

**ADOPTION AND IMPLEMENTATION OF KEY PERFORMANCE
INDICATORS BY AUDITING FIRMS IN KENYA IN THEIR INTERNATIONAL
OPERATIONS**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.**

2013

DECLARATION

This research project is my original work and has not been presented in any other university.

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This research project has been submitted for examination with as my approval university supervisor.

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DEDICATION

I dedicate this thesis with deep love and great respect to my parents, my husband Shem and adorable son, Jesse. I relied on you through this journey and shall remain forever grateful.

ACKNOWLEDGMENTS

I am humbled by the grace and will of the Almighty God that has brought me this far. I wish to thank my supervisor Mr. Eliud O. Mududa for his professional and technical guidance, and the entire team of lecturers at the University of Nairobi that committed their time to review my proposal and give candid feedback to drive the research process.

I also wish to thank my colleagues and fellow students for critiquing my work and members of my family for their moral support.

Several other people have played a role in my writing of this research proposal and they deserve to be acknowledged. It is however not possible to mention everybody. I sincerely appreciate every single role they played.

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LIST OF ABBREVIATIONS

IAS - International Accounting Standards

IFRS- International Financial Reporting Standards

KPI - Key Performance Indicator

ABSTRACT

Organizational performance measurement has become a major emphasis for assessing the success of an organization. Almost all organizations in both private and non-profit/public sectors carry out performance measurement to assess whether the organization has been running on the right track, or its performance needs to be improved. The research problem was studied through the use of a descriptive survey. The population of this study comprised of the four major auditing firms with local and international operations targeted by the study. They include KPMG, Price Waterhouse Coopers, Deloitte & Touche and Ernst & Young. This essentially was a census study of the selected firms. The study involved collection of both primary and secondary data for the purpose of analyzing the adoption and implementation of KPIs by auditing firms in Kenya in their international operations. Primary data was collected using a questionnaire administered to 3 managers in each firm. Data collected was purely quantitative and it was analyzed by descriptive analysis techniques. The findings were presented using tables and charts, percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and to facilitate comparison. The study concludes that the management team of an organization should be responsible for making strategic decisions on adoption and use of various performance measures. The study recommends that audit program performance indicators should be based on objectives that reflect the audit program mission and organizational objectives and goals.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizational performance measurement has become a major emphasis for assessing the success of an organization. Almost all organizations in both private and non-profit/public sectors carry out performance measurement to assess whether the organization has been running on the right track, or its performance needs to be improved. Not-for-profit organizations have been urged to focus on better performance measurement, particularly to aid management decision making and to increase external credibility (Epstein & Buhovac, 2009). Goh (2012) claims that problems with implementing performance management and measurement in the public sector environment is due to a lack of focus on the process of managing the implementation of performance measurement. Performance measurements are used to evaluate past results in order to set business targets for the next financial period. Performance measurements were previously done in a simple way that is, comparing between the financial budget and its realization. Over time, this traditional paradigm has been replaced in the private sector. An emerging paradigm has developed, with more comprehensive performance measurement (Ndlovu, 2010).

The economy globalization has become a part of the necessary requirement for enterprises to sustain a successful business operating in a competitive environment. The world economy has entered a new period of major development and opening up, great competition, great adjustment, integration and coordination (Sakunasingha, 2006). The multinational companies continue to emerge, and international competition is becoming increasingly fierce. In this new historical period, talent competition gradually replace the

tradition of competitive technologies and products, thus competition has become the focus of multinational companies. Training and development of personnel, retaining talented people, and enhancing work and the overall firm performance has become a daunting task that multinational corporations have to face.

In the information age, Key Performance Indicators (KPIs) are commonly used for business performance measurement in organizations; however there is no single best way about how to implement KPIs, which means that a firm can select any arbitrary suitable KPIs. In order to monitor and improve business performance in a competitive way, a management tool with a proper set of KPIs is required by organizations (ASQ, 2008).

According to Kaplan and Norton (1996) who developed the concept of balanced scorecard for business performance management in the early 90s, in order to identify and monitor achievements by a combination of financial, operational and other critical metrics, a set of KPIs has to be developed for each of four perspectives, they are financial perspective, customer, internal business process and organizational learning and growth.

1.1.1 International Business Operations

Many companies look to international markets for growth. Introducing new products internationally can expand a firm's customer base, sales and revenue. For example, after Coca-Cola dominated the U.S. market, it expanded its operations globally starting in 1926 to increase sales and profits. International marketing is the process of marketing outside and across national borders and is a key component of any international business activity. The term, international trade, is often used interchangeably with global trade. Due to the improvements in communication and transportation since the 1940s and

1950s, consumers worldwide have been able to learn about and purchase goods and services available beyond their national borders.

The origins of the internationalization of commerce and industry can be traced by both macroeconomics approach, regarded as a general-system approach which is focused on the capitalist system as a whole, and microeconomics approach, based upon a firm-specific level. In a macroeconomics approach, the expansion of firms' activities beyond their home countries can be explained by the circuits of capital and the theory of new international division of labour.

Internationalization occurs when the firm expands its research and development, production, selling and other business activities into international markets. In many larger firms internationalization may occur in a relatively continuous fashion, with the firm undertaking various internationalization stages on various foreign expansion projects simultaneously, in incremental steps, over a period of time. However internationalization is often a relatively discrete process, that is, one in which management regards each internationalization venture as distinct and individual (Freeman, 2002).

