THE USEFULNESS OF AUDITORS REPORT IN INVESTMENT DECISIONS: A STUDY ON USER PERCEPTION AMONGST INSTITUTIONAL INVESTORS IN KENYA.

BY

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DECLARATION

This Management Research Project is my original work and has not been presented for a degree in any other University.

Signed .... Date....8/11/94........

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This Management Research Project has been submitted for examination with my approval as University Supervisor.

Signed .... Date 08·11·94 ....

J.K. NJIRAINI.

For Lucy and Paul for being there with me
and
for my parents
Bernard and Philomena Njoroge
and the entire family, for what you are
and always will be in my heart.

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ABSTRACT

This study sought to identify whether private institutional investors in Kenya perceive auditor's report to be of importance in making investment decision. This need arose partly from the fact that the Companies Act requires all registered companies to be audited annually. In addition when making primary issues companies are required to present audited accounts as part of their prospectuses. The Act therefore presumes that the auditors report is useful which presumption is the subject of study in this paper.

In order to achieve the objectives of the study primary data was collected from a sample of 30 institutional investors. Descriptive statistical methods and chi-square test of association were used to analyze the data.

The results of the analysis indicate that institutional investors perceive the auditors report to have utility in investment decision making and further that they actually utilise it in decision making. The study also found out that the auditors report can be improved by additional information being incorporated. This information especially touch on the integrity of the company's managers and the status of internal controls employed to safeguard the assets of the company.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

The Companies Act Chapter 486 of the Laws of Kenya requires that every registered company should lay before its shareholders during the Annual General Meeting audited accounts comprising the balance sheet and the profit and loss account for the year in question and annexed thereto and to be read together with the accounts, the auditors report.

The third schedule of the same Act requires that any company intending to issue a prospectus to the public, when making primary issues should attach an auditors report for the five years prior to the date of issue or for the period the firm has been in operation if less than five years. The auditors report is therefore deemed to be important in making investment decisions at least in the context of the Companies Act.

Auditors are normally appointed by the shareholders to act as watch dogs over the management. With increased level of investment and complexity of the company, investors normally lose constant touch with the day to day operations of the firm. There is thus a need for the investors to satisfy themselves that their finances are being employed properly and for their own benefit. This is more so as the interests of management and those of investors could conflict. The prerequisite of any investment is trust and this is assumed to be gained through an independent audit.

Though the auditor is appointed by the shareholders, his association with them is limited to the time of presentation of his report during the AGM. In the normal course of duty however, the main interaction takes place between the auditor and the management who are the subject of the investigation. This is because the auditing process revolves around the operations of the firm as run by the management and the accounts prepared by them.

The auditor in the course of his work addresses certain issues the main ones being whether:

1) all the information deemed necessary for the purpose of the examination was received,
2) proper books of account have been prepared by the firm,
3) the accounts submitted are in agreement with the books kept,
4) the accounts are prepared in accordance with the requirements of the Companies Act and the relevant accounting standards,
5) the accounts present a true and fair view of the financial status of the company.

TYPES OF AUDIT REPORTS

The auditor may issue two main types of audit reports depending on the result of his examination.

An unqualified report is issued when all the above requirements have been reasonably satisfied otherwise, when one or more of the requirements is not satisfied a qualified report is issued. The nature of the qualification depends on the type of discrepancy encountered. To this end we could have four types of qualified report:-

1) **Disclaimer** - In this form of qualification, the auditor is unable to form a conclusion due to occurrence of an event that renders information unavailable for the purpose of constructing an opinion. This may occur due to destruction of accounting records or the non - existence of any sensible internal control system. In such a case the auditor declines to give any opinion at all on the accounts.

2) **Subject to** - This opinion is given in case of uncertainty surrounding specific items in the accounts. A subject to opinion is a disclaimer of opinion on certain specified items only and not the accounts as a whole. The parts of the accounts not affected are deemed to be true and fair.

3) **Except for** - This qualification is issued when the auditor and management are in disagreement on treatment of certain items in the accounts. The items concerned however,

are not considered fundamental enough to invalidate the accounts as a whole. An except for opinion is thus an adverse opinion on specific items.

4) **Adverse opinion** - This is conceivably the worst opinion that an auditor can issue. Essentially an adverse report states that the accounts do not reflect a true and fair view of the state of the affairs of company. The opinion is issued when disagreement exists about fundamental issues relating to the accounts. This can occur for instance in the case where provision is not made in the accounts for very substantial losses that would otherwise fundamentally affect the company's operating results.

1.2. STATEMENT OF THE PROBLEM

Companies go to great lengths to have their accounts audited. Hay (1978), notes that in the course of auditing, the auditor brings to a near standstill the normal operations of a firm as the employees respond to the queries posed by the auditor. Given the audit expenses incurred and the disruption undergone, it appears that companies attach importance to the audit process. This is in line with the importance attached to the auditors opinion in the Companies Act as noted earlier.

However, the question whether investors too perceive this importance and the weight they attach to it is still unsettled. There is also the issue of the role the auditors report plays in the investment decision making process. This is what this research study aims to find out.

1.3. Objectives of the study

The study aims to address the following issues:

1. to identify investment patterns and rationale for investment decisions.
2. to find out the extent to which the auditors report is relevant for investment decision making amongst the institutional investors in Kenya.
3. to determine the usefulness of audit reports in comparison with alternative sets of information available to the investor.
4. to find out the useful components of the auditors report.
5. to identify and possibly suggest improvement in the contents of audit reports for investment purposes.

1.4. Importance of the study

The study will be important to the external auditors in understanding the users perception of the services they deliver. This may enable the auditors to identify the need for improvement in their service delivery and also in the manner in which they work.

As auditors vary in quality and cost, the study would help the company under audit in assessing the utility of audit services as currently constructed and hence in the selection of auditors.

To the stock market, the study would be important in deciding whether it is necessary to request for auditors report for primary issues.

The study would also be important to the accounting standards committee in deciding what standards should be set to guide the performance of work and communication of findings by the auditor.

CHAPTER TWO

LITERATURE REVIEW

The information content of the auditors report has for a long time attracted attention from scholars, the business community and financial analysts. Both theoretical and empirical literature exists indicating researchers' interest in this area. Studies have been done to find out the utility of audit report in prediction of corporate failure, their impact on stock prices of new and old issues as well as the impact on lending decisions of financial organisations.

Morison (1971) on the reasons for audit argues that audit reports impart trust to the investors hence leading to decision to invest in a company or not. Trust, he argues is a prerequisite to investment and if so, the auditors report becomes a vehicle to this end.

The audit of accounts guards the investor against uncertainties in the future. The management is preoccupied with making organisation's decisions for the future yet, this future is uncertain. While the auditors report does not convert the uncertainty to certainty it nevertheless provides an unbiased assessment of the appropriateness of the decisions made by the management. The auditor in this case acts to minimize possible errors by management in their decisions on the future .

