

**THE RELATIONSHIP BETWEEN AUDITOR ROTATION AND  
AUDIT QUALITY OF COMMERCIAL BANKS IN KENYA**

**BY**

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## **DECLARATION**

### **Student's Declaration**

I declare that this research project is my original work and has not been presented for a degree in any other university. All references made to works of other persons have been duly acknowledged.

SIGNED.....

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### **Supervisor**

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

**Mr. Mirie Mwangi**

SIGNED.....

DATE.....

## **DEDICATION**

This dissertation is dedicated to Lydiah Otieno and Luciabella Agunda, for the support and encouragement during the project.

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## **ABSTRACT**

The objective of this study was to establish the relationship between audit quality and audit rotation in the banking industry in Kenya. Theoretically, it is assumed that audit rotation leads to high quality audit since the new auditor is not acquainted with management. Multiple linear regression with audit quality as the dependent variable and audit rotation, consultancy services offered and audit as the independent variables was used. These variables were used to establish whether there is any relationship between audit quality and audit rotation in the banking industry in Kenya. Primary data was collected through questionnaires and interviews in regards to 2013 financial year ends and analyzed using statistical tools. The population used was the 43 commercial banks in Kenya. The means and standard deviations were calculated for the descriptive data and multiple regression analysis was used to answer the research questions. The study results indicated that provision of consultancy services had the highest effect on audit quality followed by audit fees. Audit rotation had the least effect of the three variables with a small beta coefficient. One of the limitations that the study encountered was a low response rate due to confidentiality of audit services provided to banks. Also, the overall rating of audit quality was not fully objective since they were rated by managers who give their opinion. The study recommends for an audit quality rating agency which can sample a number of companies and rate the audit work done on those companies based on certain factors. This would help improve the audit quality done by auditors to their clients. Also, the study recommends that banks need to have shorter audit tenure as the new auditors will pump in new ideas. Audit rotation is important for banks and there should be a minimum of two auditors in a span of ten years to improve quality.

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## **ABBREVIATIONS**

AICPA	American Institute for Certified Public Accountants
ARL	Audit Report Lag
CBK	Commercial Bank of Kenya
CMA	Capital Markets Authority
GAAS	Generally Accepted Auditing Standards
ICPAK	Institute of Certified Public Accountants of Ken
ISA	International Standards on Auditing
MAR	Mandatory Audit Rotation
NSE	Nairobi Securities Exchange
OX	Sarbanes–Oxley Act

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

The audit quality is one of the most significant topics in the auditing profession. If the auditor is able to detect and report on the existing material misstatements, the audit process is considered of a higher quality. What might hinder the auditor's ability to perform at a high level of conduct to provide a high quality is the extended auditor client relationship (Vanstraelen, 2000). A sound solution that has been proposed and applied in different countries to overcome the problem of the lack of auditor independence is the mandatory auditor rotation. The mandatory rotation practice imposes on every listed company to change its audit firm or at least its audit partner after a certain period of time (Pany et al, 2005).

In spite of the existence of research pointing to the importance audit rotation to companies, there appears to be paucity of research in this area in Kenya. The objective of this study is to establish whether the practice is actually happening in Kenya and if it is happening, does it add new value to the owners of the companies (shareholders).

#### **1.1.1 Audit Rotation**

The idea of the auditor rotation was first introduced and discussed in 1976 (Hoyle, 1978). Auditor rotation can either be mandatory or voluntary. The mandatory rotation pushes firms to change their auditors after a fixed duration (Lu, 2005) while the voluntary rotation is the optional switching of the auditors (Davidson *et al.*, 2005). Actually mandatory rotation could be either through the audit-firm rotation which requires listed

companies to change or rotate their audit firms after a specific period of time (almost five years) or through the audit-partner rotation instead, which requires listed companies to change or rotate their audit lead partner who is responsible for the audit decisions on the engagement after a specific period of time (Arel *et al.*, 2005; Orin, 2008). On the other hand the voluntary rotation is mainly based on the management decisions and choice regardless of time (Davidson *et al.*, 2005). Though the SOX 2002 of the USA is most famous, many countries have applied the auditor rotation practice such as Austria, Japan, Singapore, Taiwan, France, Brazil, Spain and many other (Cameran *et al.*, 2005; Sori and Karbhari, 2005).

### **1.1.2 Audit Quality**

From early on, audit quality has been defined as an outcome conditional on the presence of certain attributes of auditors. The widely used definition by DeAngelo (1981, 1986) defines audit quality as “the market assessed joint probability that a given auditor will both discover a breach in a client’s accounting system, and report the breach.” This definition is often interpreted to break down audit quality into two components: (1) the likelihood that an auditor discovers existing misstatements and (2) appropriately acts on the discovery. The first component links to an auditor’s competence and level of effort while the latter relates to an auditor’s objectivity, professional skepticism and independence.

These two components also suggest that different aspects of the audit can influence overall audit quality. The discovery of a misstatement requires that appropriate resources be effectively utilized in the audit process (i.e., inputs and process) while reporting a

misstatement requires an auditor to take appropriate action given the current context at the end of the audit (i.e., output and context). The following problems arise from this definition, however: (1) it has not been reconciled with the audit risk model which is used to guide the audit and reflects the *auditor's* perceptions and (2) the perception of market participants can be erroneous.

There are different measures or as called proxies of the audit quality and some of them are as follows: the audit report, the audit report lag (ARL), the auditor experience, the auditor reputation, the auditor fees and the level of earnings management. These factors are widely used in the literature and in empirical studies of assessing the impact of the rotation on the quality and the most relevant and covering all the other factors as well (Jackson et al., 2008).

### **1.1.3 Audit Rotation and Audit Quality**

Proponents of the auditor rotation see that the mandatory rotation first, bounds opinion shopping practices by limiting its opportunities (Lu, 2005). Second, the rotation also provides a new insight to the client's financial statements (Davis *et al.*, 2009; Raiborn *et al.*, 2006) since the auditing practice is based on employing professional skepticism and the long term attachment with the client and working for long years for the same client can reduce the sharpness of his professional judgment (Wolf *et al.*, 1999; Nagy, 2005). Third, the mandatory rotation helps in enhancing the competition in the audit market, thus small companies (non Big Four) are encouraged to grow and develop more niche specialization as the rotation puts all audit firms on the same level and gives them equal opportunities (Raiborn *et al.*, 2006). Finally it was found that both auditors and clients

suffer great losses in case of an audit failure and that the cost of auditor rotation would be less than the cost of excessive litigation and loss of reputation resulting from such audit failures (Cameran *et al.*, 2005; Jackson *et al.*, 2008).

