifically, the chapter covers the response rate, reliability test results, demographic analysis, the descriptive analysis, correlation and regression analysis conducted to achieve the objective of this research study.

4.2 Response Rate

The researcher issued 125 questionnaires to heads of internal audit in each oil marketing firm in Kenya that were the subject of the study. 96 of the 125 administered questionnaires were completed, filled out, and returned representing a 76.8% response rate. As per Cooper and Schindler (2018), a study that has achieved a response rate of 70% should be considered excellent for data analysis and inference. The study's findings are displayed in table 4.1 below.

Table 4.1: Response Rate

Response Rate	Frequency	Percentage
Returned	96	76.8
Unreturned	29	23.2
Total	**125**	**100**

Source: Field Data (2023)

From Table 4.1, it was deduced that the study achieved a 76.8% response rate. This implied that the data that was collected for the study was good for analysis, interpretation and inference.

4.3 Reliability Test

Testing for reliability of a questionnaire is essential to ensure that the questionnaire consistently measures what it intends to measure. Reliability assesses the degree to which a measurement instrument, in this case a questionnaire, produces consistent and dependable results. It provides an indication of the instrument's stability and consistency over time, across different samples, and among different raters or observers. The questionnaire items in this study were subjected to reliability tests which were done using Cronbach's Alpha. Generally, a Cronbach Alpha greater than 0.7 implies that the questionnaire is internally consistent. The results are as depicted in Table 4.2.

Table 4.2 Reliability Results

Variables	No. of Items	Cronbach's Alpha	Critical Value	Conclusion
Risk identification	6	0.847	0.7	Reliable
Risk assessment	6	0.823	0.7	Reliable
Risk mitigation	6	0.903	0.7	Reliable
Audit planning	6	0.793	0.7	Reliable

Source: Research Data (2023)

The Table 4.2 outcomes indicated a relatively high degree of consistency in the variables. Risk mitigation returned the highest alpha of 0.903 while audit planning had the lowest at 0.793. The four variables had alpha way above the 0.7 recommended by Burns and Burns (2018). The decision points therefore confirm that the study variables were reliable.

4.4 Demographic Analysis

The study aimed at understanding the general features of the respondents that were being surveyed. The demographic characteristics considered in this study are gender, age, education and experience in the current position.

4.4.1 Respondents' Gender

Table 4.3 shows the gender distribution of the respondents to a study on the effect of risk-based auditing on the financial reporting quality of oil marketing firms in Kenya. There were 96 respondents in total, of which 53 (55.2%) were male and 43 (44.8%) were female. This means that there was a slightly higher proportion of male respondents than female respondents. However, the difference was relatively small, and the gender distribution was fairly balanced.

Table 4.3: Gender of Respondents

Gender	Frequency	Percentage
Male	53	55.2%
Female	43	44.8%
Total	**96**	**100%**

Source: Field Data (2023)

4.4.2 Age of the Respondents

The study aimed on establishing the respondents age in this study. The study age was regarded as important since the age would act as an influence on the response given. Table 4.4 gives the findings.

Table 4.4: Respondents' Age

Age	Frequency	Percentage
30 years and below	6	6.3
31-40 years	27	28.1
41-50 years	48	50
Above 50 years	15	15.6
Total	**96**	**100**

Source: Field Data (2023)

Table 4.4 shows that the majority of the respondents (50%) were in the 41-50 age group. The next largest age group was the 31-40 age group, with 28.1% of respondents. Relatively few respondents were in the 30 years old and below age group (6.3%) or the above 50 years old age group (15.6%). The age distribution of the respondents suggests

that the majority of heads of internal audit in oil marketing firms in Kenya are in their mid-career years. However, there is also a good representation of both younger and more experienced professionals in this leadership role.

4.4.3 Education Level

The target respondents were implored to show their highest educational level. The outcomes are shown in Table 4.5.

Table 4.5: Education Level

Level	Frequency	Percent
Diploma	8	8.3%
Undergraduate Degree	54	56.3%
Postgraduate Degree	34	35.4%
Total	**96**	**100**

Source: Field Data (2023)

The results in Table 4.5 that the majority of the respondents (56.3%) had an undergraduate degree. The next largest education group was those with a postgraduate degree (35.4%). Relatively few respondents had a diploma (8.3%). The education level of the respondents suggests that heads of internal audit in oil marketing firms in Kenya are well-educated professionals. The majority of respondents have at least an undergraduate degree, and a significant proportion have a postgraduate degree. This is important because internal auditors play a vital role in ensuring the accuracy and reliability of financial reporting. Their education and training give them the skills and knowledge they need to identify and assess risks, and to develop and implement effective controls.

4.4.4 Years with the Current Employer

Respondents were asked to indicate how long they had worked with their current employer. The results are as shown in Table 4.6.

Table 4.6: Years of Service with the Current Employer

Number of years	Frequency	Percentage
Less than 2 years	9	9.4
2-5 years	36	37.5
6-10 years	44	45.8
Over 10 years	7	7.3
Total	**96**	**100**

Source: Field Data (2023)

The responses in Table 4.6 show that the majority of the respondents (45.8%) had been with their current employer for 6-10 years. The next largest group was those with 2-5 years of service (37.5%). Relatively few respondents had been with their current employer for less than 2 years (9.4%) or for over 10 years (7.3%). The majority of respondents have been with their current employer for several years, which suggests that they are satisfied with their roles and that the firms are valuing their skills and experience. In the context of risk-based auditing, employee stability can also help to ensure that internal auditors have the necessary time and experience to develop and implement effective risk management strategies.

4.5 Analysis of Study Variables

Descriptive statistics allowed the researcher to analyze and interpret the mean and standard deviation of the data, providing a clear understanding of the distribution and patterns within the dataset. They also provided a foundation for further inferential statistical analyses and decision-making in the research process.

4.5.1 Risk Identification

Table 4.7 presents the descriptive statistics for the risk identification process within the oil marketing firms in Kenya, as reported by the heads of internal audit. The overall mean score for risk identification across all the statements is 4.1 with a standard deviation of 0.76. This suggests that the firms, on average, have a positive outlook on

their risk identification processes. The relatively low standard deviation implies a consistent agreement among the firms about the efficacy of their risk identification measures.

Table 4.7: Descriptive Statistics for Risk Identification

Statements	N	Mean	Std. Dev
The organization has a systematic process in place to identify potential risks	96	3.86	0.81
Relevant stakeholders are involved in the risk identification process	96	4.05	0.77
The risk identification process considers both internal and external factors.	96	3.91	0.95
The organization uses reliable data and information sources to identify risks.	96	4.09	0.60
The risk identification process is regularly updated to capture emerging risks.	96	4.05	0.77
The organization effectively communicates identified risks to key stakeholders.	96	4.64	0.48
Overall mean Score	**96**	**4.1**	**0.76**

Source: Field Data (2023)

The mean score for firms having a systematic process to identify potential risks is 3.86, with a standard deviation of 0.81. The score suggests that, on average, the firms agree to a good extent that they have a systematic process in place, but there's some variation in responses (as indicated by the standard deviation). The average score for involving relevant stakeholders in the risk identification process is slightly higher at 4.05, with a standard deviation of 0.77. This indicates a relatively strong agreement among firms about the involvement of stakeholders, but with some variation.

The mean score for the statement that the risk identification process considers both internal and external factors is 3.91 with a standard deviation of 0.95. This implies that most firms agree with this, but there's a slightly higher variability in responses compared to the previous statements. The average score for the use of reliable data and information sources in risk identification is 4.09, with the least variability (std. dev of

0.60). This indicates a strong consensus among the firms about the reliability of their data sources.

Firms have an average score of 4.05 for regularly updating their risk identification process to capture emerging risks, with a standard deviation of 0.77. This shows that most firms are proactive in updating their processes, but there's still some variability in responses. The highest mean score of 4.64 (with a standard deviation of 0.48) is for the effective communication of identified risks to key stakeholders. This suggests a very strong agreement among the firms about their efficiency in communicating risks, with minimal variation in responses.

4.5.2 Risk Assessment

Table 4.8 provides an overview of the descriptive statistics regarding the risk assessment procedures of the oil marketing firms in Kenya, as gauged from the responses of the heads of internal audit.