The audit report also guards against biased reporting. There is a problem in conveying the truth when the reporter and recorder of an activity are one and same, because one reports what one sees which is influenced by what one expects. The auditor representing the views of the shareholders rather than those of the management, acts as an umpire of fairness of what is recorded and reported by management.

Zeff (1973) did a study on 32 companies with an "except for" qualification and found that the shareholders and other readers of annual reports are poorly served by the enormous range of company's disclosure policies on some very important matters including areas subject to audit report qualification. The Company law in Australia where this study was done required that both the companies management and the auditor present an opinion on the accounts. Since the management prepare(d) the accounts, their opinion was always unqualified, while the auditor could issue a qualified or unqualified opinion depending on his analysis of the accounts. This indicates that audit report present additional information on the accounts. Accordingly a "subject to" opinion acts as a "red flag" to the investor or reader of the financial statement as it indicates the independent accountant's considerable doubt about the outcome of an uncertainty.

The audit report also guards against possible unintentional errors through counter checks. The modern approach to audit helps to improve the accounting system by emphasising the centrality of the company's internal control system.

The audit also aids in guarding against fraud. Though the duty of the auditor is not to detect fraud, when material fraud affects the truth and fairness of the accounts. This fact would be addressed in the audit report.

The audit report thus is assumed to have importance in the investor understanding of a company. This assumption has however received conflicting support from the empirical studies done.

Gul (1987) studying the perception of 32 bank lending officials in Singapore of the riskness of companies with a "subject to" qualification concluded that the risk perception and a need for additional information to asses the impact of the uncertainty increased as a result of the qualification. The "subject to" qualification was deemed to give a professional judgment on the uncertainty hence being a more important decision variable than a footnote disclosure in the accounts.

Pany et al (1979) also arrived at a similar conclusion on auditor's opinion in communicating relatively the importance of uncertainty in the financial information reported by a firm.

Two studies done by Libby (1979a & 1979b) however arrived at conflicting results. Libby (1979a) examined bankers and auditors perception of information contained in the audit report and found that uncertainty qualification led to an increased loan risk perception by the lenders as well as to an increased need for additional information to estimate the level of the uncertainty.

In the second study, Libby (1979b) using 36 lending officers from 4 commercial banks found no significant difference in the amounts of funds issued to companies which made the disclosures in the audit report or those which made the disclosures in the footnotes to the accounts . This conclusion was however challenged by Berthold (1979) on the grounds that the study did not have a genuine uncertainty, a phenomena unlikely in the real world, as the uncertainty disclosure was accompanied by a supplementary report indicating the outcome of the uncertainty as being either favorable or unfavorable to the firm.

Elliot (1982) too did a study on the "subject to" opinion and its impact on security returns and concluded that this opinion is issued in conjunction with several types of uncertainty having different economic significance. Significant abnormal price variations on stocks were observed prior to the release of the opinion meaning that some uncertainties have significant economic importance but the market participants learn of them and assess their implications on firms value even before the audit report is released. The study thus concludes that the issue of information content of the audit report is still unresolved. It also concludes that if the "subject to "opinion has impact on share prices, the impact is smaller as compared to that of the uncertainty itself.

It is assumed that auditors issue a qualified report only as a last resort as it has adverse impact on shareholders. Based on this, Ball et al (1979) did a study on impact of qualified opinion on share prices and found some of the qualifications having association with changes in shareholders assessment of value of the securities. Qualification due to depreciation on building for instance led to abnormal return on prices while qualification due to asset unrealizability showed a significant reduction in prices. With the sample of qualification studied the shareholders response differed according to the content of qualification.

Firth (1978) studied the impact of qualified audit report on investment decisions and found that some types of qualification had significant impact on investment decisions while others had very little impact. He found that immediately after the release of the audit report, significant price adjustment took place in general "going concern" and "asset valuation" form of audit qualification. The investors appeared to be using the qualification information to alter their opinions on the securities. Other qualification areas tested showed some impact on prices albeit very small. These qualifications included continuous qualification over time, qualification due to subsidiary accounts uncertainty and qualification based on lack of adherence to accounting standards.

Firth (1979) studied banks and found that the maximum loan a banker could give was significantly affected by existence of a going concern and asset valuation audit qualification. This however was not the case with qualifications due to lack of compliance with generally accepted accounting principles and accounting standards.

Estes (1977) did a laboratory experimental study on impact of auditor's report on banks and found that bankers loan decisions were not affected by existence of a qualified audit report but that financial analysts investment appraisal decisions were.

Estes (1979) study on differential effect of standard and qualified auditors opinion on investors price decision came to the conclusion that price estimates of financial analysts for shares of companies whose financial statements are accompanied by an unqualified audit report differ significantly from those of companies whose statements are accompanied by a qualified "except for" opinion. The "except for" opinion has a depressing or negative effect on the valuation of a company's stock by financial analysts. A qualified audit opinion thus acts as a stimulus in the decision models of informed investment oriented users of financial statements.

The public has been consistent in its demand for a qualified opinion as an early warning signal of entity failure. Conor (1986) points to the increasing forcefulness of such demands. Hopwood et al (1989) testing the incremental explanatory power of opinions qualified for inconsistency and uncertainty used a log - linear approach and found that when opinion variables are tested in conjunction with financial ratios from bankruptcy prediction models, the consistent "except for" and "going concern" qualifications had incremental explanatory effects beyond the financial ratios and other opinion variables. Thus the ability of audit qualification to predict the possibility of a company becoming bankrupt depends on the possibility of matters pointed out in the qualification having ability to cause bankruptcy.

Knoll (1976) Studied societies expectation and reality of auditors report on individual investors and came to the conclusion that due to vast developments in the contemporary world there has been an enlarging community of users of financial information and an extending demand and expectation from the auditor. The public was found to have more faith in the ability and integrity of the external independent public accountant and expected that his functions be widened as well as his capabilities. This would benefit not only management and shareholders, but also the public in general. This is because the audit report is designed to impart credibility to the statements which have been prepared by management for use by various third parties.

Auditor's report on firms current financial status is an important element in the prospectus for new shares and bond issues. This contention is supported by the fact that firms going public often change auditors at the time, suggesting that there are benefits in switching to what would be called "high quality" auditors (Simunic et al 1987). On this subject, Datar (1991) concludes that an audit report has no role in signaling entrepreneurs private information but has an influence on a firm's value. He also concludes that entrepreneurs facing greater risk hire lower quality auditors.

Dillard (1983), argues that there is a deficiency of communication between auditor and the users of the financial reports arising from various factors. These included the use of standard language which though reducing differences in reporting and encouraging uniformity, reduces the report to a symbolic document rather than a communication between the auditor and the reader. In addition the report fails to state explicitly several important messages to its readers as for instance the materiality of uncertainty in a "subject to" opinion. Finally the report employs technical terminology that is unclear or ambiguous to an average reader.