International business comprises all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons (Radebaugh & Sullivan, 2007). It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills and people

for international production of physical goods and services such as finance, banking, insurance, construction (Mohan, 2009).

1.1.2 Key Performance Indicators

KPIs are quantitative and qualitative measures used to review an organization's progress against its goals (Bauer, 2005). To complement traditional financial measures of business performance, KPIs are related to a diverse set of performance measures, including financial performance, customer relations, internal business process, learning and growth (Gascho & Salterio, 2000).

The effective use of KPIs should enable the measurement and assessment of the achievement of organizational objectives in support of respective outcomes. KPIs should be designed to allow managers to provide sound advice on the appropriateness, success, shortcomings and/or future direction of an organization. Whatever KPIs are selected, they must reflect the organization's goals, they must be key to its success, and they must be quantifiable. KPIs usually are long-term considerations. The definition of what they are and how they are measured do not change often (Chan & Chan, 2004). The goals for a particular KPI may change as the organization's goals change, or as it gets closer to achieving a goal. An organization that has as one of its goals "to be the most profitable firm in the industry" will have KPIs that measure profit and related fiscal measures. "Pre-tax profit" and "shareholder equity" will be among them.

1.1.3 Financial Services in Kenya

Kenya has a relatively well developed financial sector which comprises 43 commercial banks, 1 mortgage finance firm, 7 Deposit Taking Microfinance companies (DTMs),

some 3,500 active Savings and Credit Cooperatives (SACCOs), one postal savings bank - Kenya Post Office Savings Bank (KPOSB) 125 foreign exchange bureaus, a host of unlicensed lenders, and an Association of Microfinance Institutions (AMFI) with 56 members. Despite the abundance of financial institutions, the financial services sector in Kenya is highly concentrated to four financial institutions, Equity Bank, Cooperative Bank, Kenya Post Office Savings Bank and Kenya Commercial Bank. These banks account for two thirds of all bank accounts which numbered 14 million by mid 2012. In the traditional microfinance sector, more than 70% of the market is made up of Kenya Women Finance, Faulu Kenya and Jamii Bora. In addition, similar high levels of concentration are seen with SACCOs (Central Bank of Kenya, 2012a).

In spite of the global recession and credit crisis, the financial sector in Kenya continues to enjoy healthy levels of growth. In the five years from 2006 to 2010, assets and profits continued to grow steadily. However, this growth dipped between 2008 and 2009, mostly as a result of the post-election violence in 2008, and the consequent slow-down in the economy rather than as a result of the international banking crisis (Central Bank of Kenya, 2012b).

1.1.4 Auditing Firms in Kenya

There are a number of audit firms in Kenya but only a few of them have extended their operations internationally. The Directory of Institute of Public Accountants in Kenya places the number of audit firms in Kenya at 98. Out of these, only a few have extended their operations internationally. These audit firms include: Ernst & Young, Price Waterhouse Coopers, KPMG and Deloitte & Touche which are both local and international oriented. These firms are registered as local partnerships and operate under

the mandate of Institute of Certified Public Accountants of Kenya. They are subject to international quality performance reviews from the global network to ensure optimum performance and manage reputational risk. The accounting profession in Kenya is dominated by the four international accounting firms. These four firms are the auditors of all the publicly traded companies in Kenya; about 50 companies are listed on the Nairobi Stock Exchange. The partners of these firms—both local and expatriate—actively participate in various committees of the accountants' professional body.

1.2 Research Problem

The increased pressure on exceptional performance arising from globalization has created a great challenge for the multinational corporations (Ndlovu, 2010). The objectives and indicators of KPIs are associated with operational metrics and linked to performance incentives, which lead to effective strategy execution throughout the organization. While perfect KPIs may be adapted to a firm, another firm applying the same KPIs may not necessarily produce good results.

Measuring performance is a fundamental part of every organization, whether it is running in the private sector or government sector (de Waal, 2007). Performance of an organization has traditionally been measured by looking at the revenues or the profit made at the end of the year, or using key financial ratios. However, these financial measures are associated with a number of fundamental weaknesses, including limitations in their accuracy, neutrality, summarized and irrelevant due to the accounting period delay (Beatham et al., 2004). Auditing firms in Kenya have played and continue to play a key role in financial services to the other firms hence controlling the performance of the country economy. Recently, the firms made progress in closing the gap between national

accounting and auditing practices and international standards. However, it is not clear which performance indicators they have adopted and how they are implemented for efficiency in their operations. Organizations that have already implemented the balanced score card performance measurement system have shown much better results (Malinga, 2004).

Previous studies that have been done on the area of KPIs include those of Bremser and Barsky (2004), Kanji and Sa' (2002), and also Kerssens-van and Bilderbeek (1999). The findings of these studies indicated that performance measurement incorporates both financial and non-financial aspects. For example, the study of Bremser and Barsky (2004) examined the effectiveness of balancing financial and non-financial aspects in a performance measurement system.