Table 4.8: Descriptive Statistics for Risk Assessment

Statements	N	Mean	Std. Dev
The organization employs appropriate methods to assess the potential impact of identified risks.	96	4.09	0.67
The organization assigns a level of significance or priority to each identified risk.	96	3.95	0.71
The risk assessment process considers both the likelihood and potential consequences of risks.	96	3.68	1.14
The organization regularly reviews and updates risk assessments based on changing circumstances.	96	3.64	0.88
The organization effectively communicates risk assessments to relevant decision-makers.	96	4.09	0.73
The risk assessment process helps the organization allocate resources efficiently to address high-priority risks.	96	3.95	0.88
Overall Mean Score	**96**	**3.90**	**0.60**

Source: Field Data (2023)

The mean score for firms employing appropriate methods to assess the impact of identified risks stands at 4.09, with a standard deviation of 0.67. This implies that the majority of firms feel confident about the methods they utilize for risk assessment, though there's a moderate variation in the responses. The firms on average have a score of 3.95, with a standard deviation of 0.71, when it comes to assigning a level of significance or priority to each identified risk. This suggests that most firms are deliberate in prioritizing their risks, but there exists some variability in their responses.

For considering both the likelihood and potential consequences of risks during the risk assessment process, the mean score is somewhat lower at 3.68, accompanied by the highest variability (std. dev of 1.14). This indicates that while many firms take into account these factors, the practices or perceptions might be diverse among them. The average score for firms that regularly review and update risk assessments due to changing circumstances is 3.64, with a standard deviation of 0.88. This implies that while a majority of firms review their assessments, the consistency and frequency of these reviews might vary.

The mean score for effective communication of risk assessments to relevant decision-makers matches the score for employing appropriate methods, standing at 4.09 (std. dev of 0.73). This suggests a strong emphasis on the importance of communication within firms, though with some variation in practices or perceptions. For the statement that the risk assessment process aids the organization in efficiently allocating resources to tackle high-priority risks, the average score is 3.95 with a standard deviation of 0.88. This denotes that most firms find their risk assessment beneficial for resource distribution, but practices or perceptions might differ to some extent.

The cumulative mean score for risk assessment across all statements is 3.90, with a standard deviation of 0.60. This overall score portrays a generally positive stance on risk assessment procedures within the oil marketing firms in Kenya. The standard deviation indicates a moderate consistency in the views held by these firms about their risk assessment processes.

4.5.3 Risk Mitigation

Table 4.9 offers insights into the descriptive statistics about the risk mitigation practices within the oil marketing firms in Kenya, based on feedback from the heads of internal audit. The cumulative mean score for risk mitigation across all the statements is 3.70, with a standard deviation of 0.50. This indicates a generally positive, though slightly cautious, stance on risk mitigation procedures by the oil marketing firms in Kenya. The relatively low standard deviation suggests that the views on risk mitigation practices are fairly consistent among these firms.

Table 4.9: Descriptive Statistics for Risk Mitigation

Statements	N	Mean	Std. Dev
The organization has established adequate controls and procedures to mitigate identified risks.	96	3.73	0.91
The control activities implemented by the organization are appropriate and effective in addressing risks.	96	3.73	0.62
The organization regularly monitors and evaluates the effectiveness of risk mitigation measures.	96	3.86	0.55
The organization promptly takes corrective actions when control weaknesses or gaps are identified.	96	3.14	0.87
The organization promotes a culture of risk awareness and accountability among employees.	96	3.95	0.56
The organization provides sufficient resources and support for implementing risk mitigation measures.	96	3.82	0.72
Overall Mean Score	**96**	**3.70**	**0.50**

Source: Field Data (2023)

The firms, on average, scored 3.73 (with a std. dev of 0.91) on having established adequate controls and procedures to mitigate identified risks. This indicates that while most firms have measures in place, there's a relatively high variation in their confidence or practices concerning these controls. With the same mean score of 3.73 but a smaller standard deviation of 0.62, the firms generally agree that the control activities they've put in place are appropriate and effective. The smaller standard deviation suggests a more consistent sentiment about the effectiveness of these activities.

For regular monitoring and evaluation of risk mitigation measures, the mean score stands slightly higher at 3.86 with a standard deviation of 0.55. This implies a consensus among firms about the importance of monitoring, and a consistent practice of evaluation across them. The mean score is the lowest for this statement at 3.14, with a standard deviation of 0.87. This suggests that while many firms take corrective actions upon identifying control weaknesses or gaps, there's significant variability in how promptly or effectively they do so.

Firms have an average score of 3.95 (std. dev of 0.56) when it comes to promoting a culture of risk awareness and accountability. This suggests a strong emphasis on nurturing a risk-conscious environment among employees and a consistent approach towards it across the firms. The mean score for providing sufficient resources and support for risk mitigation measures is 3.82, accompanied by a standard deviation of 0.72. This indicates that most firms are committed to resource allocation for mitigation, though there's some variability in their perceptions or practices.

4.5.4 Audit Planning

Table 4.10 delves into the descriptive statistics related to the audit planning practices among the oil marketing firms in Kenya, as described by the heads of internal audit.

Table 4.10: Descriptive Statistics for Audit Planning

Statements	N	Mean	Std. Dev
The organization's audit plan is aligned with the identified risks and priorities.	96	3.73	0.62
The audit plan considers the significance and potential impact of risks on financial reporting.	96	3.64	0.71
The audit procedures are designed to address key risks identified during the risk assessment process.	96	3.36	0.88
The organization effectively communicates the audit plan and objectives to the audit team.	96	4.05	0.56
The audit team possesses the necessary skills and knowledge to execute the audit plan effectively.	96	3.64	0.77
The organization provides adequate resources and support for the successful execution of audits	96	4.41	0.49
Overall Mean Score	**96**	3.80	0.47

Source: Field Data (2023)

Firms have an average score of 3.73 (std. dev of 0.62) when it comes to ensuring their audit plans are aligned with identified risks and priorities. This implies a general agreement among firms on the alignment of audit plans, but with some variation in the extent or practices of this alignment. For the statement that the audit plan takes into account the significance and potential impact of risks on financial reporting, the mean score is 3.64, with a standard deviation of 0.71. This suggests that while most firms recognize the importance of risk significance in their audit plans, there's a moderate variation in practices or perceptions.

With a mean score of 3.36 and a std. dev of 0.88, there's an indication that while many firms ensure their audit procedures address key risks, there's significant variability in the thoroughness or methods with which they do so. The organization's effectiveness in communicating the audit plan and objectives to the audit team is reflected in a relatively high mean score of 4.05, with a standard deviation of 0.56. This indicates a

strong consensus among firms about the importance of effective communication in the audit process.

On whether the audit team has the necessary skills and knowledge to execute the audit plan effectively, firms score an average of 3.64 (std. dev of 0.77). This suggests that while many firms are confident in their audit teams, there's some variability in the perceived proficiency or training of these teams. The highest mean score in this category is for the provision of adequate resources and support for successful audits, standing at 4.41 with a relatively low standard deviation of 0.49. This emphasizes the commitment of firms to resource allocation for audits, and there's a strong agreement on this across firms.

The cumulative average score for audit planning across all statements is 3.80, with a standard deviation of 0.47. This indicates that the oil marketing firms in Kenya generally have positive views on their audit planning procedures. The relatively low standard deviation reflects a consistent sentiment across these firms regarding their audit practices.

4.5.5 Firm Size, Financial Leverage and Financial Reporting Quality

Table 4.11 provides insights into the descriptive statistics of other study variables, namely firm size, financial leverage, and financial reporting quality.

Table 4.11: Descriptive Results for Size, Leverage and FRQ

	N	Minimum	Maximum	Mean	Std. Deviation
Firm size	96	5.395	7.940	6.7681	.6281
Financial leverage	96	.2742	.9733	.5213	.1999
Financial reporting quality	96	.6875	.9400	.7995	.0913
Valid N (listwise)	96				

Source: Field Data (2023)

The average firm size stands at 6.7681, with a standard deviation of 0.6281. This means that, on average, firms have a size (in terms of the logarithm of total assets) around 6.7681, but there's some variability among the firms, as reflected by the standard deviation. On average, firms have a financial leverage score of 0.5213, with a standard deviation of 0.1999. This suggests that the typical firm in the sample has about 52.13% of its financing from debt, but there's considerable variation in leverage levels across firms.

The mean score for financial reporting quality is 0.7995, with a standard deviation of 0.0913. This means that, on average, firms disclose about 79.95% of the items in the checklist. The standard deviation indicates moderate consistency in the disclosure practices among the firms. There is a high adherence to the IFRS/IAS disclosure checklist, indicating good financial reporting quality

4.6 Diagnostic Tests

Before moving on to equation estimation, diagnostic tests were done to make sure that there are no breaches of the traditional linear regression model assumptions. Parameter estimations are skewed as well as inefficient whenever the assumptions of a classical regression model are broken. The diagnostic tests conducted are discussed in this section.