On the other hand, opponents to the auditor rotation found that first; the rotation is of no use, since the excessive litigations that could be faced by the auditor would force them to struggle to preserve their reputation (Davis *et al.*, 2009). Second, mandatory rotation will increase the switching and startup costs to both the auditors and the clients than with existing clients due to the creation of the learning curve (Davis *et al.*, 2009). As a result auditor fees charged by the auditor will increase, so as to absorb the high cost of audit, thus the cost increases for the client as well (Wolf *et al.*, 1999; Johnson *et al.*, 2002). Finally, auditors normally interact with the company's management daily during the audit process; an issue that makes them more attached to them regardless the audit tenure (Arel *et al.*, 2005).

It could be inferred that the main debate raised around the auditor rotation is whether it improves or deteriorates the audit quality. The proponents of the auditor rotation concept see that the main purpose of the rotation is that the auditor tenure can negatively impact the audit quality where the auditor tenure increases the auditor lack of independence and the auditors become lax in their audit of a company's financial reporting (Kim *et al.*, 2007; Lu, 2005). Also a financial bond is created where the client is changed to be a source of a continuous (perpetual) annuity to the auditor. Therefore, if the rotation is mandatory and the auditor knows that he will not be sustained forever, the present value of expected future benefits from the auditor-client relationship to the auditor decreases thus reducing incentives for dependency and non-objectivity (Ghosh and Moon, 2004;

Schelker, 2007; Wolf *et al.*, 1999; Raiborn *et al.*, 2006; Jackson *et al.*, 2008; Nagy, 2005; Davis *et al.*, 2009). Moreover, after the application of the SOX 2002 which imposed the rotation of the auditor every five years, it was found that non GAAP earnings management practices had considerably declined (Davis *et al.*, 2009).

On the other hand, the opponents to the rotation found that rotation would reduce the audit quality. Actually, the auditor tenure would positively affect the audit quality, that an audit failure would occur more for new clients due to having less information about such clients That is why it is said that the auditor independence and thereafter the audit quality increases as auditor experience increases over time and as he becomes more acquainted with the client's system (Ghosh and Moon, 2004).

#### **1.1.4 Commercial Banks in Kenya**

According to Chapter 488 of the Banking Act, a Commercial Bank is a company which carries on or purposes to carry on banking business in Kenya and includes the Cooperative bank of Kenya Limited but does not include the Central Bank. There are currently forty three licensed Commercial Banks in Kenya and only four million Kenyans are banked this is excluding the private and public sector (Adhiambo, 2012).

The Banking Act does not involve rotation of audit firm, but of audit partner rotation. It states that a registered public accounting firm shall ensure that the lead audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has not performed audit services for the institution in each of the five (5) previous financial years of that institution. Capital Markets Authority has been

campaigning for actual rotation of audit firms, not auditors, for the public listed companies. This includes banks that are listed in the Nairobi Securities Exchange.

## **1.2 Research Problem**

The auditor independence is the cornerstone of the auditing profession. It is defined as the refusal of the auditor to support any detected misstatements and standing against client's attempts to influence his/her audit report (Nichols and Price, 1976). The American Institute for Certified Public Accountants (AICPA) in its code of ethical conduct which revolves about the idea that an auditor has a primary responsibility towards the public; in its fourth principle, it states that objectivity and independence should be maintained by the auditor and that independence should be exercised both in fact and in appearance while providing an audit or any other attestation service (*Collins et al* 1995). When the auditor is regarded as being independent, the public will be more confident in the financial information thus helping taking right financial decision (Cameran *et al.*, 2005).

On the other hand, independence in fact or the actual independence can hardly be maintained for some reasons. From these reasons, is the unconscious bias of the auditor to the client especially due to excessive familiarity and long term attachment, which hinders the auditor from doing any harm to the client especially if there is a self interest or a financial bond such as the provision of MAR in addition to the audit (Barret, 2001).

Also the discounting factor where the foreseen consequences is the strongest factor affecting auditor's current judgment such as the loss of engagements or the damage of relationship between client and management. The auditor sees that such consequences are



near while the loss of reputation, disciplinary proceedings are distant. That is why he might sacrifice the far loss for the delayed one (Barret, 2001). Also the self review, where the auditor was previously an employee in a position at the client that has an effect on the financial statements currently being audited, thus he is unable to report material misstatements; he originally had been responsible for one day (Ainsworth, 2006).

Actually, the lack of auditor independence in fact (due to the long term attachment, whether financial or psychological) would be the main reason behind deteriorating the audit quality because it would hinder the auditor from carrying out his basic responsibility in being able to detect and report the material misstatements in the client's financial records (Kim *et al.*, 2007), thus increasing the information asymmetry between the management and the shareholders allowing non GAAP reporting practices such as the earnings management practices, and becoming less motivated in issuing going concern opinions (Kim *et al.*, 2007).

From the foregoing discussions based on the available empirical literature, it is crystal clear that results from investigations into the relationship between auditor rotation and audit quality are inconclusive and requires more empirical work. This study will therefore re-examine the relationship between auditor rotation and audit quality in commercial banks in Kenya. Therefore the study answers the following question is there a relationship between auditor rotation and audit quality.

### **1.3 Research Objective**

The study will seek to establish the relationship between auditor rotation and audit quality of commercial banks in Kenya.

## **1.4 Value of the Study**

The auditing profession has been under intense pressure due to rising public expectations. This empirical investigation of the effects of audit rotation on the quality of audit is therefore a significant contribution to existing literature. Mohamed et al (2009) studied the applicability of the mandatory auditor rotation concept in the Egyptian environment so as to enhance the auditor independence and thus improve the audit quality. It was found that the extended auditor client relationship would enhance rather than it would deteriorate the audit quality, due to the increased experience with the client's business and practices. Also, it was found that main cause of the lack of independence problem in Egypt is that most of the companies in Egypt are closely held where the stockholders are the managers of the company.