CHAPTER THREE

RESEARCH DESIGN

3.1 POPULATION

The population of study consists of institutional investors comprising commercial banks, financial institutions and insurance companies in Nairobi. At the time of research, there were 36 registered insurance companies having their head offices in Nairobi. There were 33 commercial banks and 52 financial institutions registered and operating under the Banking Act (see appendix III to V).

The sampling plan was constructed using the internal publications from the Commissioner of Insurance and the 1992 Central Bank of Kenya publication (updated). It should be noted that some banks and financial institutions listed as independent institutions operate under the umbrella of Consolidated Bank of Kenya which led to a reduction in the population.

It is also noteworthy that many financial institutions are wholly or partially owned subsidiaries of commercial banks. This therefore means that the sampling units are separated into only two non overlapping categories or strata. These are the commercial banks and financial institutions on one hand and the insurance companies on the other.

3.2 SAMPLING PLAN

A sample size of thirty institutional investors was selected for the study. Twenty six of them responded which was a 86.7% response rate which was considered adequate.

The figure for the sample size was not arrived at statistically but was in consideration of the time available for the study as well as the budgetary constraints. In similar studies done elsewhere, Gul (1987) used 32 bank lending officers in a study on the utility of auditors report in lending decisions while Libby (1986) used 36 loan officers from 4 commercial banks.

Personal judgment was used to select sample items. The personal judgment was used for the following reasons:

1) To avoid inclusion of those institutions which had fallen under Central Bank of Kenya investigation. This is because it would be difficult to get information from these institutions.
2) To ensure that prominent and well known institutional investors are included.

3.3 DATA COLLECTION

Primary data was used for the study because the focus was on the perception of investment officers. This means that secondary data would have been inappropriate.

The data was collected using a questionnaire (see appendix II) which was personally administered to the head(s) of the department(s) handling investment decisions in the institutions in question.

The questionnaire was formulated in following way:

* questions 1 - 4 give general information, about ownership structure and investment decision patterns which form the first objective,
* questions 5 and 6 help to achieve the fourth objective,
* questions 11, 16 and 17 to achieve the third objective,
* questions 7,8,9, 10, 12, 13, 14, 15 and 18 the second objective and
* question 19 the fifth objective.

3.4 DATA ANALYSIS AND PRESENTATION

The data collected was analysed using descriptive statistical methods. These include means, proportions, percentages and ranking of the various parameters tested. This allowed for conclusions to be drawn on:-

* Reasons underlying the institutional investors decisions.
* Sources of information in making the investment decisions.
* Investors perception of the usefulness of the auditors report in making investment decisions.
* The frequency of use of the auditor's report in making investment decisions.

* The usefulness of various components of the auditors report,
* Appropriate improvements in the auditors report from the investor's viewpoint.

With respect to study objectives, in addition to the descriptive statistical analysis on data collected, Chi-square test of independence was used to analyse the association between test variables or between the elicited response and type of institutional investor.

The basis of the chi-square test of independence is the contingent table indicating the observed frequency of the outcome of two aspects being evaluated, with one variable along the row and the other along the column, giving the cell under review.

The expected frequency of the cell in question is arrived at using the following formulation:

$$\frac{\text{Totals in the row of the cell under review} \times \text{Totals in the column of the cell under review}}{\text{The grand totals in the contigent table.}}$$

The chi-square test aims at evaluating whether the difference between the observed frequency and the expected frequency can be attributed to chance. The calculated chi-square value is arrived at as:

$$(O_i - E_i)^2/E_i$$

where:

O_i = observed frequency of the cell under review

E_i = Expected frequency of the cell under review

The calculated value is compared to the critical value of chi-square for a given level of significance. The degrees of freedom to use are given by the formula:

$$(r - 1)\ (c - 1)$$

where:

r = number of rows in the contingent table

c = number of columns in the contingent table.

If the calculated value is less than the critical value, the difference between the observed and the expected frequency is attributed to chance, otherwise the difference is significant and the null hypothesis is rejected.

CHAPTER FOUR

DATA ANALYSIS

The results obtained from the study are presented in this section according to the research objectives specified on pages 4 and 5 of this research paper.

4.1 Research objective 1.Investment patterns and rationale for investment decisions.

Fifty eight percent of the banking and financial institutions surveyed did not consider dividends or capital gains, to be of importance. Their main concern in such companies were:

* past history and performance;
* cash flows;
* the profitability and leverage;
* market strength in terms of the company's market share and ability to increase it;
* integrity of the management including the managers professional qualification and mode of rising to managerial level and;
* kind of security offered

Of the institutions which consider dividends and capital gains as important, the results are summarised in table1 below.

The importance of the item is derived along a 5 point Likert scale on the following basis:

Below

0.5 No importance

1.5 Slight importance

2.5 Moderate importance

3.5 Great importance

4.5 Maximum importance

Objectives	Score	Average score (mean)	Rank	Importance
Dividends	59	3.2	2	Great
Short term capital gains	36	2.0	4	Moderate
Long term capital gains	55	3.05	3	Great
equal combinations of dividends & capital gains	60	3.3	1	Great

Table1: investment objectives as perceived by investors.

An equal combination of dividends and capital gains was ranked as the most important objective followed by dividends, long term capital gains and lastly the short term capital gains.

According to the respondents, investments are not made for speculative gains hence they did not consider short term capital gains very important. Since investments are usually held over a long period of time, the continuous stream of dividend is considered of paramount importance as it is used to meet the institutions' shareholders dividend expectations.

The investors were also asked to rank the various sources of information in order of importance. The results are given in table2 below.

Source of information	Total score	Rank	Average score	Importance
Shareholders advice	49	6	2.04	Moderate
Own investment division	76	2	3.167	Great
Brokerage agents	53	3	2.46	Moderate
Annual reports	81	1	3.38	Great
Mass media	53	4	2.2	Moderate
Govt. Publications	51	5	2.13	Moderate
Informal sources	48	7	2	Moderate
Visit to the company	44	8	1.83	Moderate

Table2 Source of information for investment decisions.

Ranking on importance is based on the following criteria:

Below	
0.5	No importance
1.5	Slight importance
2.5	Moderate importance
3.5	Great importance
4.5	Maximum importance

The annual report which encompasses the auditor's report was ranked as the most important source of investment information followed by advice from the investor's own investment division. Other attributes were ranked sequentially as advice from brokerage firms including stockbrokers, mass media, Government publications, shareholders advice, informal source and lastly visit to the company of interest.

The annual report was deemed to be a more ideal source of information as the other sources carried a greater possibility of bias. From the annual reports also, investors could derive additional information such as the leverage ratios which would aid further in the decision to be made.