There are a few local studies relating to KPIs and performance measurement. Fwaya (2006) did a survey on performance measurement practice in an independent hotel context in Kenya. He found that hotels need to invest in comprehensive performance management systems suitable for Kenyan hospitality industry that will incorporate financial and non- financial performance measures. Chacha (2008) conducted a study of performance contracting as a tool for strategy implementation in catering and tourism development levy trustees. He found that tourism industries review their performance contracting in all departments while Wanyui (2009) did a survey of factors that influence success of the implementation of the performance contracting in the Kenyan civil service. He found that management and staff commitment were some of the factors contributing to success of the implementation of the performance contracting in Kenyan civil service. Wadongo (2010) did a study on the managerial perspective of KPIs in the Kenyan

hospitality industry. He found that hospitality managers in Kenya are still focusing on financial and result measures of performance while ignoring non- financial and determinant measures. All these studies, however, are not in the area of financial services. It is due to this realization that this study endeavor to determine the extent to which KPIs have been adopted and implemented within auditing firms in their international operations. This therefore led to the question: to what extent have auditing firms in Kenya adopted and implemented KPIs in their international operations?

1.3 Research Objective

The objectives of this study were:

- i. To determine the extent to which auditing firms in Kenya have adopted KPIs in their international operations.
- ii. To determine the manner in which they have implemented KPI systems.

1.4 Value of the Study

The findings of this study will be of great significance to corporations as it will help the corporations to define and measure progress toward organizational goals. KPIs are quantifiable measurements to examine the improvement in performing an innovation and implementing activity that is critical to the success of a business.

The findings will as well be important as it will enable industry players assess whether the measured performance on operations meets or exceeds industry norms by benchmarking KPI data against industry averages. This study is also significant because it will provide transparent disclosure of performance to stakeholders.

The results of this study would also be invaluable to researchers and scholars, as it would form a basis for further research. The study will be a source of reference material for future researchers on other related topics; it would also help other academicians who undertake the same topic in their studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this section, literature in relation to the variables under study namely: nature of KPIs, implementation of KPIs, and international oriented auditing firms in Kenya were looked at.

2.2 Nature of Key Performance Indicators

A performance indicator is a measure of performance (Fitz-Gibbon, 1990). KPIs are general indicators of performance that focus on critical aspects of outputs or outcomes (Chan & Chan, 2004). As a performance measurement system, the KPI has been increasingly accepted by different industry sectors. Traditionally, time, cost and quality were three primary indicators of performance in projects.

KPIs should be agreed upon by an organization's management to select and draw a plan prior to implementation. Managers usually select these KPIs based on their business objectives. So, selected KPIs must reflect the organizational goals. Via their prefix name, it is clear that KPIs must be a key to organizational success, as it is measurable and reflects the current situation of that particular process. KPIs usually are long-term considerations for an organization (John, 2008) as it provides some potential to make a mature process at the end of the plan.

An organization needs to understand how well its strategy is working and how to work effectively to achieve the organization's vision, mission and objectives. Bowen (2005) states that vision statements provide a broad guideline of future organizational goals,

mission statements define the scope of the organization, differentiate it from competitors and give a summary of why the organization exists. Objectives can be defined as tangible milestones by which to achieve the organization's vision.

In order to determine the applicable KPIs for measuring achievement of an organization, it is necessary to do an analysis of the vision statement, mission statement and objectives of the organization. Performance measurement also helps organization to be consistent in making decision with the intention to ensure the operational activities are linked with the organization's vision and mission. The measurement of market share, customer demand and customer satisfaction can be essential elements for an organization to understand its current position and make necessary improvements to achieve its target. However, the process of discovering the right measurement is very complex. Hauser and Katz (1998) have mentioned that metrics are good if the actions and decisions which improve the metrics, also improve the firm's desired long-term outcomes.

KPIs are a general indicator of performance that focuses on critical aspects of outputs or outcome and reflects the critical success factors of an organization (Chan & Chan, 2004; John, 2008). The measure or indicator must be accepted, understood, and owned across the organization to ensure performance measurement is effective. KPIs will need to evolve and it is likely that a set of KPIs will be subject to change and refinement (Chan & Chan, 2004).

2.3 Types of Key Performance Indicators

There are various uses and applications of KPIs. Such uses include the use of KPIs as continual indicators, discrete indicators, hard indicators, soft indicators, indicators of efficiency, indicators of effectiveness, leading and lagging indicators.

Continual indicators are used for factors and quantities of quality, productivity, schedule, effort and cost that can be measured on infinitely divisible scale. The continual quantities can thereafter be ranked in terms of weight, time and money. Their measurement is carried out repeatedly over specified periods (Bowen, 2005).

Discrete indicators are used to measure characteristics having the nature of description. For example, artificially determined evaluating scales use indicators of excellent, satisfactory, and unsatisfactory. These indicators are repeatedly observed within a specified period.

Hard indicators are objectively measurable indicators observing firm's objectives, development or its activities and they are generally focused directly on the customer. Hard indicators are mostly used to measure competitiveness because they are easily measurable, are available without additional costs, and they can mostly be expressed in terms of money. Hard indicators determine desired borders or limits with which a real value is being compared and evaluated.

Soft indicators serve to the assessment of aspects that logically influence business performance but where the effects are distant in time and place from the cause. For example, staff turnover. They are usually not transferred and expressed in terms of money (Horváthová, 2010).

Indicators of efficiency or economy observe resources consumed in product manufacturing or delivery of services. Efficiency considerably influences the organization's performance. Indicators of effectiveness evaluate the results by the view of a customer. It observes to what extent their needs and requirements have been successfully met (Bowen, 2005).