The study findings will be used as source of literature in the library and will contribute to the knowledge in this area of need for audit rotation in Kenya. The gaps mentioned in the study act as a guide to any intended research to assist in topic selection and identify areas that need further study.

Finally, the study will benefit both the regulators (ICPAK, CMA and CBK) and the commercial banks in Kenya in making clearer the need for audit rotation and its impact on the audit quality, and by extension benefit the shareholders of these institutions.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter discusses essential issues that form the background of the study. It is organized systematically starting from the conceptual to theoretical literature. It tries to highlight some of the efforts that have been done to study the relationship between audit rotation and quality of audit.

#### **2.2 Theoretical Review**

##### **2.2.1 The Agency Theory**

Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. The authors notice that if both parties are utility maximizers (opportunistic behavior); a good reason exists to believe that the agent will not always act in the best interests of the principal.

According to Jensen *et al* (1976) divergence exists between the agent's decisions and those decisions which would maximize the welfare of the principal. Within this principal-agent relationship, owners have an interest in maximizing the value of their shares, whereas managers are more interested in 'private consumption of firm resources' and firm growth.

The ‘model of man’ underlying the Agency Theory is that of a rational actor who seeks to maximize his or her utility with the least possible expenditure. Both agents and principals seek to receive as much possible utility with the least possible expenditure. Thus, given the choice between two alternatives, the rational agent or principal will choose the option that increases his or her individual utility (Davis et al., 1997). According to Eisenhardt (1989), the agent is more risk averse than the principal. Agents, who are unable to diversify their employment, should be risk averse and principals, who are capable of diversifying their investments, should be risk neutral.

Eisenhardt (1989) cites two main aspects of the agency theory, that is, ‘moral hazard’ – the agent usually has more information about his or her actions and intentions than the principal does (information asymmetry) and ‘adverse selection’ – the principal cannot completely verify the agent’s skills and abilities, either at the time of hiring or while the agent is working.

Subsequent to unobservable behavior (moral hazard or adverse selection), the principal could choose to contract on outcome (Eisenhardt, 1989). According to Eisenhardt (1989) an outcome-based contract motivates behavior by co-alignment of the agent’s and principal’s preferences, but at the price of transferring risk to the agent. Opposite, the principal could choose to contract on behavior, i.e., investing in information systems (reporting systems, boards of directors etc.), which reveal the agent’s behavior to the principal.

On behalf of the principal, the auditor assesses whether the financial statements, prepared by the agent, present a true and fair view of the company and are prepared in accordance

with general accepted accounting principles. The financial statement audit makes management accountable to shareholders for its stewardship of the company. Auditors are engaged as agents under contract but they are expected to be independent of the agents who manage the operations of the business. The primary purpose of audited accounts in this context is one of accountability and audits help to reinforce trust and promote stability (Audit quality, 2005).

### **2.2.2 The Assurance Theory**

An assurance service is a service in which a public accountant expresses a conclusion about the reliability of a written assertion that is the responsibility of another party (Cosserat, 2009). Elder et al. (2010) define an assurance service as an independent professional service that improves the quality of information for decision makers. Individuals responsible for making business decisions seek assurance services to help improve the reliability and relevance of the information used as the basis for their decisions.

Following Elder et al. (2010), one category of assurance services provided by auditors is 'attestation services'. Performing attestation services, the auditor issues a report about the reliability of an assertion used by another party. Five categories of attestation services are distinguished: audit of historical financial statements, audit of internal control over financial reporting, review of historical financial statements, attestation services on information technology, and other attestation services that may apply to a broad range of subject matter numerous of other attestation services can be performed. In each case, management must provide an assertion before the auditor can provide the attestation. Eilifsen et al. (2010) provide examples of specific subject matter information, including

reporting on sustainability, internal control, greenhouse gas, and pro forma financial information included in prospectuses.

### **2.2.3 The Information Theory**

As described in the ‘agency theory’, financial reporting is central to monitoring purposes. An alternative or complement to the monitoring principle is the information principle, focusing on the provision of information to enable users to take economic decisions.

Investors require audited financial information on behalf of their investment decision-making and assessing of expected returns and risks. Investors value the audit as a means of improving the quality of financial information. An audit is also valued as a means of improving the financial data used in internal decision-making. Data that are more accurate will improve the internal decision-making (Sijpesteijn, 2011).

## **2.3 Determinants of Audit Quality**

### **2.3.1 Audit Quality Model**

DeAngelo (1981) developed a two-dimensional definition of audit quality in 1981 that set the standard for addressing the issue. First, a material misstatement must be detected, and second, the material misstatement must be reported.

Detecting material misstatements is influenced by how well the audit team performs the audit, which in turn is influenced by the quality control system and management resources of the audit firm. Many studies have used firm size as a surrogate for these audit firm and audit team factors, and their findings have been controversial (Wooten 2003).

Palmrose (1988) found that the Big Eight were less likely to have litigation brought against them than the non-Big Eight national firms. Deis and Giroux (1992) examined a sample of audit work papers and found that larger firms had less deficient work papers than smaller firms.

Other research findings deal more with a user's perception of audit quality rather than tangible indicators of audit quality. Palmrose (1986) and Francis *et al* (1987) found that a premium price was paid for Big Eight firms' audit services. Menon *et al* (1991) found that companies using the Big Eight get better pricing of stock issues. Jang *et al* (1993) found that information associated with a Big Eight firm is perceived to be more reliable for firms involved with an IPO. Morris *et al* (1999) found that banks receiving modified audit reports by Big Six firms were more likely to be closed by regulators than banks receiving modified audit reports by non-Big Six firms.

Some studies have not supported the existence of a quality difference. Other studies have found that there is no significant price difference between Big Eight and non-Big Eight services Sumunic (1980). Nichols *et al* (1983) found that switching from a small firm to the Big Eight did not provide any stock return benefit to the switching company. Wyer *et al* (1988) found no greater likelihood that smaller CPA firms would issue inappropriate opinions. The question of size versus quality will continue to be studied by accounting researchers.