4.6.1 Normality Test

A number of techniques may be used to determine if data is normal. The Shapiro-Wilk test, Kolmogorov-Smirnov test, skewness, kurtosis, histogram, P-P plot, box plot, Q-Q plot, mean, and standard deviation are the techniques that are most frequently employed. The Kolmogorov-Smirnov test and the Shapiro-Wilk test are the two normality tests that are most often employed. The Kolmogorov-Smirnov test is preferable for sample sizes

more than 50 samples, but the Shapiro-Wilk test is better for smaller sample sizes (n 50 samples). As a result, the study's numerical approach of establishing normalcy was the Kolmogorov-Smirnov test. The null hypothesis states that the data are drawn from a population that is normally distributed for both of the aforementioned tests. When the P-value is less than 0.05, the null hypothesis is disproved and it is declared that the data are not normally distributed. If any deviation from the presumption of normality was found, the appropriate corrective actions were taken.

Table 4.12: Test for Normality

	Kolmogorov-Smirnov	P-value
Financial reporting quality	0.869	0.178
Risk identification	0.918	0.202
Risk assessment	0.881	0.194
Risk mitigation	0.874	0.191
Audit planning	0.872	0.190
Firm size	0.892	0.201
Financial leverage	0.923	0.220

Source: Research Findings (2023)

From Table 4.12 results, all the study variables have a p value more than 0.05 and therefore were normally distributed.

4.6.2 Multicollinearity Test

When there is a substantial correlation between the independent variables in a regression model, multicollinearity arises. The VIF and tolerance indices were used to evaluate multicollinearity. Multicollinearity is present and the assumption is violated when the VIF value is more than 10 and the tolerance score is lower than 0.2. The VIF values are less than 10, which indicates that multicollinearity is not an issue.

Table 4.13: Multicollinearity

	Collinearity Statistics	
Variable	**Tolerance**	**VIF**
Risk identification	0.535	1.869
Risk assessment	0.601	1.664
Risk mitigation	0.598	1.672
Audit planning	0.476	2.101
Firm size	0.599	1.663
Financial leverage	0.621	1.610

Source: Research Findings (2023)

4.6.3 Heteroskedasticity Test

The Breusch-Pagan/Cook-Weisberg test was employed in the study to determine if the variance was heteroskedastic. The Breusch-Pagan test is a statistical test that is used to test the null hypothesis that the variance of the error terms is constant. The test statistic is distributed as a chi-squared with 1 degree of freedom. A p-value of 0.05 or less is generally considered to be statistically significant.

Table 4.14: Heteroskedasticity Results

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity		
chi2(1)	=	0.8619
Prob > chi2	=	0.6337

Source: Research Findings (2023)

The p-value for the Breusch-Pagan test in Table 4.14 is 0.6337 which is greater than 0.05. Therefore, the null hypothesis that the variance of the error terms is constant is not rejected. This implies that the data does not show any significant heteroscedasticity.

4.6.4 Autocorrelation Test

The Durbin-Watson statistic is a test statistic used to detect autocorrelation in the residuals from a regression analysis. The Durbin-Watson statistic ranges in value from 0 to 4. A value of 2 indicates that there is no autocorrelation. A value less than 2 indicates

positive autocorrelation. A value greater than 2 indicates negative autocorrelation. The Durbin-Watson statistic for this study is 2.107, which is close to 2. This indicates that there is no significant autocorrelation in the residuals of the model.

Table 4.15: Test of Autocorrelation

Durbin Watson Statistic
2.107

Source: Research Findings (2023)

4.7 Inferential Statistics

This section presents the findings for both correlation and regression analysis.

4.7.1 Correlation Analysis

Table 4.16 presents the correlation between the independent variables (risk identification, risk assessment, risk mitigation, audit planning, firm size, and financial leverage) and the dependent variable, financial reporting quality (FRQ). The Pearson Correlation values indicate the strength and direction of the linear relationship between these variables, while the significance level (Sig. 2-tailed) provides information on the statistical significance of these correlations.

The correlation between risk identification and financial reporting quality is 0.713 (a strong positive correlation), and is statistically significant at the 0.01 level (p-value is 0.000). This suggests that as risk identification practices improve or become more robust in firms, there's an associated improvement in the quality of financial reporting. A very strong positive correlation of 0.913 is observed between risk assessment and financial reporting quality, which is also statistically significant at the 0.01 level (p-value is 0.000). This indicates that effective risk assessment practices are closely associated with higher financial reporting quality in these firms.

Table 4.16: Correlation Results

		FRQ	Risk identification	Risk assessment	Risk mitigation	Audit planning	Firm size	Financial leverage
FRQ	Pearson Correlation	1						
	Sig. (2-tailed)							
Risk identification	Pearson Correlation	.713**	1					
	Sig. (2-tailed)	.000						
Risk assessment	Pearson Correlation	.913**	.729**	1				
	Sig. (2-tailed)	.000	.000					
Risk mitigation	Pearson Correlation	.564**	.893**	.624**	1			
	Sig. (2-tailed)	.000	.000	.000				
Audit planning	Pearson Correlation	.948**	.742**	.919**	.662**	1		
	Sig. (2-tailed)	.000	.000	.000	.000			
Firm size	Pearson Correlation	.024	.112	.042	.130	.002	1	
	Sig. (2-tailed)	.814	.276	.687	.206	.984		
Financial leverage	Pearson Correlation	.121	.203*	.132	.236*	.169	.331**	1
	Sig. (2-tailed)	.242	.048	.200	.021	.100	.001	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
c. Listwise N=96

Source: Field Data (2023)

Risk mitigation shows a positive correlation of 0.564 with financial reporting quality. This correlation is significant at the 0.01 level (p-value is 0.000). While the correlation is moderately strong, it underlines the importance of risk mitigation practices in enhancing the quality of financial reporting. Audit planning has an extremely strong positive correlation of 0.948 with financial reporting quality, and it's significant at the 0.01 level (p-value is 0.000). This suggests that effective audit planning is crucial and is very closely linked with high financial reporting quality.

The correlation between firm size and financial reporting quality is 0.024, and it is not statistically significant (p-value is 0.814). This suggests that the size of the firm (in terms of total assets) doesn't have a strong linear relationship with the quality of its financial reporting. Financial leverage has a correlation of 0.121 with financial reporting quality. However, this correlation isn't statistically significant at the conventional levels (p-value is 0.242). This indicates that the level of debt financing (as a proportion of total

financing) in these firms doesn't have a substantial linear relationship with financial reporting quality.

4.7.2 Regression Analysis

The regression analysis aimed to determine the effect of the independent variables (Risk identification, Risk assessment, Risk mitigation, Audit planning, Firm size, and Financial leverage) on the dependent variable (Financial reporting quality). The model summary, ANOVA, and coefficients tables present the analysis' findings. The model summary explains how much variation in the dependent variable is due to the independent variables fitted in the model. The ANOVA table checks if the model fit is statistically significant in predicting the dependent variable and the coefficient table quantifies the magnitude of the association between the variables. The findings of the study are shown in the tables below.

Table 4.17 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.965[a]	.931	.927	.227624

a. Predictors: (Constant), Financial leverage, Risk assessment, Firm size, Risk mitigation, Risk identification, Audit planning

Source: Field Data (2023)

R Square value (0.931) represents the proportion of variance in the dependent variable that's explained by the independent variables. In other words, approximately 93.1% of the variability in Financial reporting quality is explained by the predictors in the model. The F value (201.647) in Table 4.18 tests the hypothesis that the model with predictors fits better than a model with no predictors. A significant F-statistic (with a p-value of 0.000) suggests that the model significantly predicts the outcome variable.

Table 4.18 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62.687	6	10.448	201.647	.000[b]
	Residual	4.611	89	.052		
	Total	67.298	95			

a. Dependent Variable: Financial reporting quality
b. Predictors: (Constant), Financial leverage, Risk assessment, Firm size, Risk mitigation, Risk identification, Audit planning

Source: Field Data (2023)

The results of model coefficients in Table 4.19 revealed that for every unit increase in Risk identification, Financial reporting quality increases by 0.222 units, holding other variables constant. This relationship is significant (p = 0.000). A unit increase in Risk assessment leads to a 0.209-unit increase in Financial reporting quality, given other variables are constant. This is significant with p = 0.004. Risk mitigation has a significant coefficient of 0.390 (p = 0.000), indicating a strong positive relationship. he coefficient of 0.715 is the highest among the predictors, suggesting that Audit planning has the most substantial impact on financial reporting quality. It is highly significant with p = 0.000.