Other aspects considered important in investment decisions

The study also analyzed other aspects considered in investment decisions, apart from the auditor's report. The results are summarised in table 3 below:

The total score has been arrived at by summing up the responses of the respondent where the aspect ranked as number one that is the most important aspect had a score of 7 while the aspect ranked 7, being the least important had a score of 1.

Aspects considered in investment decisions	Total Score	Mean Score	Rank
Financial ratios	109.5	4.2	4
Company's profitability	154.5	5.9	1
Composition of shareholders	78.5	3	6
Net assets of the company	125.5	4.8	3
Liquidity of the company	133.5	5.1	2
Nature of the company's business	80.5	3.1	5
Location of the company	42.5	1.6	7

Table3: Investment criteria used by investors.

The profitability of the company was ranked as the most important consideration followed sequentially by the liquidity of the company, net assets, financial ratios, nature of the company's business, composition of the shareholders and lastly the location of the company. The company's liquidity and profitability were ranked highly probably because they are indicators of the company's ability to pay dividends which is one of the primary investment objectives.

4.2 Research objective 2 - Usefulness of auditor's report

All the respondents indicated that they read the auditors report prior to making investment in the company. Thus the auditors report is deemed to have information value which aids in investment decisions.

Ninety six percent of the firms indicated that they use the auditors report in making investment decision as indicated by table4 below:

Respondents under the categories of "always" and "often" are classified as users of audit reports while those under "sometimes" and "never" are classified as non-users.

Frequency of use	No. of respondents	percentage
Always	16	61.54%
Often	9	34.62%
Sometimes	1	3.84%
Never	0	0
Total	26	100%

Table4: Frequency of audit report use among investor .

A further test was done to find out whether there exists dependence between the usage of auditor's report and the investor's nature of business. This was done using chi square test of independence.

The hypothesis under test was formulated as follows:

H_0 : There is no association between the type of investor and the frequency of audit report use.

H_a : There is association between the type of investor and the frequency of audit report use.

The results of this test are given in table5 below:

Type of institutional investor	Rate of usage: Always	Often	Total
Finance	15 (13.61)	4 (5.39)	19
Banking	12 (13.61)	7 (5.39)	19
Insurance	21 (20.78)	8 (8.22)	29
Total	48	19	67

Table5: Chi-square test of independence of type of investor and frequency of auditor report use.

O	E	$(O-E)^2$	$(O-E)^2/E$
15	13.61	1.9321	0.1420
12	13.61	2.592	0.1905
21	20.78	0.0484	0.00233
4	5.39	1.9321	0.3585
7	5.39	2.5921	0.4809
8	8.22	0.0484	0.00589

$X^2 = 1.18012$

At 5% level of significance and two degrees of freedom, the X^2 value is 5.991. Since the calculated value (1.18012) is less than the critical value, we fail to reject the null hypothesis. This means that the rate of usage of auditors report is independent of the investor. Thus the usage of auditor's report does not depend on the type of investor.

On the usefulness of auditors report in investment decisions 96.15% of the investors indicated that they found the auditors report useful while 3.85% responded negatively as indicated in table6 below.

Classification is done on the basis that "very useful" and "moderately useful" responses are grouped as indicating usefulness while "slightly useful" and "not useful" are classified as not indicating usefulness.

Usefulness	No. of firms	%
Very useful	10	38.46%
Moderately useful	15	57.69%
Slightly useful	1	3.85%
Not useful	0	0
Total	26	100%

Table6: Usefulness of audit report

The results indicate that the auditors report is perceived to be useful in making investment decisions.

A further rest was carried out to determine whether there is association between perceived usefulness of the auditors report and investor type. The hypothesis tested was formulated as follows:

H_0: There is no association between the perceived usefulness of the auditors report and the type investors.

H_1: There is an association between the perceived usefulness of the auditors report and the type investors.

The results of the analysis are given in table 7 below.

Institution	Very useful	Moderate useful	Total
Finance	3 (7.26)	12 (7.74)	15
Banking	12 (9.68)	8 (10.32)	20
Insurance	15 (6.53)	12 (13.94)	27
TOTAL	30	32	62

Table 7: Chi-square test of association between perceived usefulness of audit report and business structure of the firm.

NB: The figures in brackets indicate the expected values.

0	E	0-E)^2	(0-E)^2/E
3	7.26	18.148	2.450
12	9.68	5.382	0.556
15	6.53	71.74	10.986
12	7.74	18.148	2.345
8	10.32	5.382	0.522
12	13.94	3.764	0.270

X^2 17.179

The critical value of X^2 at 5% level of significance and two degree of freedom is 5.991. Since the calculated value of X^2 (17.179) is greater than the critical value we reject the null hypothesis.

This means that there is an association between perceived usefulness of auditors report and investor type. Thus the perceived usefulness will differ according to the type of investor. While most financial institutions perceive the auditors report to have moderate usefulness those in banks and insurance companies were indifferent as to the extent of usefulness scoring equally for "very useful" and "moderately useful".

The usefulness of auditors report was also evaluated by looking at how often the respondents would invest in a company without audited accounts. The results are summarised in table8 below.

	No of respondents	% score	Score
Always	1	3.84%	1
Sometimes	10	38.46%	20
Never	15	57.70%	45
Total	26	100%	

Table8: usefulness of audited accounts from investors perspective.

Fifty seven percent of the firms would not invest in firms which have no audited accounts, 38.46% would invest sometimes and 3.85% would always invest nevertheless. This indicates that audited accounts are of importance in investment decisions. Since the auditors report gives the indication that the accounts have been audited, then we can infer from this that the auditors report is useful.

The usefulness of auditors report was also tested by evaluating how often investors would abandon or fail to invest in companies with qualified accounts.

Classification was done on the basis that "very often" and "often" responses are treated as abandonment while "rarely" and "never" responses are classified as non abandonment. The results are tabulated in below in table 9.

frequency of abandonment	No. of respondents	Percentage	Score
Very often	8	30.77%	32
Often	11	42.31%	33
Rarely	5	19.23%	10
Never	2	7.69%	2
Total	26%	100%	75

Table 9: Importance of qualified audit report from investors viewpoint.

Seventy three percent of the firms would abandon an investment if the company had qualified report. This indicates that the investors decisions are influenced by the content of the auditor's report. This indicates that investors do make use of auditors report.

The extent of perceived usefulness is tested further for association between the rate of investment abandonment and the type of investor. The hypothesis tested was:

H_o: There is no association between the rate of investment abandonment and the type of investor.

H_1: There is association between the rate of investment abandonment and the type of investor.

The results of this test are given in table 10.

	Very often	Often	Rarely/Never	Total
Finance	12 (9.72)	12 (10.02)	0 (4.25)	24
Banking	12 (10.13)	9 (10.40)	4 (4.43)	25
Insurance	8 (12.15)	12 (12.53)	10 (5.32)	30
Total	32	33	14	79

Table 10: Chi-square test of independence between the type of investor and the perception of qualified audit report.