Researchers have turned to panels of experts to identify characteristics at the firm level. Firms that are able to devote a sufficient amount of resources to hiring and training the

best people and then giving them a well-developed audit methodology are likely to excel in detecting errors in the financial statements (Wooten 2003).

The experts associated higher quality with firms able to field employees that are up to date technically and professionally. This dimension is associated with hiring and training. If firms can attract the best and brightest, they have the potential to become more proficient auditors. Likewise, firms that provide well-planned training enable their staffs to learn the skills and knowledge needed to perform their audit tasks well (Wooten 2003).

Panels of experts also associate high quality with a firm that has strong controls in place over its audit process. GAAS requires a firm to maintain a quality-control system and requires auditors to adequately plan their audits. There is much leeway, however, in determining how formal and prescriptive these systems need to be. Firms with a more rigorous quality-control system and a more systematic audit methodology process are less likely to have material misstatements go undetected by their audit procedures (Wooten 2003).

Firms that have multiple clients in the same industry bring a more in-depth understanding to the unique audit risks presented by a particular industry. Firms that have few clients in a particular industry may not have the critical mass to keep up with industry news and practices. Research indicates that specialization in a particular industry is a growing trend, and researchers have found that firms with specializations have financial savings and quality gains Hogan et al (1999). Craswell et al. (1995) reported that industry specialist firms command a fee premium, which may indicate a price differential for quality. The more clients a firm has in a particular industry, the more it can build a



reputation for servicing that industry. Thus, researchers have hypothesized that firms with a higher concentration of clients in a particular industry will have higher quality because they have more to lose (Deis *et al*, 1992).

### **2.3.2 Audit Team Characteristics**

The second group of characteristics identified by the expert panels relates specifically to the audit team members. When the accounting and auditing experts were surveyed, they indicated that audit team factors were more important than firm-wide factors in determining audit quality. The firm that hires well, implements a strong control process, and has industry experience will likely field a high-quality audit team (Wooten, 2003).

Expert panels also identify the integrity of the individuals assigned to the engagement as a factor in detecting material misstatements. Staff who exhibit a high level of professionalism are more likely to perform their audit tasks correctly and not sign off on uncompleted audit steps. Similarly, staff who maintain persistent skepticism are less likely to accept insufficient evidence (Wooten, 2003).

### **2.3.3 Factors Related to Reporting**

The ability to properly report a material misstatement depends upon independence. If the auditor falls prey to personal, emotional, or financial pressure, then the auditor's independence has been compromised and there is a greater chance that poor audit quality will result. The factors of audit pricing, tenure, and providing other services are theorized to affect not only independence, but also the audit team's ability to detect financial statement misstatements (Wooten, 2003).

In order to avoid losing future audit fees (and therefore ultimate profitability on a particular client), the auditors may face pressure to avoid reporting certain accounting deficiencies. It is easier for the client to change auditors than for the auditor to develop new business; therefore, there is some incentive for the auditor to do whatever it takes to keep the client.

### **2.3.4 Additional Services**

Providing other services to audit clients may influence pricing. It is highly likely that when a firm provides both auditing and consulting services, some type of fee savings is given to the client. The firm can lose its independence if it becomes economically bonded to the client through the receipt of large fees unrelated to the audit. Additionally, the auditor may be put in the position of auditing its own work if the additional services relate to installing or maintaining the accounting function (Wooten 2003).

Last, some auditors have argued that there is actually a positive relationship between audit quality and providing additional services. They argue that providing additional services allows them to gain a better understanding of the client and its business processes (Wooten, 2003).

## **2.4 Empirical studies**

Mansi et al (2003) examined the relationship between auditor characteristics (in particular quality and tenure) and the cost of debt financing. A sample of 1,305 companies collected in 1974-1998 period was used. The other data considered were the bond price information and the number of audit firms, divided into large and small firms (i.e. Big 6 and non-big 6 firms).

Two regression models were developed in order to test both if the information on audit is incorporated in credit ratings and if a relationship between audit choice and credit spread exists. The results suggest that firms with small auditors are downgraded by one minor rating category and then that the informational function of audit as well as auditor characteristics are considered by rating agencies when they evaluate the bond rating. Moreover, firms with auditors of long tenure receive a better rating on their bond. Furthermore, investors place a premium on the bonds of firms which have large auditors. So the insurance effect of audit also adds value to the capital market participant. The finding that investors require lower rates of return as the length of tenure increases provides direct evidence regarding the value investors attach to audit tenure.

Bocconi (2002) in an analysis considered the costs relating to mandatory rotation. A questionnaire was mailed to internal auditors, manager and Big 5 controllers of Italian listed companies. All the interviewed managers said that in the first year the time dedicated to the auditor increases and this affects the total costs of the audit. Big 5 controllers said as well that it is necessary to spend more hours, about 40%, in a new auditee than in the following years. So in the first year of the engagement both the auditee and auditor costs increase. Despite these results, the audit fee paid to the new auditor is less than the fee paid to the previous external auditor. This can be explained considering both that companies perceive auditing as a standard service and that they choose the auditor that asks the lowest audit fee and that fierce competition arises around audit fees when a mandatory rotation occurs. The conclusions underline that mandatory rotation increases the start up costs of auditor and auditee.

Riuz et al (2000) studied the effects that the duration of audit engagement has on so-called opinion shopping. This phenomenon takes place when a company obtains from his/her auditor an opinion much more favourable than the one based on the auditee's real situation. For the empirical study a sample of non-financial Spanish companies was used. Such companies are quoted on Madrid Stock Exchange and represent the types of subject that, under the auditing rules, are obliged to present their audited annual financial reports. He found out that the result supports the point of view that the auditors tend to be more dependent in the first years of the auditing engagement. On the basis of this evidence the authors concluded that mandatory rotation is not a suitable mechanism for improving auditor independence in the Spanish context.

Bates et al (1982) tested whether past experience with a client affected audit judgment. Three groups were formed. In the first the partner audits a new client of the audit firm, in the second a new partner audits a company that were audited by the same audit firm in the last five years, and the third the partner is in charge for more than 5 years. The results show that the highest degree of audit or client affiliation occurs in the no-rotation group and produces the largest materiality threshold. These results indicate a potential need for rotation to mitigate the psychological effect which develops from long term auditor client relationships. Further, partner rotation was found to be effective in eliminating the audit bias as was rotation of audit firms. This supports the accounting profession's position against mandatory rotation.