Table 4.19 Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.253	.322		3.898	.000
	Risk identification	.222	.053	.295	4.166	.000
	Risk assessment	.209	.070	.217	2.969	.004
	Risk mitigation	.390	.076	.323	5.150	.000
	Audit planning	.715	.072	.746	9.945	.000
	Firm size	.025	.040	.019	.633	.529
	Financial leverage	-.048	.128	-.011	-.375	.708

a. Dependent Variable: Financial reporting quality

Source: Field Data (2023)

The coefficient is 0.025, but it's not statistically significant (p = 0.529), suggesting that Firm size might not be a strong predictor in this model. With a coefficient of -0.048, Financial leverage has a negative relationship with Financial reporting quality, but it's not statistically significant (p = 0.708), indicating that leverage might not be a significant predictor.

From the Table 4:19 the following model has been developed;

$Y = 1.253 + 0.222X_1 + 0.209X_2 + 0.390X_3 + 0.715X_4$

Where:

Y = financial reporting quality,

X_1 = risk identification

X_2 = risk assessment

X_3 = risk mitigation

X_4 = audit planning

4.8 Discussion of Findings

This study sought to conducted to determine the effect of risk-based auditing on financial reporting quality of oil marketing firms in Kenya. The independent variable was risk-based auditing measured in terms of risk identification, risk assessment, risk mitigation, and audit planning. The dependent variable was financial reporting quality measured using 2014 IFRS/IAS disclosure checklist where organizations scored 1 for disclosure and 0 for non-disclosure of an item in the checklist. The control variables were firm size measured as natural logarithm of total assets and financial leverage

measured using debt ratio. The study was anchored on agency theory and supported by information economics theory as well as the stakeholder theory.

The study population was the 125 licensed oil marketing firms in Kenya. This research utilized both primary as well as secondary data. The primary data was collected via a structured questionnaire. The questionnaires consisted of closed ended questions. The questionnaire was divided into four sections, namely risk identification, risk assessment, risk mitigation, and audit planning. The researcher administered the questionnaire to the heads of internal audit in each oil marketing firm. The secondary data was extracted from annual published financials of the oil marketing firms in Kenya from 2018 to 2022. The secondary data was on financial reporting quality, firm size and financial leverage. Data was analyzed using descriptive correlational and regression analysis.

Descriptive statistics unveiled that most oil marketing firms in Kenya generally have positive practices related to risk identification, assessment, mitigation, and audit planning. Regression analysis further highlighted the significant influence of these auditing components on financial reporting quality. Specifically, risk identification, risk assessment, risk mitigation, and audit planning emerged as significant predictors of the quality of financial reporting. In contrast, firm size and financial leverage didn't significantly influence this quality. These findings underscore the critical role of a structured, risk-based auditing approach in enhancing the transparency and reliability of financial reporting among oil marketing firms in Kenya.

The current study's focus on the relationship between risk-based auditing and financial reporting quality in Kenyan oil marketing firms provides valuable insights within the broader context of auditing practices and their effects on financial reporting. When

viewed alongside global and local empirical studies, interesting patterns emerge. Mardessi (2022) explored the influence of audit quality on financial reporting in non-financial firms in Amsterdam. Although the study identified governance mechanisms such as the independence of members and the audit committee's size as significant, it notably did not consider risk-based auditing in its exploration. Similarly, Madawaki, Ahmi, and Ahmad (2022) established a positive relationship between internal audit functions and financial reporting quality in Nigeria, but the study, like Mardessi's, missed out on examining risk-based auditing's effects. In contrast, Le, Nguyen, and Ngo's study in Vietnam (2022) directly addressed risk-based auditing and established its positive effect on audit quality, mirroring the Kenyan study's findings. However, while their work touched upon the risk-based approach, it lacked the focus on its impact on financial reporting quality.

Jamhuri, Mwangi, Okiro, and Wainaina (2022) explored the relationship between board diversity and financial reporting quality at the Nairobi Securities Exchange. Though their findings on board gender and independence resonate with the global focus on governance factors, risk-based auditing was not a focal point of their study. Mulwa and Opuodho (2022) directly examined risk-based audit practices and their influence on financial performance in Thika, Kenya. While they established a positive correlation, similar to the present study, they did not venture into the realm of financial reporting quality. This contrasts with the present study's detailed exploration of risk-based auditing's various components and their relationship with financial reporting quality. Midecha (2022) and Singoei (2022) both explored aspects of auditing and their relationship with financial performance and reporting quality, respectively, but neither addressed risk-based auditing in depth.

In synthesis, while various studies, both global and local, have ventured into the realms of audit quality, governance mechanisms, and financial reporting quality, the current study stands out in its focused exploration of risk-based auditing's components. Its findings, particularly on the significant positive relationship between risk-based auditing components and financial reporting quality, highlight a potentially underexplored avenue in the literature and suggest the need for further research integrating risk-based auditing with the broader constructs of audit quality and financial reporting.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter entails summary of findings, conclusions, implications and finally recommendations. This section also includes the limitations and suggestions for future studies.

5.2 Summary

The study aimed to assess the impact of risk-based auditing on the financial reporting quality of oil marketing firms in Kenya. Key components of risk-based auditing, namely risk identification, risk assessment, risk mitigation, and audit planning, served as the independent variables. Financial reporting quality, gauged using the 2014 IFRS/IAS disclosure checklist, acted as the dependent variable. Additionally, firm size (measured as the natural logarithm of total assets) and financial leverage (determined using the debt ratio) were used as control variables. The theoretical foundation for this investigation was rooted in the agency theory, complemented by the information economics theory and stakeholder theory.

A total of 125 licensed oil marketing firms in Kenya constituted the study's population. Both primary and secondary data sources were leveraged for this research. Primary data was gathered via structured questionnaires distributed to the heads of internal audit in each firm. These questionnaires were divided into sections corresponding to the main components of risk-based auditing. Secondary data, on the other hand, was extracted from the annual published financial statements of these firms from 2018 to 2022, focusing on metrics relevant to the study, such as financial reporting quality, firm size, and financial leverage.

Descriptive statistics unveiled that most oil marketing firms in Kenya generally have positive practices related to risk identification, assessment, mitigation, and audit planning. Regression analysis further highlighted the significant influence of these auditing components on financial reporting quality. Specifically, risk identification, risk assessment, risk mitigation, and audit planning emerged as significant predictors of the quality of financial reporting. In contrast, firm size and financial leverage didn't significantly influence this quality. These findings underscore the critical role of a structured, risk-based auditing approach in enhancing the transparency and reliability of financial reporting among oil marketing firms in Kenya.

5.3 Conclusion of the Study

The study conclusively established a strong relationship between risk-based auditing and the financial reporting quality of oil marketing firms in Kenya. Components of risk-based auditing, specifically risk identification, risk assessment, risk mitigation, and audit planning, were found to be critical drivers influencing the quality of financial reporting. As these components improved or became more robust in their application within the firms, there was a corresponding enhancement in the transparency, accuracy, and comprehensiveness of financial reports.

Of all the components of risk-based auditing examined, audit planning emerged as having the most pronounced impact on financial reporting quality. This suggests that the meticulous design, organization, and communication of audit activities are instrumental in ensuring that financial statements are not only compliant but also accurately reflect the financial position and performance of the firm. The study also emphasized the importance of comprehensive risk identification, systematic risk assessment, and effective risk mitigation practices. These processes ensure that

potential threats to the accuracy and reliability of financial reporting are promptly identified, evaluated, and addressed, thereby promoting the overall integrity of financial statements.

Interestingly, while firm size and financial leverage were considered as potential influencing factors, they did not display a significant impact on financial reporting quality in the context of this study. This suggests that the internal audit practices and processes, especially those centered around risk, play a more pivotal role than the sheer scale or capital structure of the firm in determining the quality of financial reporting. In essence, for oil marketing firms in Kenya, adopting and refining risk-based auditing approaches — particularly in the domains of audit planning, risk identification, assessment, and mitigation — is vital for ensuring high-quality financial reporting. As stakeholders demand greater transparency and accountability, it's imperative for these firms to continue investing in and prioritizing robust auditing processes.

5.4 Recommendations for Policy and Practice

Regulatory bodies overseeing the oil marketing sector in Kenya should emphasize the adoption of risk-based auditing in their guidelines and standards. This could involve updating audit regulations to specify methodologies for risk identification, assessment, mitigation, and planning. By integrating these components into mandatory auditing standards, firms will be better positioned to improve the quality of their financial reporting.