0	E	$(0-E)^2$	$(0-E)^2/E$
12	9.72	5.198	0.5348
12	10.13	3.467	0.3452
8	12.15	17.222	1.4175
12	10.02	3.920	0.3913
9	10.44	2.0736	0.1986
12	12.53	0.2809	0.0224
0	4.25	18.1849	0.0417
10	5.32	21.9024	4.1878
		x^2	11.3646

The x^2 value at 5% significance level and four degrees of freedom is 9.488, thus we reject the null hypothesis. This means there is an association between investors decision to abandon investments in a company and the type of investor.

A chi-square test of association was also done to find out whether there exists dependence between the form of business ownership and the perceived usefulness of the auditors report. The hypothesis tested was:

H_0: There is no association between the form of business ownership and the perceived usefulness.

H_1: There is an association between the form of business ownership and the perceived usefulness.

The results of the test are summarised below in table11.

Business ownership	Perceived usefulness Very useful	moderately useful	TOTAL
Joint	9 (5.41)	2 (5.59)	11
Local	15 (19.18)	24 (19.82	39
Foreign	6 (5.41)	5 (5.59)	11

Table 11: Chi-square test of association between ownership structure and perceived usefulness of audit report.

O	E	$(O-E)^2$	$(O-E)^2/E$
9	5.41	12.888	2.38
15	19.18	17.472	0.911
6	5.41	0.3481	0.0643
2	5.59	12.888	2.306
24	19.82	17.472	0.882
5	5.59	0.348	0.0623

$X^2=4.6056$

The X^2 value at 5% level of significance, and two degrees of freedom is 5.991. Since the calculated value, (4.6056) is less than the critical value we fail to reject the null hypothesis. This means that the perceived usefulness of auditors report is independent of the form of business ownership, which implies that all investors perceive the auditors report to be useful irrespective of form of business ownership.

A further chi-square test of independence between the perceived usefulness of the auditors report and the frequency of use was also carried out.

H_0: The frequency of auditors report use is independent of the perceived usefulness of that report.

H_1: The frequency of auditors report use is dependent on the perceived usefulness of that report.

The results are as summarised in table 12.

	Frequency of use		
Perceived usefulness	Always	Often	Total
very useful	90 (73.75)	6 (22.24)	96
Moderate usefulness	36 (52.24)	32 (15.76)	68
Total	126	38	164

Table 12: Chi-square test of independence between the frequency of audit report use and the perceived usefulness.

O	E	$(O-E)^2$	$(O-E)^2/E$
90	73.75	264.06	3.58
36	52.24	263.74	5.05
6	22.24	263.74	11.86
32	15.76	263.74	16.73

$X^2 = 37.22$

The chi-square value at 5% level of significance and one degree of freedom is 3.841, thus we reject the null hypothesis. This indicates that there is association between frequency of use and the perceived usefulness.

4.3 Research objective 3- usefulness of auditor's report in comparison with the other sections of the annual report.

Another measure of usefulness of auditors report tested was the extent to which its contents were read in comparison with the other sections of the annual report. The extent of reading is determined on the following criteria:

Below	
0.5	Not read at all
1.5	Briefly read
2	Thoroughly read.

The responses are tabulated in table13 below.

Sections of annual report	Total score	Rank	Average score	Extent read
Balance sheet	53	1	2	Thoroughly
Profit and loss	52	2	2	Thoroughly
Chairman's address	37	7	1.42	Briefly
Auditors report	47	3	1.81	Thoroughly
Funds statement	46	4	1.76	Thoroughly
Notes to the accounts	44	6	1.69	Thoroughly
Financial summary	45	5	1.73	Thoroughly

Table 13: Comparative utility of annual report content in extent of reading.

The auditors report lies third in importance after the balance sheet and profit and loss account which are read almost equally thoroughly. Other sections were sequentially ranked as the funds statement, the financial summary, notes to the accounts and lastly the chairman's address. The auditors report is thus deemed to be of importance to warrant it to be read thoroughly.

Thirty-eight percent of the respondents indicated that they read the balance sheet first, 30.77% read the auditor's report first, 23% the profit and loss account and 7.73% read the chairman's address first. This response however was inconclusive on perceived importance of the different sections as most respondents apparently read the sections in the order they appear in the annual report and not necessarily in the order of importance. Thus if the auditors report is to be read first and possibly attract greater importance, it should be placed first in the annual report.

As shown in table 14, the auditor's report was ranked fourth after the balance sheet, the profit and loss account and the funds statement in order of importance. On average therefore the auditors report scored well in importance which further indicates that it is perceived as being useful.

The extent of usefulness in table 14 was derived using the following criteria:

Below:

0.5	Not important
1.5	Slightly important
2.5	Moderately important
3.5	Great importance
4	Maximum importance.

Sections of the annual report	Total score	Rank	Average score	Importance
Balance sheet	95	1	3.65	Maximum
Profit & Loss	95	1	3.65	Maximum
Auditors report	76	4	2.92	Great
Notes to the accounts	73	5	2.8	Great
Funds statement	79	3	3.04	Great
Finance summary	71	6	2.73	Great
Chairman's reports	53	7	2.04	Moderate

Table 14: Comparative utility of annual report contents in terms of investors perception.

Research objective 4

4.4 Usefulness of various components of the auditors report

There are various reasons which lead to qualification of accounts as indicated in chapter one of this paper. These reasons affect the various components of the auditor's report and its contents. Several tests were carried out to assess the significance of the various components of the audit report and the results are given in table 15.

The results indicate that in case where the investors came across qualified accounts, 61.54% would look for additional information while 38.46% would fail to invest in such a company at all.

Reaction	No. of respondents	Percentage
Fail to invest	10	38.46%
Consider other information	16	61.54%
Total	26	100%

Table15: Investors reaction to qualified audit report.

This indicates that most investors do not take qualification at face value but seek further clarification. Some of the additional information they seek includes:-

* Reasons leading to lack of compliance with the requirements and remedial actions taken
* Size of the company
* Materiality of the qualification
* Integrity of the management of the company
* Impact of qualification on the liquidity position of the company
* Effect of qualification on return on investment
* Impact on the cash flow projections and the future of the company.

The size of the company is particularly of importance when considering application of internal controls. Most of the investors felt that they could still invest in a company with qualified accounts arising out of lack of internal control, if the company was relatively small and they could place trust on the management. However, in such cases investment would only be undertaken after considering additional information about the company.