Arruñada and Paz (1997) analyzed the impact that mandatory rotation has on costs and audit prices. The first matter was addressed using analytical model in which various type of costs are considered. In particular, total costs were analyzed. They included the cost of

recurring audit, the startup costs incurred by the auditor and the costs faced by the client in the change of auditors. It was assumed that the change of auditor occurred every “r” years. The situations of voluntary and mandatory rotation were compared. The model shows that the total cost of audit increases as the rotation period decreases. So any rule that leads to an engagement period shorter than that which would be the case in a deregulated situation tends to increase costs. It further demonstrated that if a company reduces the audit tenure from 40 to 9 years, the present value of the total cost of audit increases between 7 and 20 percent. Furthermore, as the auditors transferred the startup costs to the price, an increase in the auditor’s billing was expected.

Kimeli (2013) researched on the determinants of audit fees for firms listed in the NSE. Deductive approach was used and data was collected on listed firms’ annual reports covering the period from 2008 to 2012. It was noted that the audit market for listed firms is dominated by the Big 4 firms. Multiple regression analysis and correlation analysis were used to analyze the data in order to test the research objective.

Kiptoo and Muthoni (2013), carried out a study to evaluate the internal audit functions’ role in financial reporting in Eldoret Municipal Council in 2012. The study used a questionnaire to survey 197 employees of the municipality. The study concluded that internal audit played an effective role in financial risk management in the municipal.

Mutua (2012) researched on impact of risk based audit on financial performance of commercial banks in Kenya. Although her study concentrated on risk based audit, she acknowledged that financial performance requires appropriate effective and efficient external audit. From the findings, the study concluded that risk based auditing through

external auditing standards and internal auditing staffing should be enhanced to enable firms to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance.

This showed that there is indeed a relationship between external audit and financial performance. Ndege (2012) researched on Performance and financial ratios of commercial banks in Kenya. The objective of his study was to identify factors, in a ratio form that shape bank performance as measured through return on assets (ROA) and return on equity (ROE). In his study he concluded that ROA and ROE can be used to measure financial performance banks in Kenya. External audit operations and recommendations do not only have short-term effect on the running of an organization but is the backbone of an organization and it dictates the prosperity or the down fall of the particular organization. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability. However it seems that laxity has crept in and it is in light of this view that we seek to analyze the factors affecting implementation of external audit reports in Kenyan banks.

Ndimitu (2011) aimed at establishing the relationship between external audit and effective management in Embu Water And Sanitation Company Ltd. Primary data was collected from staffs in the different levels as per the organization structure using a questionnaire and secondary data included cost of internal audit from the payment cash book and salaries journals. The data was analyzed using SPSS tool and the following conclusion was noted: with commitment to integrity and accountability, external auditing provides value to governing bodies and senior management as an objective source of

independent advice. A fact that ensures proper processes are followed in generating and safeguarding the organizations wealth.

## **2.5 Summary of Literature Review**

The literature review indicates that a number of factors can influence the audit quality and audit rotation is just one of them. Others are like consultancy services in excess of the audit assignment, audit fee charged and industry specialization of the audit firm. Currently, there is little consensus about how to define audit quality, and the various frameworks and disclosures that exist are incomplete. The range of definitions is quite broad because they focus on different attributes of the audit, such as outcomes, process, and judgments. As a result, stakeholders cannot observe audit quality in its entirety, just the attributes that manifest through the various phases of the audit itself. This research will aim to find out whether there exists a relationship between auditor rotation and audit quality of commercial banks in Kenya for the year end 32 December 2013.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter gives a description of the research methodology that will be employed in achieving the objective of this study. The chapter presents the research design, population, data collection, data analysis and the model specification.

#### **3.2 Research Design**

The researcher used correlation research design to establish the relationship between audit rotation and the quality of audit of the commercial banks in Kenya. Data was obtained from the commercial banks on their opinions on the different parameters of quality. There are different determinants of the audit quality. The parameter used to measure audit quality was the overall rating of audit by the bank managers and internal auditors. The study period of interest was year ended 2013 financial reports. The study period of interest will be year ended 2013 financial reports.

#### **3.3 Population**

The population of interest for this study comprised of the 43 commercial banks licensed to carry out banking business in Kenya under the banking act (cap 488) section (4) and (5) that are in operation as at 2009 according to Central Bank of Kenya (2009): Annual Bank Supervision Report.

#### **3.4 Data Collection**

The study used primary data collected from the commercial banks. This was mainly through questionnaires and interviews.



### 3.5 Data Analysis

The model that was used in this study is similar to that one of Tagesson et al, (2006) which tested using a t-test for the differences between the audit quality of those firms experiencing rotation and those not experiencing rotation. Additionally, Chi Square analysis and ANOVA analysis shall also be done on the data. The primary data collected was processed, analyzed, interpreted and presented in such a manner that it is clear, precise and unambiguous. This data was quantified and coded using descriptive statistics.

#### 3.5.1 Model Specification

The following model will be used:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

Y = Audit Quality as measured by overall rating of audit by the bank managers and internal auditors.

X<sub>1</sub> = Audit rotation as measured by the number of auditors in the last 10 years.

X<sub>2</sub> = Consultancy services provided other than audit services as measured by management opinion on whether there are other services provided by audit firm.

X<sub>3</sub> = Audit fees as measured by the audit client rating on the audit fees charged to them.

$\alpha$  = Regression constant

$\varepsilon$  = Term error

Expected outcome on determinants of audit quality:

	<b>Variable</b>	<b>Expected Outcome</b>
X <sub>1</sub>	Audit rotation	Positive (+ve) outcome if there is rotation and negative (-ve) if there is no rotation.
X <sub>2</sub>	Consultancy services in excess of the audit assignment	Positive (+ve) outcome if there are other consultancy services provided and negative (-ve) if there are no other services.
X <sub>3</sub>	Audit fees	Positive (+ve) outcome if the fee is high and negative (-ve ) if audit fees are high.

### **3.5.2. Test of Significance**

The significance of the data was analyzed using critical p-values and t-tests. The resulting p-values and t-tests was compared using the critical p-value from the table at 5 percent significance value. Values within the 5 percent significance value were considered statistically significant while calculated values above were rejected.