Simmons (2000) mentions leading predictive indicators and lagging indicators. Leading indicators have been developed to measure the future performance and also the future financial performance. Some leading indicators of the future performance may include information on the number of customers who have left to join a competitive firm, data about satisfied customers or changes in customers' confidence. On the contrary, lagging indicators provide feedback to the performance in the past, e.g. profit in the last month but do not usually provide any prospect of the future performance.

Kaplan and Norton (2001) work with leading and lagging indicators. Their studies indicate that certain indicators suggest the future performance while others provide an insight into past activities. They argue that customers' satisfaction is a major indicator of financial performance because satisfied customers are likely to provide recurring business. This reasoning can be furthermore extended. Not only will satisfied customers be loyal and possibly willing to accept higher prices for the goods or services of an organization, but they will also recommend the firm's products to others.

Quality system of performance measurement should include all types of indicators. To limit measurement only to results is a frequent mistake in practice. In the effort for improvement, more attention is paid to effectiveness growth that will influence results

but at the same time the effectiveness is often overlooked. The aim of performance measurement is to meet customer's requirements by the promised utility value (Simmons, 2000).

2.4 Application of Key Performance Indicators to Various Management Levels

Performance measurement is a dynamic process. The tools and systems for performance measurement need to be continually assessed as strategies and competitive environments evolve (Sakunasingha, 2006). The management team of an organization is responsible for making strategic decisions on adoption and use of various performance measures. For optimum performance, organizations apply KPIs to various levels of management depending on the level of influence, skill and resources available for implementation of performance measures.

Hogue and James (2000) illustrated the importance of the managers in influencing a variety of organizational strategic decisions and outcomes such as strategy type, strategic change, innovation and strategic diversification, risk-taking propensity and overall performance.

Haktanir and Harris (2005) in their study opined that management are advocating for an emphasis on both financial and non-financial dimensions such as competitiveness, service quality, customer satisfaction, organizational flexibility, resource utilization and technology application to enhance organizational performance. It is important for performance measures to direct attention to such non- financial factors as service quality and customer satisfaction (Fitzgerald et al., 2005). It is also widely considered essential that an organization's performance measures are linked to its strategic intent, its

competitive environment, revenue management, market orientation and service delivery process within service sector. Furthermore, there has been an increasing recognition within the service sector of the importance and value of people; employees as well as clients in the service delivery process, which has led to suggestions that service sector needs to develop better performance information relating to such key areas as employee morale and employee satisfaction (Fwaya, 2006). This application of KPIs is mostly used in the tactical level of management which deals with the technical operations of an organization.

Harris and Mongiello (2001) pointed that reluctance of the service sector to use balanced measures and rely solely on financial measures are key factors that result to minimal performance of the service sector. DeWaal (2007) contends that overall lack of management skills and expertise often makes organizations in developing countries to concentrate more on introducing and copying performance measurement systems from the Western world, which are not always the best suited to local circumstances.

2.5 Implementation of Key Performance Indicators

Today's organizations are increasingly demanding that functions are run in the most economical, efficient and effective manner. As such, organizations need to be agile and responsive to the changing requirements in private and public business sectors. Properly directed, internal audit program resources can help an organization stay focused and discover improvement opportunities (Sakunasingha, 2006).

The development of performance indicators is part of governance and accountability in an organization. KPIs provide a means to measure how well an entity has performed.

They can also indicate whether strategic planning has been undertaken and whether the objectives are focused on the reason for the organization existing (Chan & Chan, 2004).

To be useful, performance indicators must exhibit certain characteristics: appropriateness, relevance, accuracy, timeliness, completeness and comprehensiveness. In addition performance reporting needs to be at an appropriate level, concentrating on reporting against the primary purposes of the agency, program or activity (Radebaugh & Sullivan, 2007).

Audit program performance indicators should be based on objectives that reflect the audit program mission and organizational objectives and goals (Bauer, 2005). The objectives that avoid the greatest risks and identify the greatest opportunities for improvement are the most important to an organization.

Organizations have auditing objectives, but because internal audits are a service for internal customers, they should also consider internal customer objectives when performing the service. When conducting second-party supplier audits and have good relationships with the suppliers, one may want to be aware of their objectives relevant to the product or service they provide. For third-party certification audits, one may need to verify that the auditing organization has objectives that are promulgated throughout the organization, but one does not need to consider them as part of the audit purpose (Ndlovu, 2010).

Independent third-party auditors from governmental agencies need not be concerned with auditee organization objectives as long as the organization complies with statutory and

regulatory requirements. However, some regulatory agencies believe that auditee objectives improve ongoing compliance, as well as effectiveness.

Once objectives are known, the management team can develop strategies to achieve the audit program objectives (Chan & Chan, 2004). The strategies will be based on the type of organization, the organizational culture and available resources. Some of the strategies may simply be a formalization of what the firm is already doing. For example, where a firm's objective is to continually improve its performance, some audit program strategies and tactics may include developing a process to collect complaints or feedback from audit program customers. Such customers include auditees, audit program managers, stockholders, top management, function managers and supervisors. By collecting feedback, the audit program management can identify customer needs and add value by reviewing audit objectives, upgrading auditor competency for observing and reporting performance issues, reporting findings to customer's top management and implementing real-time audit reporting using mobile technology (Russell, 2000).