Additional tests were carried out to determine the weight given to the nature of qualification. The results of the analysis are summarised in the table 16 below based on the following criteria:

<u>Below</u>:

0.5	Not serious
1.5	Slightly serious
2.5	Moderately serious
3.5	Very serious
4.0	Extremely serious

Component	Total	Rank	Averagescore	Seriousness
Lack of internal controls	89	3	3.42	very
Unapplied internal control	85	5	3.27	very
Non compliance with set accounting standards	82	6	3.15	very
Improper books	87	4	3.35	very
Accounts disagreement with the books	81	7	3.12	very
Auditors not given information deemed necessary	93	1	3.58	extremely
Unrealisability of assets	92	2	3.52	extremely
Non compliance with G.A.A.P	80	8	3.52	very

Table 16: Investors reaction to types of audit qualification.

Generally, qualification for whatever reason is deemed to be a serious matter. However, qualification due to unavailability of information or due to inability to realise assets are ranked as the most serious. The auditor as a professional is deemed to be more qualified and hence able to make judgment on the soundness of a company. This means that failure to give the auditor all the information required acts as an obstruction in making such a judgment. Generally this would only occur if the company had something to suppress. This probably explains why investors view the matter with such seriousness. Failure to realise assets is also considered to be very serious probably because the investors take the asset base as an indication of financial stability hence ability to pay dividends. Further tests were done to evaluate the action taken when the investor came across qualified accounts. The results are tabulated in table 17 below.

Area of qualification	Abandon investment	%	Consider more information	%
Lack of internal controls	13	50%	13	50%
Unapplied internal controls	10	38.5	16	61.5
Non compliance with a/c stds	10	38.3	16	61.5
Improper books	18	69.2	8	30.8
Accounts disagreeing with the books	10	38.5	16	61.5
Auditors not getting all information deemed necessary	15	57.7	11	42.3
Unrealizability of assets	20	76.9	6	23.1
Non compliance with GAAP	9	34.6	17	65.4

Table 17: Rate of abandonment of investment due to various audit qualification.

From the results, the ability to realise assets and failure to obtain the relevant information are deemed serious matters as indicated by the percentage of investors who chose to abandon the investment. Failure to keep proper books of accounts also is considered a serious matter attracting almost seventy percent rate of abandonment.

4.5 Research objective 5. Additional information required to make the audit report more useful.

Forty two percent of the officers interviewed indicated that they were satisfied with the current format of the auditor's report. However some officers pointed out additional details which they felt should be included to make the report more useful.

Fifty eight per cent respondents felt that the auditor's report as currently presented is too standardized to be of much use in decision making. They felt that the management letter should be made available to them as it has more information as for instance on the weaknesses found in the internal controls. Matters in the management letter which would be of particular interest include:

* The internal controls employed to safeguard the investors' funds;
* The value of the company's assets and the ability to liquidate them as and when required;
* The integrity and the capability of the company's management including, their professional qualification and the mode of rising to managerial position.

The investors would also be interested in the analysis of the external environment that may affect the industry. This could include for instance the economic trends within the industry the company is operating in.

Apart from the company's managerial integrity, the auditor's report should also indicate the quality of the company's employees and how the company manages its human resources. This means that the auditor should express his opinion on the "agency relationship", and how well the employees play the role of agents of the investors. This is important because it is the employees who manage investors funds as well as preparing the records that the auditor uses in arriving at an opinion. Hence employees attitudes towards the company could be an indicator of how well the funds will be employed and how reliable the records are.

The auditor's report could also be made more useful by bringing to the attention of the users any material post balance sheet events and their implications to the company. This would also ensure that window dressing leading to incorrect accounts is avoided.

CHAPTER FIVE

5.1 SUMMARY & CONCLUSIONS

This study was carried out to achieve certain objectives as set out in chapter one. The conclusions derived are presented in summary in the following sections.

1) General information about investment decision patterns:

The study found that commercial banks and financial institutions do not consider capital gains and dividends of paramount importance. Those institutions that consider such items as important, ranked a combination of both as the most important, criterion probably as this indicates possibility of a dividend stream necessary to pay the investors' shareholders dividends, which is considered an important objective for investments.

On the source of information for investment decisions investors indicated that annual reports were the most important source followed by information obtained from the investors investment division. The reason for this was that the two sources carried a lesser risk of bias as compared to the other sources.

On the other hand profitability, liquidity and the net assets of the company were considered the most important aspects when making investment decisions. This is because these aspects too indicate the ability of the company to pay dividends which is considered of paramount importance in any investment.

2). **Extent to which auditor's report is relevant for investment decisions.**

The study found out that all institutional investors read the auditors report. Ninety six percent of the firms indicated that they used the auditors report when evaluating investments. The usage was found to be independent of the type of the investor. Fifty seven percent of the firms would not invest in a company without audited accounts. This indicates that the auditors report is perceived as being useful for investment decisions by institutional investors and it is actually used when making such decisions.

3) **Usefulness of auditors report in comparison with alternative sets of information available.**

The auditors report was placed third after the balance sheet and the profit and loss account in terms of the extent of reading. It outranks the chairman's report, the funds statement, notes to the accounts and the financial summary. It is ranked fourth after the profit and loss account, the balance sheet and the funds statement on perceived importance. This indicates that the auditors report is perceived as being useful but not as much as the mainstream body of the financial report consisting of the profit and the balance sheet. This finding is not surprising since the auditors report expresses an opinion mainly on these two components of the annual report. It is expected that the investors' primary interest would be on what is contained in the two statements with the auditors opinion being only of secondary importance. This would be more so in those cases where anomalies have been found within the accounts.

4) **Usefulness of the various components of the auditor's report.**
The study found that seventy three percent of institutional investors would fail to invest in a company with qualified accounts. We can thus infer from this that investors take qualification of the accounts to be very serious. This finding is consistent with investors tendency towards risk aversion because qualification is an indication of enhanced riskness albeit unqualified.

The different modes of qualification however carry different weights. The failure of a company to give the auditor all the information he deems necessary in the course of his audit was considered to be a more serious area of qualification. This is probably because, the auditor as a professional is taken to be a more qualified person to make judgment on the company hence an obstruction to making such a judgment indicates that the company has something to suppress,

The failure to realise assets is also given great weight since assets indicate the financial stability of a company and its ability to pay dividends which is a primary consideration when investing. The failure to keep proper books of account is also considered serious. This is because the accounts are extracted from these books and if they were improperly kept then the accounts would also be incorrect and therefore misleading.

5) **Additional information required to increase the utility of the auditors report .**

The study found that additional information is needed in most cases to improve the investors understanding of the company. This includes information about internal controls employed by the company, current value of assets and ability to liquidate them, the integrity of the company's management and its employees. Though the additional information could make the auditors reports more useful, care has to be taken lest it became too detailed as to obscure the most important information.

In summary therefore we can conclude that the auditors report has utility in making investment decisions from the point of view of the institutional investors in Kenya. However, greater utility could be derived if the report were to be improved through provision of additional information including that of a non-financial nature.

5.2 LIMITATIONS OF THE STUDY

This study is limited by the following considerations:

i) The results relate to the perceptions exhibited by institutional investors specifically commercial banks,financial institutions and the insurance companies. This means that the perceived importance of the auditors report as expressed herein is limited to these institutions, and a general conclusion on the usefulness of the auditors report can not be drawn therefrom.

ii) A Likert scale format for collecting information was used in the questionnaire. Though the scale has an advantage of quantitative scoring, it has a limitation in that the score is not additive. This means that scores obtained cannot be interpreted in proportionate terms. This may affect the evaluation of the final results especially in cases where preference were made between choices in the basis of Likert scale classifications.

iii) The study did not take into consideration the time period the respondent has been making investment decisions. This means that responses from those investors who have been involved in such decisions for only a limited period of time were given the same weight as those with longer experience in decision making. It is conceivable that experience may affect the emphasis placed on various aspects of the annual report which may lead to some inconsistency in the responses.

5.3 Recommendations for further study

The following is the recommendation for further study in this area:

i) The usefulness of the auditors report from the point of view of individual investors.

ii) The usefulness of the auditors report from the point of view of other institutional investors not included in this study like companies, trusts, pension funds, building societies and non-profit making organisations.

iii) The usefulness of the auditors report in the prediction of corporate failure and

iv) The usefulness of the auditors report in the valuation of shares including new issues .

Appendix I

LETTER TO THE RESPONDENTS

Njoroge Mary W.
University of Nairobi
Faculty of Commerce,
P.O Box 30197,
Nairobi.

Dear Sir/Madam,

I am a postgraduate student undertaking a Masters degree in Business and Administration (MBA), in the Faculty of Commerce, University of Nairobi. For my research requirement, I am doing a project entitled: USEFULNESS OF AUDITORS REPORT IN INVESTMENT DECISIONS A STUDY ON USER PERCEPTION AMONGST INSTITUTIONAL INVESTORS IN KENYA". I would highly appreciate if you would provide me with some of the information needed for this study by completing the questionnaire attached.

The information provided will be used for academic purposes only and will be treated with utmost confidence.

Thank You.

Yours Faithfully,

Mary Njoroge.

Appendix II

(Please tick as appropriate where applicable).

1). What Business are you in

Banking ( )

Finance ( )

Insurance ( )

2) Business ownership:

Foreign ( )

Local ( )

Joint ( )

3) (i) Do you make investment in companies?

Yes ( ) No ( )

(ii) Do you make loan issues to companies?

Yes ( ) No ( )

4) When making investment decisions in companies (e.g. in ordinary shares) what is the relative importance of each of the following objectives?

	Max Importance	Great Importance	Moderate Importance	Slight Importance	No Importance at all.
i) Dividend income	( )	( )	( )	( )	( )
ii) Short term capital gains	( )	( )	( )	( )	( )
iii) Long term capital gains	( )	( )	( )	( )	( )
iv) An equal combination of capital gains and dividends	( )	( )	( )	( )	( )
v) Other(specify)	( )	( )	( )	( )	(

5) When making investment decisions what is the relative importance of the following sources of information.

	Max Importance	Great	Moderate	Slight	No Importance at all.
i) Shareholders' advice	( )	( )	( )	( )	( )
ii) Advice from own investment division	( )	( )	( )	( )	( )
iii) Advice from Brokerage investment agents	( )	( )	( )	( )	( )
iv) Study of annual reports	( )	( )	( )	( )	( )
v) The mass media (T.Vs, News-papers, Maga-zines and Journals)	( )	( )	( )	( )	( )
vi) Government publication such as from C.B.K & Kenya Gazette	( )	( )	( )	( )	( )
vii) Informal sources	( )	( )	( )	( )	( )
viii) Visit to the comp-any of interest	( )	( )	( )	( )	( )
ix. Other(specify)	( )	( )	( )	( )	( )

6. Do you read auditor's report of a company prior to making investment in that company?

Yes ( ) No ( )

7) If yes, how often do you make use of auditors report?

i) Always ( )
ii) Often ( )
iii) Sometimes ( )

8) To what extent do you read the following sections of annual reports?

	Thoroughly	Briefly	Not read
i) Balance sheet	( )	( )	( )
ii) Profit and loss account	( )	( )	( )
iii) Chairman's address	( )	( )	( )
iv) Auditors report	( )	( )	( )
v) Funds statement	( )	( )	( )
vi) Notes to the accounts	( )	( )	( )
vii) Financial (statistical summary)	( )	( )	( )

9) What portion of the annual report listed above do you read first?

....

10) Other than auditors report, what else do you consider in the decision making?

i) Financial ratios such as earning per share ( )
ii) Companies profitability ( )
iii) Composition of shareholders ( )
iv) Net assets of a company ( )
v) Liquidity of a company ( )
vi) Business of the company ( )
vii) Location of a company ( )

11) Rank the following in the order of importance in investment decision making. (1 being the most important)

i) Financial ratios such as earning per share ( )
ii) Companies profitability ( )
iii) Composition of shareholders ( )
iv) Net assets of a company ( )
v) Liquidity of a company ( )
vi) Business of the company ( )
vii) Location of a company ( )

12) How useful do you find the auditors report in arriving at your investment/loan decision?

Very useful	( )
Moderate useful	( )
Slightly useful	( )
Not useful at all	( )

13) How important do you find the following in the investment/ loan decision making.

	Max Important	Great	Moderate	Slight	Not Important
i) Balance sheet	( )	( )	( )	( )	( )
ii) Profit & loss account	( )	( )	( )	( )	( )
iii) Chairman's address	( )	( )	( )	( )	( )
iv) Auditors report	( )	( )	( )	( )	( )
v) Notes to the accounts	( )	( )	( )	( )	( )
vi) Funds statement	( )	( )	( )	( )	( )
vii) Finance summary	( )	( )	( )	( )	( )
viii) Other(specify)	( )	( )	( )	( )	( )

14) In case of a company having qualified audit report, what do you do when making investment/loan decisions,

i) Consider other information ( )
ii) Fail to invest in the company with such a report ( )
iii) Other(specify)...

If your answer is (i) above, what other information do you consider.

15) How often do you abandon investment due to qualification of accounts.

Very often	( )
Often	( )
Rarely	( )
Never	( )

16) To what extent would you invest in a company without audited accounts.

Always ( )
Sometimes ( ) Never ( )

17) How serious would you consider the following areas of audit qualification in investment/loan decisions?

	Extremely serious	Very serious	Moderate serious	Slightly serious	Not serious
i) Lack of internal controls	( )	( )	( )	( )	( )
ii) Unapplied internal controls	( )	( )	( )	( )	( )
iii) Non compliance with set accounting standards	( )	( )	( )	( )	( )
iv) Improper books of accounts	( )	( )	( )	( )	( )
v) Accounts not agreeing with properly kept books	( )	( )	( )	( )	( )
vi) Failure of auditor to get all information he considers necessary	( )	( )	( )	( )	( )
vii) Unrealisability of assets	( )	( )	( )	( )	( )
viii) Lack of compliance with generally accepted accounting principles	( )	( )	( )	( )	( )

18. Would you consider more information, abandon or invest without considering further information in the following areas of qualification,

	would consider more information	would abandon	would invest with out further information
i) Lack of internal controls	( )	( )	( )
ii) Unapplied internal controls	( )	( )	( )
iii) Non compliance with set accounting standards	( )	( )	( )
iv) Improper books of accounts	( )	( )	( )
v) Accounts not agreeing with properly kept books	( )	( )	( )
vi) Failure of auditor to get all information he considers necessary	( )	( )	( )
vii) Unrealisability of assets	( )	( )	( )
viii) Lack of compliance with generally accepted accounting principles	( )	( )	( )

19. Does your organisation currently have investments in other companies.

Yes ( ) No ( )

If yes, how important do you consider the audit reports of the company already invested in deciding whether to increase the investment, continue with the investment or disinvest.

Very important ( )
Just important ( )
Not important ( )

20. What additional information do you think should be included in an auditor's report to make it more useful.

Appendie III

LIST OF INSURANCE COMPANIES IN NAIROBI

1. Access Insurance Company Limited
2. African International Ins. Ltd
3. American Life Ins. Co. (K) Ltd
4. Apollo Insurance Company Ltd
5. Blue Shield Insurance Co. Ltd
6. British American Ins. Co. (K) Ltd
7. Cannon Assurance (K) Ltd
8. Connon Insurance Co. Ltd
9. Co-operative Ins. Services Ltd
10. Corporate Insurance C. Ltd
11. Madison Insurance Co. Ltd
11. Fedelity-Shield Insurance Co. Ltd
12. Gate-way Insurance Co. Ltd
13. Geminia Insurance
14. General Accident Insurance Co. Ltd
15. Heritage Insurance Co. Ltd
16. Intra Africa Assurance Co. Ltd
17. Insurance Co. of East Africa
18. Jubilee Insurance Company Ltd
19. Kenindia Assurance Co. Ltd
20. Kenya orient Insurance Co. Ltd
21. Kenya Alliance Insurance Co. Ltd
22. Lion of Kenya Insurance Co. Ltd
23. Occidental Life and General Assurance Limited
24. Pan Africa Insurance Co. Ltd
25. Sun Alliance Insurance Co. Ltd (Phoenix Insurance)
26. Pioneer General Ass. Society Ltd
27. Provincial Insurance Co. of East Africa Ltd
28. Prudential Assurance Co. (K) Ltd
29. Royal Insurance Co. of East Africa Ltd
30. Stallion Insurance Co. Ltd
31. The Monarch Insurance Co. Ltd
32. Trident Insurance Company Ltd
33. Union Insurance Co. of Kenya Ltd
34. United Insurance Co. Ltd
35. Kenya Reinsurance Corporation
36. Kenya National Assurance Co.

Appendix IV

LIST OF COMMERCIAL BANKS AND FINANCIAL INSTITUTIONS

COMMERCIAL BANKS

1. ABN-AMRO Bank
2. African Mercantile Banking Co. Ltd
3. Bank of Baroda
4. Bank of India
5. Banque Indosuez
6. Bank of Oman
7. Barclays Bank of Kenya Ltd
8. Biashara Bank of Kenya Ltd
9. Bullion Bank Ltd
10. Citibank N.A.
11. Commercial Bank of Africa Ltd
12. Consolidated Bank of Kenya Ltd
13. Co-operative Bank of Kenya Ltd
14. Delphis Bank Ltd
15. Exchange Bank Ltd
16. First American Bank of Kenya Ltd
17. Grindlays Bank Int (K) Ltd
18. Habib Bank A.G. Zurich
19. Habib Bank Ltd
20. Kenya Commercial Bank Ltd
21. Middle East Bank (K) Ltd
22. National Bank of Kenya Ltd
23. Pan African Bank Ltd
24. Post Bank Credit Ltd
25. Prime Bank Ltd
26. Standard Chartered Bank (K) Ltd
27. Trade Bank Limited
28. Trans-National Bank Ltd
29. Trust Bank Ltd
30. Union Bank of Kenya Ltd
31. United Bank Ltd
32. Meridian Biao Bank of Kenya Ltd
33. Guilders International Bank Ltd

Appendix V

LIST OF FINANCIAL INSTITUTIONS

1. Bank of India Finance (K) Ltd
2. Barclays Merchant Finance Ltd
3. Bullion Finance Ltd
4. Business Finance Co. Ltd
5. Central Finance Ltd
6. Citittrust Kenya Ltd
7. City Finance Ltd
8. Commercial Bank of Africa Finance Company Ltd
9. Consolidated Finance Co. Ltd
10. Credit and Commerce Finance Ltd
11. Credit Finance Corporation Ltd
12. Credit Kenya Limited
13. Delphis Finance Ltd
14. Devna Finance Ltd
15. Diamond Trust of Kenya Ltd
16. Diners Finance Ltd
17. Equatorial Finance Co. Ltd
18. Estate Finance Co. (K) Ltd
19. First American Finance Co. Ltd
20. Grindlays International Finance (K) Ltd
21. Guilders International Finance Ltd
22. Habib Kenya Finance Ltd
23. Home Savings and Mortages Ltd
24. Housing Finance Co (K) Ltd
25. Indosuez Merchant Finance (K) Ltd
26. Industrial Development Bank Ltd
27. Inter African Credit Finance ltd
28. International Finance Co. Ltd
29. Investments and Mortages Ltd
30. Jimba Credit Corporation
31. Ken-Baroda Finance Ltd
32. Kenya Commercial Finance Co. Ltd
33. Kenya Finance Corporation Ltd
34. Kenya National Capital Corporation Ltd
35. Kenya Savings and Mortgages Ltd
36. Lake Credit Finance Ltd
37. Mercantile Finance Co. Ltd
38. Middle Africa Finance Co. Ltd
39. Nairobi Finance Corporation Ltd
40. Nationwide Finance Co. Ltd
41. National Industrial Credit Ltd
42. Pan African Credit and Finance Ltd
43. Prime Capital and credit Ltd
44. Premier Savings and Finance Ltd
45. Prudential Finance Ltd
46. Savings and Loan (K) ltd
47. Southern Credit Finance Ltd

48. Standard Chartered Financial Services Ltd
49. Thabiti Finance Ltd
50. The Finance Institution of Africa
51. Trust-Finance Ltd
52. United Trustee Finance Ltd
53. Victoria Finance Co. Ltd

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