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

The objective of the study was to determine the relationship between auditor rotation and audit quality of commercial banks in Kenya. This chapter contains the summary statistics from the bank response in 4.2, while the empirical model will be discussed in chapter 4.3. The study discussions were contained in chapter 4.4 and chapter 4.5 summarized the data analysis findings, results and discussions.

#### 4.2 Response Rate

The study did a census study on 43 banks in order to analyze the relationship between auditor rotation and audit quality of commercial banks in Kenya. From the questionnaires sent to respondents, 19 banks responded and sent back the responses. This yielded a response rate of 43.2%. This response number was deemed sufficient to analyze the research objective and come up with a representative conclusion.

#### 4.3 Data Validity

**Table 1: Reliability Statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.525	.510	3

According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content the test is designed to measure. The study used the Cronbach-Alpha to test the internal consistency and is used to measure the validity of scale or composite score. The table above indicated a Cronbach Alpha value of 0.525

indicating that 52.5% of the variance are ‘true scores’ or reliable. A value of more than 0.5 is sufficient to state that the independent variables are reliable and consistent.

#### 4.4 Descriptive Statistics

Descriptive statistics were carried out in order to describe the data provided so that inference could be made to the population. This included the mean and standard deviation and presented as follows:

**Table 2: Descriptive Statistics**

	Audit Quality	Audit Rotation	Consultancy Services	Audit Fees
Mean	3.84	3.11	.58	3.84
Median	4.00	3.00	1.00	4.00
Std. Deviation	.765	.737	.507	.602
Minimum (units)	3	2	0	3
Maximum (units)	5	4	1	5

The above table showed the descriptive statistics for both the dependent and independent variables. These statistics included the mean, median, standard deviation, minimum, and maximum values. Audit quality was the independent variable for the study which had a 5-level Likert scale with 1 being poor and 5 being very good. The results indicated that audit quality had a mean of 3.84, median of 4.00, standard deviation of 0.765, a minimum value of 3, and a maximum value of 5. This implies that with an average value of 3.84, the bank respondents stated that the audit quality was good. With regards to audit rotation, the variable had a 4-level Likert scale of with a code of 1 being over 10 years and 4 being 1-3 years since previous studies indicate the shorter the period the better the audit quality hence the coding. The results indicated a mean of 3.11, a median of 3.00, a standard deviation of 0.737, a minimum value of 2 and a maximum value of 4. This finding indicates that the average audit period for the banks is 4-6 years.

The other independent variable for analysis was the provision of consultancy services which was nominal in nature. From the study results, the mean was 0.57, median of 1.00, and standard deviation of 0.507. The final independent variable for analysis, audit fees, had a 5-level Likert scale with a code of 1 being very low and 5 being very high. The results indicated a mean of 3.84, a median of 4.00, a standard deviation of 0.602, a minimum value of 3 and a maximum value of 5. This finding indicated that the average audit fees for banks in Kenya are high.

#### 4.5 Correlation Analysis

Correlation tests show the extent to which one variable relates to another variable and ranges from between -1 which indicates a perfect negative correlation and +1 which indicates a perfect positive correlation. A correlation value of 0 or near zero means there is no relationship between the two variables. Correlation test was done and presented as follows:

**Table 3: Correlation Matrix**

	Audit Quality	AuditRot1	ConsultServ1	AuditFee1
Audit Quality	1			
AuditRot1	-.128	1		
ConsultServ1	.678**	-.274	1	
AuditFee1	.384	-.165	-.048	1

The table shows the relationship between the dependent variable, Audit Quality, and the independent variables, Audit Rotation, Consultation Services, and Audit Fees. From the table results, it can be seen that there is low negative correlation between audit quality and audit rotation (-0.128), high positive correlation with consultation services (0.678), and low positive correlation with audit fees (0.384).

## 4.6 Regression Analysis and Hypothesis Testing

The study performed a regression analysis using multiple regression analysis since the variables used in the analysis were in ordinal scale. The results were as follows:

**Table 4: Multiple Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712 <sup>a</sup>	.507	.409	.588

a. Predictors: (Constant), AuditFee1, ConsultServ1, AuditRot1

Table 3 above shows the  $R$ ,  $R^2$ , and the standard error of the estimates.  $R$  represents the multiple correlation coefficients, while  $R^2$  represents the proportion of variance in the dependent variables that can be explained by the independent variables. As shown in Table 2,  $R$  indicated a value of 0.712, while adjusted  $R^2$  indicated a value of 0.409, and a standard estimate 0.588. The adjusted  $R^2$  is used for multiple regression analysis and it indicated that there was a variance of 40.7% on audit quality as a result of audit rotation, consultancy services, and audit fees. The table also indicates a correlation coefficient of 0.712 indicating that there is a strong relationship between the dependent and independent variables.

### 4.6.1 Analysis of Variance

**Table 5: Analysis of Variance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.340	3	5.113	9.364	.008 <sup>a</sup>
	Residual	8.187	15	.546		
	Total	23.526	18			

a. Predictors: (Constant), AuditFee1, ConsultServ1, AuditRot1

b. Dependent Variable: Audit Quality

The ANOVA table tests whether the overall regression model is a good fit for the data, and whether the independent variables statistically significantly predict the dependent variable. It tests the statistical significance of the test. The F test has two numbers for its

degrees of freedom and from the table,  $F(3,15) = 9.364$  and p value  $(0.08) > 0.05$ , it indicated that it is not significant in terms of goodness of fit.

## 4.6.2 Regression Analysis

**Table 6: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.172	1.002		2.168	.047
AuditRot1	.005	.199	.004	.023	.982
ConsultServ1	1.037	.285	.688	3.631	.002
AuditFee1	.275	.234	.216	1.172	.260

a. Dependent Variable: Audit Quality

The regression coefficients table indicates the slope of both the unstandardized and standardized coefficients of the variables. Table 6 above indicated standardized coefficients for the variables: audit rotation had a beta coefficient of 0.004, consultancy services had a beta coefficient of 0.688, while audit fees had a beta coefficient of 0.216.