Another objective of the audit firm may be to maintain continuous compliance using fewer resources. The audit program strategies or tactics that can be applied to achieve this objective include decreasing audit frequency or conducting mini audits, identifying situations in which outsourcing would be a more cost-effective alternative and establishing and implementing an e-audit program (Russell, 1995).

An effective audit program is one that achieves its objectives via processes that are effective and efficient. Output measures and process measures are generally used to verify whether an audit program is effective and efficient (Hinks & McNay, 1999).

The audit firms operate audit programs that add value to the organization by issuing timely reports for management discussion and assist in planning for future audits. Many managers and executives have low expectations of audit programs. Many view audit programs as the cost of doing business to ensure compliance to regulations. Once audit program managers can demonstrate the effectiveness of how the audit program supports the organization's objectives, managers will start to see that audit program verification services can add value beyond compliance to the law (ASQ, 2008).

Auditors represent an independent oversight role to the operations of corporations in our fast-paced world economy. Organizations need to ensure compliance and internal regulation to optimize their chances of success (ASQ, 2008).

2.6 International and Local Auditing Firms in Kenya

Just a few years ago, the dominance of the multinational accounting firms in Kenya seemed unshakeable. But this is changing fast as mid-sized and locally owned firms challenge the "Big Four," which include PriceWaterhouseCoopers, Deloitte & Touche, Ernst and Young and KPMG Kenya. The auditing firms with international operations have set high performance standards in auditing as a specialized area of financial services.

Based on their international synergies, these firms have made progress in closing the gap between national accounting and auditing practices and international standards, notably by adopting International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as a national requirement. The adoption of the IAS and IFRS is an important step in upgrading Kenya's auditing practices, but the lack of guidance on

their application has resulted in implementation problems. Consequently, compliance with the requirements of IAS and IFRS is partial, due to enforcement mechanisms that continue to evolve and inadequate resources. In spite of these difficulties, institutional investors in Kenya perceive that the quality of financial reporting has significantly improved.

Improvements are needed in the legal framework governing accounting and financial reporting, the professional education and training arrangements, the professional body, and the enforcement mechanism. Stakeholders in the country believe that successful completion of appropriate capacity-building initiatives, through implementation of an action plan, would help develop accounting and auditing practices and bring about improvements in compliance with the international standards.

The Kenyan Companies Act requires all limited liability companies to prepare and present annual audited financial statements. The Companies Act, which is substantially the same as the U.K. Companies Act of 1948, was not amended to reflect the requirements set by the Accountants Act. Consequently, there is lack of clarity concerning the statutory requirements on disclosures in the financial statements of limited liability companies.

CHAPTER THREE: RESEARCH METHDODOLOGY

3.1 Introduction

The chapter gives a description of the research methodology used during the study. It describes the research design, data collection instruments and the procedure of data collection. Finally it describes the appropriate data analysis method used to generate the data.

3.2 Research Design

The research problem was studied through the use of a descriptive survey. According to Cooper and Schindler (2003) a descriptive survey typically seeks to ascertain perspectives of a specified subject. This study therefore was able to generalize the findings on adoption and implementation of KPIs in auditing firms in Kenya in their international operations.

3.3 Target Population

The population of this study comprised of the four major auditing firms with local and international operations targeted by the study. They include KPMG, PriceWaterhouseCoopers, Deloitte & Touche and Ernst & Young. This essentially was a census study of the selected firms.

3.4 Data Collection

The study involved collection of both primary and secondary data for the purpose of analyzing the adoption and implementation of KPIs by auditing firms in Kenya in their

international operations. Primary data was collected using a questionnaire administered to 3 managers in each firm. These were mainly managers in charge of operation and international quality performance reviews, corporate relations and strategy implementation. Secondary data was obtained from journals, brochures and publications.

This study utilized a self-administered semi structured questionnaire. The questionnaire designed in this study comprised of two sections. The first part was designed to determine fundamental issues including the demographic characteristics of the respondent, while the second part focused on the objectives of the study.

3.5 Data Analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then be coded to enable the responses to be grouped into various categories. Data collected was purely quantitative and it was analyzed by descriptive analysis techniques. The findings were presented using tables and charts, percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and to facilitate comparison.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the adoption and implementation of key performance indicators by auditing firms in Kenya in their international operations. The chapter also provides the major findings and results of the study.

4.1.1 Response Rate

The study targeted a sample size of 12 respondents from which 10 filled in and returned the questionnaires making a response rate of 83.3%. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

Table 4. 1: Response Rate

Response rate	Frequency	Percentage
Responded	10	83.3%
Non-response	2	16.7%
Targeted	12	100.0

4.2 Demographic Information

The study sought to establish the background information of the respondents including respondents' current position held and duration of service in their respective departments.

4.2.1 Current position held

The findings in table 4.2 show the position held by the respondents. From the findings, the study established that the majority of respondents were senior managers as shown by 40%, 30% of respondents were managers while 10% of the respondents were partners, directors and assistant managers respectively.

Table 4. 2: Current position held

Level of staff	Frequency	Percentage
Partner	1	10
Director	1	10
Senior Manager	4	40
Manager	3	30
Assistant Manager	1	10
Total	10	100

4.2.2 Duration of Service in the Department

On the duration of service in the department.40% of the respondents indicated that they had worked in the department for over 7 years, 20% of the respondents indicated that they had worked in the department for between 2-3 and 5-7 years while 10% of the respondents indicated that they had worked in the department for less than 1 years and between 3-5 years respectively.