Given the pronounced impact of audit planning and other risk-based auditing components on financial reporting quality, firms should invest in continuous training and development for their internal audit teams. Such training programs could focus on the latest tools, technologies, and best practices in risk-based auditing, ensuring that

auditors are equipped with the skills and knowledge to adapt to the evolving landscape of financial risks.

Beyond formal training, oil marketing firms should endeavor to foster a corporate culture that prioritizes risk awareness. This includes creating an environment where employees at all levels understand the importance of identifying and communicating potential financial risks. Encouraging a proactive approach to risk can lead to quicker identification and mitigation, further enhancing financial reporting quality.

Given the dynamic nature of risks, especially in sectors like oil marketing, firms should establish a practice of periodically reviewing and updating their audit processes. Such reviews can ensure that the audit strategies remain relevant, comprehensive, and aligned with the current risk environment. To further enhance the robustness of the audit process, firms could consider engaging external experts or consultants for periodic reviews. These experts can offer a fresh perspective, identify gaps or areas of improvement in the current risk-based auditing processes, and recommend best practices adopted globally.

Given that the ultimate goal of financial reporting is to communicate the firm's financial position to its stakeholders, it would be beneficial to engage them in feedback loops. Stakeholders, such as investors and creditors, could provide invaluable insights into their expectations and perceptions regarding financial reporting, helping firms fine-tune their audit processes accordingly.

5.5 Limitations of the Study

While the research focused on oil marketing firms in Kenya, the industry operates within a global context, with numerous international dynamics at play. This geographically localized approach might not capture global best practices, trends, or

challenges that can significantly influence auditing and financial reporting processes. Consequently, the findings may have limited generalizability beyond the Kenyan context or to other sectors.

The study largely relied on structured questionnaires distributed to heads of internal audit. While this provided a concentrated view from professionals directly engaged with the audit process, it might have missed nuances or insights from other key stakeholders, such as external auditors, financial analysts, or even members of the finance teams. Additionally, self-reported data is always subject to biases, like social desirability bias, which might have influenced the responses.

The study extracted secondary data from annual published financials spanning from 2018 to 2022. Financial reporting and auditing practices can evolve over time, influenced by both internal organizational changes and external regulatory adjustments. The chosen timeframe, while offering a recent perspective, might not capture long-term trends or the potential impacts of very recent industry developments.

The study considered certain components of risk-based auditing and control variables like firm size and financial leverage. However, other potentially influential variables, such as organizational culture, technological adoption in auditing, or external economic factors, were not incorporated. These unexamined variables could offer additional insights into the intricacies of financial reporting quality.

5.6 Suggestions for Further Research

Given that this study focused primarily on Kenya, further research could expand the geographical scope to include oil marketing firms in other East African countries or even on a continental scale. Such a broader perspective would offer insights into

regional similarities and differences, allowing for a richer understanding of risk-based auditing practices and their impacts on financial reporting quality in diverse settings.

The current research primarily considered components of risk-based auditing, firm size, and financial leverage as determinants of financial reporting quality. Future studies could introduce additional variables such as technological integration in audit processes, organizational culture, or even macroeconomic indicators. Assessing the influence of these variables might provide a more comprehensive picture of the factors affecting financial reporting quality in the sector.

While the present study relied heavily on quantitative methods, incorporating qualitative research methods, like in-depth interviews or focus group discussions with auditors, financial analysts, and other stakeholders, could provide richer, contextual insights. Such an approach could uncover the nuances, challenges, and motivations behind certain auditing practices, offering a more holistic understanding of the audit process and its relationship with financial reporting.

Instead of a cross-sectional approach, future research could adopt a longitudinal design, tracking the same set of oil marketing firms over an extended period. This would allow researchers to observe the evolution of auditing practices and their impact on financial reporting quality over time. Such a design could capture the effects of industry shifts, regulatory changes, or significant global events on auditing and reporting practices, offering a dynamic perspective on the topic.

REFERENCES

Adegbite, A., Che-Ahmad, A., Maduekwe, N. C., & Uwuigbe, U. (2020). Board gender diversity and financial reporting quality in Nigerian banks. *Journal of Business Ethics, 165*(4), 583-602.

Al-Aamri, A. K., Al-musallami, F. H., Ahmed, E. R., & Qazi, M. (2021). Impact of audit committees on quality of financial Reporting: A Study in Oman. *International Journal of Business and Management Invention (IJBMI), 10*(10), 35-43.

Alruwaili, W. S., Ahmed, A. D., & Joshi, M. (2023). IFRS adoption, firms' investment efficiency and financial reporting quality: a new empirical assessment of moderating effects from Saudi listed firms. *International Journal of Accounting & Information Management*, (ahead-of-print).

Alsuhaibani, W., Houmes, R., & Wang, D. (2023). The evolution of financial reporting quality for companies listed on the Tadawul Stock Exchange in Saudi Arabia: New emerging markets' evidence. *Emerging Markets Review*, *55*, 101009.

Andriani, B., Nurnajamuddin, M., & Rosyadah, K. (2021). Does profitability, firm size, and investment opportunity set affect earnings quality?. *Jurnal Akuntansi*, *25*(1), 54-69.

Anton, S. G., & Nucu, A. E. A. (2020). Enterprise risk management: A literature review and agenda for future research. *Journal of Risk and Financial Management*, *13*(11), 281.

Anugraheni, E. P., Setiawati, E., & Trisnawati, R. (2022). Analysis of Risk-Based Internal Audit Planning Implementation and Its Impact on Audit Quality: Case Study at the Inspectorate of Surakarta, Indonesia. *Economics and Business Quarterly Reviews*, *5*(3).

Arrow, K. J. (1963). Uncertainty and the Welfare Economics of Medical Care. *American Economic Review, 53*(5), 941-973.

Barney, J. B., & Harrison, J. S. (2020). Stakeholder theory at the crossroads. *Business & Society*, *59*(2), 203-212.

Bensaid, A., Ishak, S. B., & Mustapa, I. R. B. (2021). Risk management committee attributes: A review of the literature and future directions. *Universal Journal of Accounting and Finance*, *9*(3), 388-395.

Bhaskar, L. S. (2020). How do risk-based inspections impact auditor behavior? Experimental evidence on the PCAOB's process. *The Accounting Review*, *95*(4), 103-126.

Burns, N. & Burns, S. (2018). *The Practice of Nursing Research: Conduct, Critique and Utilization*: 5th Edition: St Louis, Elsevier Saunders

Chulkov, D., & Wang, X. (2023). Corporate social responsibility and financial reporting quality: evidence from US firms. *Studies in Economics and Finance*, (ahead-of-print).

Cooper, D. R., & Schindler, P. S. (2018). *Business research methods*. New Delhi: Tata McGraw-Hill Publishing Company Limited

Dombrovskaya, E. (2021). *Risk-Based Internal Control over Formation of Financial Reporting. In Integrated Science in Digital Age 2020 (pp. 42-52)*. Springer International Publishing.

Eulerich, M., Georgi, C., & Schmidt, A. (2020). Continuous auditing and risk-based audit planning—An empirical analysis. *Journal of Emerging Technologies in Accounting*, *17*(2), 141-155.

Eutsler, J. (2020). Risky business: Assessing the generalizability of the PCAOB's risk-based inspection reports for annually inspected audit firms. *Auditing: A Journal of Practice & Theory*, *39*(2), 117-138.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach. Cambridge*: Cambridge university press.

Freeman, R. E., Phillips, R., & Sisodia, R. (2020). Tensions in stakeholder theory. *Business & Society*, *59*(2), 213-231.

Gacu, E. W. (2021). *Influence of Customer Experience Management on Performance of Oil Marketing Companies Kenya* (Doctoral dissertation, University of Nairobi).

Gal-Or, E., & Ghose, A. (2019). The economic incentives for sharing security information. *Information Systems Research*, *16*(2), 186-208.

Hung, D. H., Binh, V. T. T., Hung, D. N., Ha, H. T. V., Ha, N. V., & Van, V. T. T. (2023). Financial reporting quality and its determinants: A machine learning approach. *International Journal of Applied Economics, Finance and Accounting*, *16*(1), 1-9

Iqbal Tawfik, O., Almaqtari, F. A., Al-ahdal, W. M., Abdul Rahman, A. A., & Farhan, N. H. (2022). The impact of board diversity on financial reporting quality in the GCC listed firms: the role of family and royal directors. *Economic Research-Ekonomska Istraživanja*, 1-33

Jamhuri, R. K., Mwangi, C. I., Okiro, K., & Wainaina, G. (2022). The relationship between Board Diversity and Financial Reporting Quality of Companies Listed at the Nairobi Securities Exchange in Kenya. *African Development Finance Journal*, *3*(2), 105-121.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360

Jia, J., Li, Z., & Munro, L. (2019). Risk management committee and risk management disclosure: evidence from Australia. *Pacific Accounting Review7*(3);212-219.