From these coefficient variables indicated, the equation can be stated as:

$$\text{Audit Quality} = 2.172 + (0.004 * \text{Audit Rotn}) + (0.688 * \text{Cons.Serv}) + (0.216 * \text{Aud Fee})$$

This equation indicates that an increase in audit quality by one unit requires 0.004 units of audit rotation, 0.688 units of consultancy services, and 0.216 units of audit fees variable. However, audit quality has a constant of 2.172 indicating that even without the independent variables, audit quality will be satisfactory as the value (2.172) falls in that category.

## **4.7 Discussion of Research Findings**

The objective of the study was to analyze the relationship between audit rotation and audit quality and the study used descriptive statistics, correlation tests and multiple regression analysis. The multiple regression analysis was the main model for analyzing the data as it showed the impact of relationship and it included the model summary, ANOVA table and the regression coefficients.

The study did a validity test using Cronbach Alpha to test the degree by which the sample of test items represents the content the test is designed to measure. The value of 0.525 indicated that the independent variables (audit rotation, consultancy services, and audit fees) were sufficiently valid to measure audit quality. This value enabled the study to proceed to perform other tests. The descriptive study indicated the means to show the extent to which the respondents agreed with the statements of the questionnaire. Audit quality had a mean of 3.84, audit rotation had a mean of 3.11, while audit fees had a mean of 3.84. Consultancy service was not rated since it was a nominal value while the others were ordinal. These values indicated strong response towards the variables under analysis and that generally the audit quality was good as the mean was 3.84.

The correlation test between audit quality as the dependent variable and the independent variables showed a strong positive relationship (0.712) with all the independent variables, low negative correlation with audit rotation (-0.128), strong positive relationship with consultancy services (0.678), and a low positive correlation with audit fees (0.384). This shows that consultancy has the highest relationship with audit quality, followed by audit fees. From the findings, audit rotation has very little relationship with audit quality. This



test only shows the relationship of the variables and so correlation tests were carried out to indicate the extent of causation of the variables.

Regression analysis test was conducted to determine the extent of relationship between the dependent and independent variables. The adjusted  $R^2$  was 0.409 or 40.9% which indicated the variance of the dependent variable for increase in the independent variables. This value is quite low indicating that there might be other variables that cause the other 60% of the variance in audit quality. The ANOVA of the study indicated an F value of 9.364 and a p value of 0.08. This indicated that the independent variables are not significant in terms of goodness of fit since the p value of 0.08 is greater than the significant 0.05. The coefficients table provided the various beta coefficients indicating the extent to which the independent variables affected audit quality.

The first independent variable was audit rotation with a coefficient of 0.004 and a t value of 0.023. This together with the significance value of 0.982 indicated that audit rotation had little relationship and significance to audit quality. This study is consistent with a study done by Riuz et al (2000) who concluded that mandatory rotation is not a suitable mechanism for improving auditor independence. Auditor independence is known to improve audit quality and therefore this study can be concluded that audit rotation does not improve audit quality. The second variable, provision of consultancy services, had a standardized coefficient of 0.688, a t value of 3.631 and a significant value of 0.002 indicating that it was a significant factor to audit quality. This was consistent with Wooten, (2003) who argued that providing additional services allowed auditors to gain a better understanding of the client and its business processes.

The last variable under analysis was audit fees which had a standardized beta of 0.216, a t value of 1.172 and a significance value of 0.26 indicating that it was not a significant factor to audit quality. This was because the p value, 0.26, was greater than the significance value of 0.05. The study was not consistent with Arruñada and Paz (1997) and other studies which indicated that audit quality increased with audit fees.

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This final chapter contains the summary and conclusion of the study with regards to the relationship between auditor rotation and audit quality of commercial banks in Kenya. Chapter 5.2 looked at the summary of the study, while chapter 5.3 presented the conclusion of the study based on the results of the analysis. The limitations of the study were presented in chapter 5.4 and finally chapter 5.5 highlighted the study recommendations for further research.

#### **5.2 Summary of the Findings**

Auditors have an important role to perform in companies since they are the watchdog of the owners. The company management provides information to the shareholders and general public in a summarized way and auditors have to ensure that a true and fair view of the information is provided. This requires quality audit and studies have been done to establish what determines a quality audit. A research gap was identified from the limited studies that had been done and the research objective was to determine the relationship between audit rotation and audit quality in Kenyan banks.

The literature review outlined the theories that were relevant to the study, and also analyzed the empirical studies previously done in the topic area noting the methodology and outcomes, noting the outcomes which were used as comparisons with our study outcomes. The literature review also assisted the study in identifying variables that were used in the research analysis and forming the analytical model. The variables that were

identified as factors determining the quality of audit were audit rotation, provision of professional services, and audit fees.

The study used primary data and a questionnaire was used to gather information that was deemed relevant for the study. The questionnaire was sent to bank audit managers and from the population of 43 banks, 19 banks responded to the questionnaires. The data was verified, coded and analyzed using SPSS software. Both descriptive statistics and inferential statistics were calculated and output interpreted. The means and standard deviations were calculated for the descriptive data and multiple regression analysis was used to analyze responses from the research questions. The study results indicated that provision of consultancy services had a big impact on audit quality with a positive beta of 0.688, followed by audit fees which had an odds ratio of 0.35 and finally provision of audit services had the least effect of the three variables with an odds ratio of 0.02.

One of the limitations that the study encountered was a low response rate due to confidentiality of audit services provided to banks. Also, the overall rating of audit quality was not fully objective since they were rated by managers who give their opinion. The study recommended of an audit quality rating body which would make audit firms improve on the audit work provided to clients. Also the study recommended that audit firms should provide consultancy services to their clients in order to improve audit quality and also the performance of the company.

### **5.3 Conclusion**

Auditors are an important watchdog to the shareholders who are the owners of the company. The study through the research gap identified the research objective which was to identify the relationship between audit rotation and audit quality. From the data

analysis done and the results output, it was found that audit rotation had a small impact on the audit quality with short audit tenure being better for banks as the audit quality improves. The study findings also indicated that provision of professional services had a significant positive impact on audit quality. Audit fees indicated a small positive effect on the audit quality with a higher audit fee indicating better audit quality while audit rotation had a small effect on audit quality. This shows that mostly the big firms who have audit experience charged high fees and it was indicated in the audit work as the respondents stated that they were satisfied with audit work despite the fees. Finally, provision of management services had the least effect on audit quality with a low odds ratio indicating that it had little effect on audit quality. These outcomes were then inferred to the banking population to state that provision of consultancy services and audit fees affect the quality of audit work done.