Table 4. 3: Duration of Service in the Department

Duration of Service in the Department	Frequency	Percent
Less than 1 year	1	10
Between 2 – 3 years	2	20
Between 3- 5 years	1	10
Between 5 – 7years	2	20
Over 7 years	4	40
Total	10	100.0

4.3 Adoption of KPIs

The study sought to find out how auditing firms adopted KPIs in their operations. According to John (2008), KPIs adoption should be agreed upon by an organization's management to select and draw a plan prior to implementation. Managers usually select these KPIs based on their business objectives. So, selected KPIs must reflect the organizational goals.

4.3.1 Extent to Which The Firm has Adopted KPIs in its International Operations

The study sought to find out the extent to which the firm has adopted KPIs in its international operations. From the findings, 50% of the respondents indicated that the firms had adopted KPIs in their international operations to a great extent, 40% of the respondents indicated that the firms had adopted KPIs in their international operations to

a very great extent while 10% of the respondents indicated that the firms had adopted KPIs in their international operations to a moderate extent.

Table 4. 4:Extent to Which The Firm has Adopted KPIs in its International Operations

Adoption of KPIs	Frequency	Percent
Very great extent	4	40
Great extent	5	50
Moderate extent	1	10
Total	10	100.0

4.3.2 Extent to Which Adoption of KPIs Have Influenced Firms Performance Internationally

With regard to the extent to which adoption of KPIs had influenced the firms performance internationally,60% of the respondents indicated that adoption of KPIs had influenced the firms performance internationally to a very great extent,30% of the respondents indicated that adoption of KPIs had influenced the firms performance internationally to a great extent while 10% of the respondents indicated that adoption of KPIs had influenced the firms performance internationally to a moderate extent.

Table 4. 5:Extent to Which Adoption of KPIs Have Influenced Firms Performance Internationally

Influence of KPIs	Frequency	Percent
Very great extent	6	60
Great extent	3	30
Moderate extent	1	10
Total	10	100.0

4.4 Human Resources

The study sought to find out how auditing firms employed human resources functions in their operations. This is in line with Hogue and James (2000) where they illustrated the importance of human resources in influencing a variety of organizational strategic decisions and outcomes such as strategy type, strategic change, innovation and strategic diversification, risk-taking propensity and overall performance.

4.4.1 Extent to Which The firm Employs Forms of KPIs in its Operations

The study sought to find out the extent to which the firm employed forms of KPIs in its operations. From the findings, the respondents indicated that the firm employed auditor turnover, average years of audit experience, staff satisfaction survey and percent staff certified to a great extent as indicated by a mean of 4.42, 4.28, 4.24 and 3.91 respectively. The respondents also indicated that the firm employed hours of training per auditor, percent training plan achieved and staff rotated to and from operations departments to a great extent as indicated by a mean of 3.78 respectively.

Table 4. 6:Extent to Which The Firm Employs Forms of KPIs in its Operations

Application of KPIs to Human Resources	Mean	Stdev
Average years of audit experience	4.28	1.040
Hours of training per auditor	3.78	1.173
Percent training plan achieved	3.78	1.029
Percent staff certified	3.91	1.22
Auditor turnover	4.42	1.026
Staff rotated to and from operations departments	3.78	1.34
Staff satisfaction survey	4.24	1.055

4.5 Effectiveness of KPIs

The study sought to find out how auditing firms employed KPIs to achieve effectiveness in their operations. Harris and Mongiello (2001) pointed out that effectiveness in the service sector by use of balanced measures results to increased performance of the service sector.

4.5.1 Extent to Which The Firm Employs Forms of KPIs in its Operations

The study sought to find out the extent to which the firm employed forms of KPIs in its operations. According to the findings, the respondents indicated that the firm employed the use of the balance score card and amount of audit savings to a very great extent as indicated by a mean of 4.78 and 4.65 respectively. The respondents indicated that the

firm employed number of process improvements, number of major audit findings/recommendations and percent recommendations accepted to a great extent as indicated by a mean of 4.42, 4.38 and 4.28 respectively.

Table 4. 7:Extent to Which The Firm Employs Forms of KPIs in its Operations

Effectiveness of KPIs	Mean	Stdev
Balanced Scorecard	4.78	0.020
Number of major audit findings/recommendations	4.38	0.143
Percent recommendations accepted	4.28	0.020
Amount of audit savings	4.65	0.225
Number of process improvements	4.42	0.016

4.6 Quality of work

The study sought to find out how auditing firms employed quality of work as a measure of performance in their operations. This concurs with Fitzgerald et al. (2005) who points out that it is important for performance measures to direct attention to such non- financial factors as service quality and customer satisfaction.

4.6.1 Extent to Which The Firm Employs Forms of KPIs in its Operations

The study sought to find out the extent to which the firm employed forms of KPIs in its operations. According to the findings, the respondents indicated that the firm employed the use of level of customer satisfaction-survey, number of management requests, and

average response time - management requests and number of complaints about audits to a very great extent as indicated by a mean of 4.98, 4.82,4.68 and 4.64 respectively.