Khaddafi, M., Heikal, M., & Falahuddin, F. (2022). Risk management implementation model in moderating risk relationship based on internal audit. *Morfai journal*, *1*(2), 311-322.

Kinyenze, J. M., & Ondabu, I. T. (2023). Financial Reporting Quality Among Deposit Taking Saccos: What Unties the Ties. *Journal of Business & Management*, *1*(1), 69-103.

Langrafe, T. D. F., Barakat, S. R., Stocker, F., & Boaventura, J. M. G. (2020). A stakeholder theory approach to creating value in higher education institutions. *The Bottom Line*, *33*(4), 297-313.

Le, T. T., Nguyen, T. M. A., & Ngo, T. H. C. (2022). Risk-based approach and quality of independent audit using structure equation modeling–Evidence from Vietnam. *European Research on Management and Business Economics*, *28*(3), 100196.

Li, Y. X., & He, C. (2023). Board diversity and corporate innovation: Evidence from Chinese listed firms. *International Journal of Finance & Economics*, *28*(1), 1092-1115

Lois, P., Drogalas, G., Nerantzidis, M., Georgiou, I., & Gkampeta, E. (2021). Risk-based internal audit: factors related to its implementation. *Corporate Governance: The International Journal of Business in Society7*(4);112-121.

Madawaki, A., Ahmi, A., & Ahmad, H. N. (2022). Internal audit functions, financial reporting quality and moderating effect of senior management support. *Meditari Accountancy Research*, *30*(2), 342-372.

Mardessi, S. (2022). Audit committee and financial reporting quality: the moderating effect of audit quality. *Journal of Financial Crime*, *29*(1), 368-388.

Mexmonov, S. (2020). The role of the internal audit based international internal audit standards in Uzbekistan. *Архив научных исследований*, *33*(1).

Midecha, A. (2022). Internal Auditor's Role and Corporate Financial Performance in Kenya. *African Journal of Commercial Studies*, *1*(1), 36-42.

Moyo, M., & Moyo, T. (2018). Board diversity and financial performance of Zimbabwean parastatals. *Journal of Economics and Behavioral Studies*, *10*(3), 135-149.

Muazu, M. H., Tasmin, R., & Javaid, M. (2021). Operational excellence, regulatory framework and firm characteristics in the oil sector: the role of enterprise risk management implementation. *International Journal of Services and Operations Management*, *38*(4), 490-507.

Mulwa, L. K., & Opuodho, G. O. (2022). Influence of Risk-Based Audit Practices on Financial Performance of Registered Fruit Processing Firms in Thika Municipality, Kenya. *International Journal of Finance*, *7*(5), 80-110.

Mwangi, A. K. (2018). *Effect of Audit Committee Characteristics on Quality of Financial Reporting among non-Commercial State Corporations in Kenya*. Retrieved from http://hdl.handle.net/123456789/4598

Nderitu, D. M., & Njuguna, R. K. (2017). The influence of retail network expansion on the competitive advantage of oil marketing firms in Kenya: Case of Vivo energy. *International Journal of Sales, Retailing and Marketing*, *6*(2), 3-16.

Olujobi, O. J. (2021). Deregulation of the downstream petroleum industry: An overview of the legal quandaries and proposal for improvement in Nigeria. *Heliyon*, *7*(4), e06848.

Rahman, S. U., Chen, S., Al-Faryan, M. A. S., Ahmad, I., Hussain, R. Y., & Saud, S. (2023). Audit services and financial reporting quality: The role of accounting expertise auditors. *Cogent Business & Management*, *10*(1), 2164142.

Raimo, N., Rubino, M., Esposito, P., & Vitolla, F. (2023). Measuring quality of popular annual financial reports: Features of the rewarded US reporting municipalities. *Corporate Social Responsibility and Environmental Management*, *30*(1), 17-27.

Sahaib, R. M. (2023). The role of risk-based auditing in enhancing the informational content of financial reports. *World Economics and Finance Bulletin*, *22*(9);42-66.

Sani, S. D., & Abubakar, M. (2021). A proposed framework for implementing risk-based Shari'ah audit. *Journal of Financial Reporting and Accounting*, *19*(3), 349-368.

Sharipov, F. F., Krotenko, T. Y., & Dyakonova, M. A. (2021). Digital potential of economic education: information technologies in a management university. *Current Achievements, Challenges and Digital Chances of Knowledge Based Economy*, 561-572.

Shrestha, A., Tamošaitienė, J., Martek, I., Hosseini, M. R., & Edwards, D. J. (2019). A principal-agent theory perspective on PPP risk allocation. *Sustainability*, *11*(22), 6455.

Singoei, D. K. (2022). Board Gender Diversity, Audit Committee Activities and Financial Reporting Quality of Firms Listed in Nairobi Securities Exchange, Kenya. *Eastern Journal of Economics and Finance, 7*(1), 1-13.

Susilo, B., & Ria, R. (2022). Trends of agency theory in accounting, financial and management research: Systematic literature review. *Budapest International Research and Critics Institute-Journal (BIRCI-Journal), 5*(2);78-91.

Sutisman, E., Ermawati, Y., Mariani, S., & Putra, A. H. P. K. (2021). Moderating Effect of Implementation Risk-Based Auditing on Audit Quality. *Jurnal Akuntansi*, *25*(2), 276-293.

Takase, M., Kipkoech, R., & Essandoh, P. K. (2021). A comprehensive review of energy scenario and sustainable energy in Kenya. *Fuel Communications*, *7*, 100015.

Tamimi, O. (2021). The role of internal audit in risk management from the perspective of risk managers in the banking sector. *Australasian Accounting, Business and Finance Journal*, *15*(2), 114-129.

Tan, C., & Taufiik, M. (2022). Board diversity and financial reporting quality: does firm size matter?. *Journal of Contemporary Accounting*, *4*(2), 80-94.

Young, J. (2020). Determinants for a risk-based audit of an operational risk management framework: A South African perspective. *Academy of Accounting and Financial Studies Journal*, *24*(2), 1-19.

Yudianto, I., Mulyani, S., Fahmi, M., & Winarningsih, S. (2021). The influence of enterprise risk management implementation and internal audit quality on universities' performance in Indonesia. *Journal of Southwest Jiaotong University*, *56*(2);101-114.

APPENDICES

Appendix I: Oil Marketing Firms in Kenya

	Licence Number	Company Name
1	EPRA/PET/3736	ACER PETROLEUM LIMITED
2	EPRA/PET/5688	AFRO PETROLEUM LTD
3	EPRA/PET/4723	AFTAH PETROLEUM(K)LTD
4	EPRA/PET/2459	AINUSHAMSI ENERGY LIMITED
5	EPRA/PET/3973	ALBA PETROLEUM LIMITED
6	EPRA/PET/9599	ALFIRDOWS GENERAL TRADING CO LIMITED
7	EPRA/PET/8900	ALKANES ENERGY LIMITED
8	EPRA/PET/7074	AMM ENGINEERING WORKS LIMITED
9	EPRA/PET/9814	ANTIC ENERGIES LIMITED
10	EPRA/PET/5130	ARECH PETROLEUM LIMITED
11	EPRA/PET/4241	ASHARAMI SYNERGY LIMITED
12	EPRA/PET/2621	ASTROL PETROLEUM COMPANY LIMITED
13	EPRA/PET/8584	AWDEER INVESTMENTS LTD
14	EPRA/PET/4819	AXON ENERGY LTD
15	EPRA/PET/9217	AZIFAT ENERGIES LIMITED
16	EPRA/PET/4208	BACHULAL POPATLAL (KENYA) LIMITED
17	EPRA/PET/3840	BE ENERGY LIMITED
18	EPRA/PET/3838	BLUE SKY ENERGY LIMITED
19	EPRA/PET/9751	BONGANI ENERGY KENYA LIMITED
20	EPRA/PET/4458	BUSHRA ENERGY
21	EPRA/PET/6823	CITY OIL (K) LIMITED
22	EPRA/PET/9348	CLOVER ENERGY LIMITED
23	EPRA/PET/8710	CONNECT TWO FOUR SEVEN ENERGY LTD
24	EPRA/PET/4657	COSTALINA ENERGY LIMITED
25	EPRA/PET/7711	DAHABLE ENERGY LIMITED
26	EPRA/PET/5418	DALBIT PETROLEUM LIMITED
27	EPRA/PET/7678	DAWSON SERVICES (K) LIMITED
28	EPRA/PET/4385	E3 ENERGY KENYA LIMITED