#### **5.4 Recommendations of the Study**

The study recommends for an audit quality rating agency which can sample a number of companies and rate the audit work done on those companies based on certain factors. This would help improve the audit quality done by auditors to their clients. A centralized audit rating agency would provide objective information as opposed to asking a staff member on what they think was the quality. This would help improve audit quality provided by the firms and help improve accountability of managers who are agents of shareholders.

From the study findings, the study also recommends that audit firms should provide other consultancy services so as to improve the audit quality. Consultancy service not only improve audit quality, but also known to improve profitability of firms. Since auditors are

informed on what areas are important for performance and audit, they would help in improving a company. However, care has to be taken not to compromise auditor independence when providing these services.

Also, the study recommends that a striking balance should be done when pricing audit services. Majority of the respondents indicated that the audit fees charged were high and this is because nearly all of the banks are audited by the big five audit firms who are known to be expensive. Audit rotation may not have had a big impact on the audit quality based on the findings of this study but attention should also be placed on it as other studies have stated otherwise.

### **5.5 Limitations of the study**

One of the limitations that the study encountered was a low response rate by the respondents. The number of respondents however was sufficient to come up with a conclusive outcome that will answer the research objective. With a higher response rate, the margin of error is always reduced as the sample characteristics are always near the population characteristics.

Another limitation of the study was lack of a standard rating of audit quality. This made the rating of the overall audit quality be done by the audit managers which may not be fully objective. A standardized audit rating would assist by having a benchmark with which proper analysis would be done. This limitation was overcome by creating a five level Likert scale so that they can rate the audit quality objectively.

The third limitation of the study was the precision of analysis when dealing with ordinal data. Measurements of some of the variables are in ordinal scale so as to capture some of the relevant information but they are not as accurate as scale measurement.

## **5.6 Suggestion for Further Research**

The study suggests that more analysis should be done with regards to audit quality using other techniques than the ones currently used. This study used regression analysis and the outcome was tested using ANOVA tests. Other analytical models and techniques such as Chi-square tests may be used to determine the relationship between audit quality and audit rotation.

Other variables may also be identified in future studies and their impact on audit quality analyzed. These variables may include nominal analysis of whether a big four or non-big four affects audit quality or other variables deemed relevant. The study indicated an  $R^2$  value of 40.9% which indicates that there are other variables that affect audit quality.

The study should also look at other sectors such as manufacturing or companies listed at the Nairobi Securities Exchange and see the impact of audit rotation on the audit quality. An analysis of the other sectors and companies may give a holistic approach since different sectors are unique in their own right.

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## APPENDICES

### APPENDIX I: LETTER OF INTRODUCTION



UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA PROGRAMME

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE... 8/10/2014

**TO WHOM IT MAY CONCERN**

The bearer of this letter Jonathan Otieno Agunda

Registration No. B61/64515/2013

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

  
✓ **PATRICK NYABUTO**  
MBA ADMINISTRATOR  
SCHOOL OF BUSINESS



## APPENDIXII: QUESTIONNAIRE

Name of Company \_\_\_\_\_

Date of interview \_\_\_\_\_

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### SECTION A

#### AUDIT QUALITY

1. How would you rate the last audit done by your external auditors?

Poor ☐

Average ☐

Satisfactory ☐

Good ☐

Very Good ☐

### SECTION B

#### AUDIT ROTATION

1. For how long have you been having your current auditor?

1-3 years ☐

4-6 years ☐

7-10 years ☐

Over 10 years ☐

2. In the last 10 years, how many external auditors has your company engaged?

#### CONSULTANCY SERVICES

1. Are there other services provided by the external auditors other than the audit services?

Yes ☐

No ☐

2. If yes in above question, how many services other than auditing is/are done by the external auditor?

### **AUDIT FEES**

1. How would you rate the audit fees charged by your external auditors?

Very high ☐

High ☐

Medium ☐

Low ☐

Very low ☐

2. Do you think the fees charged by the auditors are commensurate to the services offered?

Yes ☐

No ☐

**APPENDIX III: LICENSED COMMERCIAL BANKS IN KENYA AS  
AT 30<sup>TH</sup> JUNE 2014**

- |   |   |
|---|---|
| 1. ABC Bank (Kenya)                     | 23. Guaranty Trust Bank Kenya           |
| 2. Bank of Africa                       | 24. Guardian Bank                       |
| 3. Bank of Baroda                       | 25. Gulf African Bank                   |
| 4. Bank of India                        | 26. Habib Bank                          |
| 5. Barclays Bank Kenya                  | 27. Habib Bank AG Zurich                |
| 6. CfC Stanbic Holdings                 | 28. Housing Finance Company of<br>Kenya |
| 7. Chase Bank Kenya                     | 29. I&M Bank                            |
| 8. Citibank                             | 30. Imperial Bank Kenya                 |
| 9. Commercial Bank of Africa            | 31. Jamii Bora Bank                     |
| 10. Consolidated Bank of Kenya          | 32. Kenya Commercial Bank               |
| 11. Cooperative Bank of Kenya           | 33. K-Rep Bank                          |
| 12. Credit Bank                         | 34. Middle East Bank Kenya              |
| 13. Development Bank of Kenya           | 35. National Bank of Kenya              |
| 14. Diamond Trust Bank                  | 36. NIC Bank                            |
| 15. Dubai Bank Kenya                    | 37. Oriental Commercial Bank            |
| 16. Ecobank Kenya                       | 38. Paramount Universal Bank            |
| 17. Equatorial Commercial Bank          | 39. Prime Bank (Kenya)                  |
| 18. Equity Bank                         | 40. Standard Chartered Kenya            |
| 19. Family Bank                         | 41. Trans National Bank Kenya           |
| 20. Fidelity Commercial Bank<br>Limited | 42. United Bank for Africa              |
| 21. First Community Bank                | 43. Victoria Commercial Bank            |
| 22. Giro Commercial Bank                |   |

Source: Central Bank of Kenya website