Table 4. 8:Extent to Which The Firm Employs Forms of KPIs in its Operations

Measure of quality	Mean	Stdev
Number of management requests	4.82	0.121
Average response time - management requests	4.68	0.045
Level of customer satisfaction - per survey	4.98	0.920
Number of complaints about audits	4.64	0.287

4.7 Cost/Productivity of Operations

The study sought to find out how auditing firms employed cost/productivity in their operations as a performance measure. This is in line with Bowen (2005) who argues that continual indicators are used for factors and quantities of quality, productivity, schedule, effort and cost that can be measured on infinitely divisible scale. The continual quantities can thereafter be ranked in terms of weight, time and money. Their measurement is carried out repeatedly over specified periods.

4.7.1 Extent to Which The Firm Employs Forms of KPIs in its Operations

The study sought to find out the extent to which the firm employed forms of KPIs in its operations. From the findings, the respondents indicated that the firm employed the use of actual hours vs. budgeted hours, number of auditors per 1,000 employees, staff utilization - direct vs. indirect time, number of auditors per million dollars of

revenue/million dollars of assets, cost savings as a percent of department budget, completed audits per auditor and completed vs. planned audits to a great extent as indicated by a mean of 4.29, 4.18, 4.08, 3.95, 3.79, 3.71 and 3.62 respectively.

Table 4. 9:Extent to Which The Firm Employs Forms of KPIs in its Operations

Cost/Productivity level	Mean	Stdev
Number of auditors per 1,000 employees.	4.18	1.940
Number of auditors per million dollars of revenue/million dollars of assets	3.95	1.800
Staff utilization - direct vs. indirect time	4.08	1.729
Completed audits per auditor.	3.71	1.620
Completed vs. planned audits.	3.62	1.527
Cost savings as a percent of department budget	3.79	1.436
Actual hours vs. budgeted hours.	4.29	1.357

4.8 Performance Reporting

The study sought to find out how firms employed audit reporting as a measure of performance in their operations. This concurs with Radebaugh & Sullivan (2007) who argues that performance reporting needs to be at an appropriate level, concentrating on reporting against the primary purposes of the agency, program or activity.

4.8.1 Extent to Which The Firm Employs Forms of KPIs in its Operations

The study sought to find out the extent to which the firm employed forms of KPIs in its operations. According to the findings, the respondents indicated that the firm employed the use of number of "unsatisfactory" audit opinions, number of audit reports issued, elapsed time - opening conference to field completion and elapsed time - field completion to final report to a very great extent as indicated by a mean of 4.76, 4.71 , 4.64 and 4.58 respectively.

Table 4. 10:Extent to Which The Firm Employs Forms of KPIs in its Operations

Performance Measures	Mean	Stdev
Number of audit reports issued.	4.71	1.940
Elapsed time - opening conference to field completion.	4.64	1.800
Elapsed time - field completion to final report.	4.58	1.729
Number of "unsatisfactory" audit opinions	4.76	1.620

4.8.2 Whether The firm Has Implemented KPI System

The study sought to find out whether the firms had implemented KPI system. From the findings, 90% of the respondents indicated that the firms had implemented KPI system while 10% of the respondents indicated that the firms had not implemented KPI system.

Table 4. 11: Whether The Firm Has Implemented KPI System

Implementation of KPIs	Frequency	Percent
Yes	9	90
No	1	10
Total	10	100.0

4.8.3 Extent to which Implementation of KPI systems have Influenced the Firm's Performance Internationally

With regard to the extent to which implementation of KPI systems had influenced the firms performance internationally,70% of the respondents indicated that adoption of KPI systems had influenced the firms performance internationally to a very great extent,20% of the respondents indicated that implementation of KPI systems had influenced the firms performance internationally to a great extent while 10% of the respondents indicated that implementation of KPI systems had influenced the firms performance internationally to a moderate extent.

Table 4. 12: Extent to which Implementation of KPI systems have Influenced the Firm’s Performance Internationally

Extent of KPI influence on performance internationally	Frequency	Percent
Very great extent	7	70
Great extent	2	20
Moderate extent	1	10
Total	10	100.0

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key data findings, discussion of the findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to determine the extent to which auditing firms in Kenya have adopted KPIs in their international operations and the manner in which they have implemented KPI systems.

5.2 Summary

The study established that the firms had adopted KPIs in their international operations to a great extent. The study also established that adoption of KPIs had influenced the firms' performance internationally to a very great extent.

The study revealed that the Firm employed the use of auditor turnover, average years of audit experience, staff satisfaction survey and percent staff certified. The study also found out that the Firm employed hours of training per auditor, percent training plan achieved and staff rotated to and from operations departments to a great extent.

The study deduced that the Firm employed the use of the balance score card and amount of audit savings to a very great extent. The study also deduced that the firms employed a number of process improvements, number of major audit findings/recommendations and percent recommendations accepted to a great extent.

The study revealed that the firms employed the use of level of customer satisfaction-survey, number of management requests, and average response time - management requests and number of complaints about audits to a very great extent.

The study further revealed that the firms employed the use of actual hours vs. budgeted hours, number of auditors per 1,000 employees, staff utilization - direct vs. indirect time, number of auditors per million dollars of revenue/million dollars of assets, cost savings as a percent of department budget, completed audits per auditor and completed vs. planned audits to a great extent.

The study also established that that the firms employed the use of number of "unsatisfactory" audit opinions, number of audit reports issued, elapsed time - opening conference to field completion and elapsed time - field completion to final report to a very great extent.

The study also deduced that the firms had implemented KPI system and that adoption of KPI systems had influenced the firms' performance internationally to a very great extent.

5.3 Discussions of findings

From the findings of the study, it is evident that the firms had adopted KPIs in their international operations and that that adoption of KPIs had influenced the firms' performance internationally. This findings are in agreement with ASQ, (2008) who postulates that Key Performance Indicators (KPIs) are commonly used for business performance measurement in organizations; however there's no single best way about how to implement KPIs, which means that a Firm can select any arbitrary suitable KPIs.

In order to monitor and improve business performance in a competitive way, a management tool with a proper set of KPIs is required by organizations.

The study revealed that the firm employed the use of auditor turnover, average years of audit experience, staff satisfaction survey and percent staff certified. This is in line with Fwaya,(2006) who explains that there has been an increasing recognition within the service sector of the importance and value of people; employees as well as clients in the service delivery process, which has led to suggestions that service sector needs to develop better performance information relating to such key areas as employee morale and employee satisfaction.

The study deduced that the firm employed the use of the balance score card and amount of audit savings. This is in line with Kaplan and Norton (1996) who developed the concept of balanced scorecard for business performance management in the early 90s, in order to identify and monitor achievements by a combination of financial, operational and other critical metrics, a set of KPIs has to be developed for each of four perspectives, they are financial perspective, customer, internal business process and organizational learning and growth.

The study revealed that the firm employed the use of level of customer satisfaction-survey, number of management requests, and average response time - management requests and number of complaints about audits. This concurs with Haktanir and Harris (2005) who in their study opined that management are advocating for an emphasis on both financial and non-financial dimensions such as competitiveness, service quality, customer satisfaction, organizational flexibility, resource utilization and technology

application to enhance organizational performance. It is important for performance measures to direct attention to such non- financial factors as service quality and customer satisfaction.

5.4 Conclusions

The study concludes that the management team of an organization should be responsible for making strategic decisions on adoption and use of various performance measures.

The study also concludes that the development of performance indicators is part of governance and accountability in an organization. KPIs provide a means to measure how well an entity has performed. They can also indicate whether strategic planning has been undertaken and whether the objectives are focused on the reason for the organization existing.

The study further concludes that an organization needs to understand how well its strategy is working and how to work effectively to achieve the organization's vision, mission and objectives.

5.5 Recommendations

From the findings and conclusion, the study recommends that, managers need to rethink about the choice of their performance indicators. They need to incorporate both financial and non-financial performance measures in their performance measurement systems. They need to use balanced range of measures, which are linked to the Firm's objectives and strategic intent. The hotels need to invest in comprehensive performance management systems that will enable the managers to capture both financial and non-financial data.

The study also recommends that audit program performance indicators should be based on objectives that reflect the audit program mission and organizational objectives and goals.

Organizations have auditing objectives, but because internal audits are a service for internal customers, thus the study recommends that they should also consider internal customer objectives when performing the service.

5.6 Recommendations for further studies

From the study and related conclusions, the researcher recommends that a study should be carried out to establish the factors that affect adoption and implementation of Key Performance Indicators in Kenya. A study should also be carried out to find out the challenges facing the KPIs implementation processes.

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APPENDIX

Appendix I: Research Questionnaire

Section A: General Information

1) Indicate your current position

Partner Manager

Director Assistant Manager

Senior Manager

2) Kindly state your department

3) How long have you worked in the department

Less than 1 year Between 5 – 7years

Between 2 – 3 years Over 7 years

Between 3- 5 years

SECTION B: Adoption of KPIs

4) What is the extent to which your firm has adopted KPIs in its international operations?

Very great extent

Great extent

Moderate extent

Little extent

Not at all []

5) What is the extent to which adoption of KPIs have influenced its performance internationally?

Very great extent []

Great extent []

Moderate extent []

Little extent []

Not at all []

Section C: Implementation of KPI

Human Resources

6) To what extent does your Firm employ the following forms of KPIs in its operations?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Average years of audit experience					
Hours of training per auditor					
Percent training plan achieved					
Percent staff certified					
Auditor turnover					
Staff rotated to and from operations departments					

Staff satisfaction survey					
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Effectiveness of KPIs

7) To what extent does your firm employ the following forms of KPIs in its operations?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Balanced Scorecard					
Number of major audit findings/recommendations					
Percent recommendations accepted					
Amount of audit savings					
Number of process improvements					

Quality of work

8) To what extent does your Firm employ the following forms of KPIs in its operations?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Number of management requests					

Average response time - management requests					
Level of customer satisfaction - per survey					
Number of complaints about audits					

Cost/Productivity of Operations

9) To what extent does your Firm employ the following forms of KPIs in its operations?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Number of auditors per 1,000 employees.					
Number of auditors per million dollars of revenue/million dollars of assets					
Staff utilization - direct vs. indirect time					
Completed audits per auditor.					
Completed vs. planned audits.					
Cost savings as a percent of department budget					

Actual hours vs. budgeted hours.					
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Performance Reporting

10) To what extent does your Firm employ the following forms of KPIs in its operations?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Number of audit reports issued.					
Elapsed time - opening conference to field completion.					
Elapsed time - field completion to final report.					
Number of "unsatisfactory" audit opinions					

11) Has your firm implemented KPI system?

Yes

No

12) What is extent to which implementation KPI systems have influenced the firm's performance internationally?

Very great extent []

Great extent []

Moderate extent []

Little extent []

Not at all []