29	EPRA/PET/4967	EAST AFRICAN GASOIL LIMITED
30	EPRA/PET/9518	EGOL ENTERPRISES LIMITED
31	EPRA/PET/4034	ELIORA ENERGY LIMITED
32	EPRA/PET/9534	EQWIPETROL LIMITED
33	EPRA/PET/8046	EROSTECH HOLDINGS LTD
34	EPRA/PET/7743	ESTEEM ENERGY LIMITED
35	EPRA/PET/9384	EUROPET LIMITED
36	EPRA/PET/4609	EVON INTERNATIONAL ENERGY LIMITED
37	EPRA/PET/8881	FAHAAB ENERGY (K) LTD
38	EPRA/PET/3868	FASTNETT ENERGY LIMITED
39	EPRA/PET/9161	FIJI ENERGY LIMITED
40	EPRA/PET/3931	FINEJET LIMITED
41	EPRA/PET/3972	FOSSIL SUPPLIES LIMITED
42	EPRA/PET/3917	GALANA OIL KENYA LIMITED
43	EPRA/PET/3122	GAPCO KENYA LIMITED
44	EPRA/PET/5709	GASLINE PETROLEUM LIMITED
45	EPRA/PET/8604	GASTON PETROLEUM LIMITED
46	EPRA/PET/5348	GP GLOBAL KENYA LIMITED
47	EPRA/PET/6569	GULF ENERGY HOLDINGS LIMITED
48	EPRA/PET/5167	GULF ENERGY LIMITED
49	EPRA/PET/4253	HARED ENERGY LIMITED
50	EPRA/PET/3956	HASS PETROLEUM KENYA LIMITED
51	EPRA/PET/3828	HELLER PETROLEUM LIMITED
52	EPRA/PET/7705	HSON ENGERY LTD
53	EPRA/PET/4075	ILADE OIL CO. LIMITED
54	EPRA/PET/6973	INDEPENDENT PETROLEUM GROUP KENYA LIMITED
55	EPRA/PET/5900	JAGUAR PETROLEUM LIMITED
56	EPRA/PET/4832	JOJES OIL DEALERS LIMITED
57	EPRA/PET/9553	KEMHAS LIMITED
58	EPRA/PET/5068	KENCOR PETROLEUM LIMITED
59	EPRA/PET/7841	KENPETRO ENERGY LIMITED
60	EPRA/PET/3846	KIPEDA HOLDINGS LIMITED

61	EPRA/PET/4639	KOSMOIL PETROLEUM (EA) LIMITED
62	EPRA/PET/5640	LAKE OIL LIMITED
63	EPRA/PET/7126	LEADWAY PETROLEUM LIMITED
64	EPRA/PET/3739	LEXO ENERGY KENYA LIMITED
65	EPRA/PET/4552	LUQMAN PETROLEUM LIMITED
66	EPRA/PET/7207	MARVISS PETROLEUM LIMITED
67	EPRA/PET/4155	MOIL KENYA LIMITED
68	EPRA/PET/7483	MOK PETRO ENERGY LIMITED
69	EPRA/PET/8544	MUNTAZ OIL LIMITED
70	EPRA/PET/4084	NATIONAL OIL CORPORATION OF KENYA
71	EPRA/PET/4115	NET GAS AND ENERGY LIMITED
72	EPRA/PET/7747	NEXUS PETROLEUM LIMITED
73	EPRA/PET/7504	NOMAD PETROCHEM LTD
74	EPRA/PET/2952	OCEAN ENERGY LIMITED
75	EPRA/PET/3648	OIL ENERGY KENYA LIMITED
76	EPRA/PET/2636	OILCOM (K) LIMITED
77	EPRA/PET/6310	OILGEN PETROLEUM LIMITED
78	EPRA/PET/7692	OILHUB LIMITED
79	EPRA/PET/3253	OLA ENERGY KENYA LIMITED
80	EPRA/PET/3228	OLYMPIC PETROLEUM LIMITED
81	EPRA/PET/4136	ONE PETROLEUM LIMITED
82	EPRA/PET/4107	ORYX ENERGIES KENYA LIMITED
83	EPRA/PET/9395	OYLA EAST AFRICA ENERGY
84	EPRA/PET/3249	PACIFIC PETROLEUM LIMITED
85	EPRA/PET/9833	PEAKOIL LIMITED
86	EPRA/PET/9193	PESL KENYA LTD
87	EPRA/PET/3955	PETRO OIL KENYA LIMITED
88	EPRA/PET/4744	PETROCAM KENYA LTD
89	EPRA/PET/7704	QUALITY PETROLEUM LIMITED
90	EPRA/PET/9059	RAAD ENERGY LIMITED
91	EPRA/PET/4703	RAMJI HARIBHAI DEVANI LIMITED
92	EPRA/PET/4615	RANWAY TRADERS LIMITED

93	EPRA/PET/4895	REGNOL OIL (K) LIMITED
94	EPRA/PET/4280	RIVA PETROLEUM DEALERS LIMITED
95	EPRA/PET/4040	ROYAL ENERGY K LTD
96	EPRA/PET/2425	RUBIS ENERGY KENYA PLC
97	EPRA/PET/6181	SAHARA ENERGY LIMITED
98	EPRA/PET/8474	SAKINA GAS COMPANY LTD
99	EPRA/PET/9390	SCOLARY CONSTRUCTION COMPANY LIMITED
100	EPRA/PET/9480	SCYLAR LIMITED
101	EPRA/PET/9847	SEGUTON ENERGY
102	EPRA/PET/8187	SEME OILS & GAS LTD
103	EPRA/PET/9418	SHORELINE PETROLEUM LIMITED
104	EPRA/PET/4072	SOCIETE PETROLIERE KENYA LIMITED
105	EPRA/PET/3902	STABEX INTERNATIONAL LTD
106	EPRA/PET/9768	STATURE INTERNATIONAL LTD
107	EPRA/PET/8430	TALOS ENERGY LTD
108	EPRA/PET/5499	TEXAS ENERGY LTD
109	EPRA/PET/3746	TIBA OIL COMPANY LIMITED
110	EPRA/PET/01426	TOPAZ PETROLEUM LIMITED
111	EPRA/PET/5039	TORCH ENERGY LTD
112	EPRA/PET/4188	TOSHA PETROLEUM (KENYA) LIMITED
113	EPRA/PET/3983	TOTALENERGIES MARKETING KENYA PLC
114	EPRA/PET/4579	TOWBA PETROLEUM COMPANY LIMITED
115	EPRA/PET/1925	TRINITY ENERGY (K) LIMITED
116	EPRA/PET/9084	TRIPLUS PETROLEUM LTD
117	EPRA/PET/5082	TRISTAR TRANSPORT LIMITED
118	EPRA/PET/7495	TROJAN SIX OIL 2019 LIMITED
119	EPRA/PET/8546	TUPESH ENERGY LIMITED
120	EPRA/PET/8091	UNAIDISA SERVICES LTD
121	EPRA/PET/4206	VIVO ENERGY KENYA LIMITED
122	EPRA/PET/9268	WALD ENERGY LIMITED
123	EPRA/PET/7308	WELLS OIL LIMITED
124	EPRA/PET/8622	WNINE ENERGY LIMITED

125	EPRA/PET/4161	ZACOSIA TRADING LIMITED

Source: **EPRA Dated 11-04-2023**

Appendix II: Questionnaire

Dear respondent,

This questionnaire has been designed to collect information on the effect of risk based auditing on financial reporting quality of oil marketing firms in Kenya. Kindly read the questions thoroughly and respond as truthfully as possible. The information collected will be used only for scholarly study purposes and will be held in strict confidentiality.

Instructions

1. Tick appropriately

2. Please feel free to add some additional appropriate information to the study.

SECTION A: BACKGROUND INFORMATION

1. Kindly indicate your gender

   a) Male ( )

   b) Female ( )

2. Please indicate your age

   (a) Below 30 years ( )

   (b) Between 31-40 years ( )

   (c) Between 41-50 years ( )

   (d) Above 50 years ( )

3. How long you have worked at the organization.

   a) Less than 2 years ( )

   b) Between 3-5 years ( )

   c) Between 6-10 years ( )

   (d) More than 10 years ( ).

4. Please indicate the highest level of education

   (a) Diploma ( )

   (b) Undergraduate Degree ( )

   (c) Postgraduate Degree ( )

   (d) PhD ( )

SECTION B: RISK IDENTIFICATION

Please tick the level with which you agree or disagree with the following statements in the accompanying table below;

Scale: (Strongly agree=5, agree=4, Neutral=3, Disagree=2, strongly Disagree=1)

Statement	**5**	**4**	**3**	**2**	**1**
The organization has a systematic process in place to identify potential risks					
Relevant stakeholders are involved in the risk identification process					
The risk identification process considers both internal and external factors.					
The organization uses reliable data and information sources to identify risks.					
The risk identification process is regularly updated to capture emerging risks.					
The organization effectively communicates identified risks to key stakeholders.					

SECTION C: RISK ASSESSMENT AND PRIORITIZATION

Please tick the level with which you agree or disagree with the following statements in the accompanying table below;

Scale: (Strongly agree=5, agree=4, Neutral=3, Disagree=2, strongly Disagree=1)

Statement	**5**	**4**	**3**	**2**	**1**
The organization employs appropriate methods to assess the potential impact of identified risks.					
The organization assigns a level of significance or priority to each identified risk.					
The risk assessment process considers both the likelihood and potential consequences of risks.					
The organization regularly reviews and updates risk assessments based on changing circumstances.					
The organization effectively communicates risk assessments to relevant decision-makers.					
The risk assessment process helps the organization allocate resources efficiently to address high-priority risks.					

SECTION D: RISK MITIGATION AND CONTROL ACTIVITIES

Please indicate your degree of agreement or disagreement with the following assertions using the options in the accompanying table.

Scale: (Strongly agree=5, agree=4, Neutral=3, Disagree=2, strongly Disagree=1)

Statement	**5**	**4**	**3**	**2**	**1**

The organization has established adequate controls and procedures to mitigate identified risks.					
The control activities implemented by the organization are appropriate and effective in addressing risks.					
The organization regularly monitors and evaluates the effectiveness of risk mitigation measures.					
The organization promptly takes corrective actions when control weaknesses or gaps are identified.					
The organization promotes a culture of risk awareness and accountability among employees.					
The organization provides sufficient resources and support for implementing risk mitigation measures.					

SECTION E: AUDIT PLANNING AND EXECUTION

Please indicate your degree of agreement or disagreement with the following assertions using the options in the accompanying table.

Scale: (Strongly agree=5, agree=4, Neutral=3, Disagree=2, strongly Disagree=1)

Statement	**5**	**4**	**3**	**2**	**1**
The organization's audit plan is aligned with the identified risks and priorities.					
The audit plan considers the significance and potential impact of risks on financial reporting.					

The audit procedures are designed to address key risks identified during the risk assessment process.					
The organization effectively communicates the audit plan and objectives to the audit team.					
The audit team possesses the necessary skills and knowledge to execute the audit plan effectively.					
The organization provides adequate resources and support for the successful execution of audits					

Thank you very much

Appendix III: Secondary Data

Firm	Firm size	Financial leverage	Financial reporting quality
1	7.34	0.46	0.81
2	7.26	0.48	0.75
3	7.25	0.48	0.69
4	7.27	0.47	0.94
5	7.27	0.47	0.81
6	6.55	0.62	0.75
7	6.53	0.62	0.69
8	6.52	0.49	0.88
9	6.49	0.49	0.88
10	6.47	0.47	0.94
11	5.40	0.31	0.94
12	5.76	0.33	0.69
13	5.89	0.33	0.81
14	6.04	0.33	0.75
15	6.18	0.33	0.69
16	7.03	0.48	0.81
17	7.00	0.48	0.69
18	6.98	0.50	0.94
19	6.92	0.50	0.69
20	6.94	0.63	0.75
21	6.30	0.49	0.69
22	6.33	0.49	0.75
23	6.35	0.49	0.88
24	6.35	0.96	0.88
25	6.37	0.96	0.88
26	7.94	0.97	0.75
27	7.85	0.97	0.94
28	7.82	0.97	0.81
29	7.79	0.97	0.88
30	7.83	0.40	0.75
31	7.20	0.27	0.69
32	7.38	0.33	0.69
33	7.43	0.29	0.75
34	7.31	0.30	0.88
35	6.36	0.28	0.81
36	6.27	0.64	0.94
37	6.23	0.67	0.69
38	6.18	0.66	0.88
39	7.34	0.46	0.81
40	7.26	0.48	0.75

Firm	Firm size	Financial leverage	Financial reporting quality
41	7.25	0.48	0.69
42	7.27	0.47	0.94
43	7.27	0.47	0.81
44	6.55	0.62	0.75
45	6.53	0.62	0.69
46	6.52	0.49	0.88
47	6.49	0.49	0.88
48	6.47	0.47	0.94
49	5.40	0.31	0.94
50	5.76	0.33	0.69
51	5.89	0.33	0.81
52	6.04	0.33	0.75
53	6.18	0.33	0.69
54	7.03	0.48	0.81
55	7.00	0.48	0.69
56	6.98	0.50	0.94
57	6.92	0.50	0.69
58	6.94	0.63	0.75
59	6.30	0.49	0.69
60	6.33	0.49	0.75
61	6.35	0.49	0.88
62	6.35	0.96	0.88
63	6.37	0.96	0.88
64	7.94	0.97	0.75
65	7.85	0.97	0.94
66	7.82	0.97	0.81
67	7.79	0.97	0.88
68	7.83	0.40	0.75
69	7.20	0.27	0.69
70	7.38	0.33	0.69
71	7.43	0.29	0.75
72	7.31	0.30	0.88
73	6.36	0.28	0.81
74	6.27	0.64	0.94
75	6.23	0.67	0.69
76	6.18	0.66	0.88
77	7.34	0.46	0.81
78	7.26	0.48	0.75
79	7.25	0.48	0.69
80	7.27	0.47	0.94
81	7.27	0.47	0.81
82	6.55	0.62	0.75

Firm	Firm size	Financial leverage	Financial reporting quality
83	6.53	0.62	0.69
84	6.52	0.49	0.88
85	6.49	0.49	0.88
86	6.47	0.47	0.94
87	5.40	0.31	0.94
88	5.76	0.33	0.69
89	5.89	0.33	0.81
90	6.04	0.33	0.75
91	6.18	0.33	0.69
92	7.03	0.48	0.81
93	7.00	0.48	0.69
94	6.98	0.50	0.94
95	6.92	0.50	0.69
96	6.94	0.63	0.75

Appendix IV: IFRS/ IAS Disclosure Checklist

Name of company …… Year ……..

For each of the IFRS/IAS analysed in this checklist, indicate a score of 1 if yes and 0 if otherwise

1. General information: The financial statements includes general information about the company, such as its name, registered office, and principal activities.
2. Basis of accounting: The financial statements discloses the accounting policies used in preparing the financial statements, including the basis of accounting (e.g., historical cost, fair value).
3. Going concern: The financial statements include disclosures about the company's ability to continue as a going concern.
4. Revenue recognition: The financial statements disclose the company's revenue recognition policies.
5. Segment reporting: If the company operates in multiple segments, the financial statements include disclosures about the company's segment reporting.
6. Property, plant, and equipment (IAS 16): The financial statements disclose information about the company's property, plant, and equipment, including its policies for recognition, measurement, depreciation and impairment.
7. Intangible assets (IAS 38): The financial statements disclose information about the company's intangible assets, including its policies for recognition, measurement, amortization and impairment.

8. Financial instruments (IFRS 9): The financial statements disclose information about the company's financial instruments, including its policies for recognition, measurement, and disclosure.
9. Related party transactions (IAS 24): The financial statements disclose any related party transactions and the nature of the relationship with those parties.
10. Leases (IFRS 16): The financial statements disclose information about the company's lease agreements, including its policies for recognition, measurement, and disclosure.
11. Provisions and contingencies (IAS 37): The financial statements disclose information about the company's provisions and contingencies, including its policies for recognition, measurement, and disclosure.
12. Employee benefits (IAS 19): The financial statements disclose information about the company's employee benefits, including its policies for recognition, measurement, and disclosure.
13. Income taxes (IAS 12): The financial statements disclose information about the company's income tax policies and its income tax expense.
14. Earnings per share (IAS 33): The financial statements disclose information about the company's earnings per share calculations.
15. Events after the reporting period (IAS 10): The financial statements disclose any significant events that occurred after the reporting period.

16. Regulatory deferral account balances (IFRS 14) specify the financial reporting requirements that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation.