THE EFFECTS OF ‘NON-CLEAN’ AUDIT OPINION ON
FINANCIAL RETURNS OF FIRMS LISTED AT THE NAIROBI
SECURITIES EXCHANGE

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DECLARATION

This research project is my own original work and has not been presented for award of any degree in any other university.

Signed...................................... Date............................................

Winnie Muchomba
D61/79317/2012

This research Project has been submitted for examination with my approval as the University supervisor.

Signed...................................... Date............................................

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ACKNOWLEDGEMENTS

I would first and foremost like to thank the Almighty God for having given me the strength and ability to complete this research process.

I also wish to accord my Supervisor and Moderator, A. Essajee and H.Ondigo respectively, special acknowledgement for the great insight, patience with me and great encouragement and guidance throughout the research process.
DEDICATION

To my husband, Peter and our daughter Abigail.
ABSTRACT

The ‘non-clean’ audit opinion refers to all categories of audit opinion that the auditor concludes that financial statement does not give true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements. The ‘non-clean’ audit opinion includes: qualified opinion, adverse opinion and disclaimer of opinion. The study sought to establish the effects of ‘non-clean’ audit opinion and financial returns, evidence from firms quoted in the NSE. The study adopted a descriptive cross-sectional research design. The population of this study was all the 61 companies listed at NSE. The sample size was 10 companies listed at NSE which had ‘non-clean’ audit opinion in the last 2009-2013 years. Secondary data was collected for this study. The study revealed that that there exists a negative relationship between ‘non-clean’ audit opinion and financial returns, this is an indication that ‘non-clean’ audit opinion can be used to enhance corporate control and safeguard shareholders’ interests.
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<tr>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
</tr>
<tr>
<td>CAR</td>
<td>Cumulative Abnormal Return</td>
</tr>
<tr>
<td>CPA</td>
<td>Certified Public Accountant</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<tr>
<td>EPS</td>
<td>Earning Per Share</td>
</tr>
<tr>
<td>IAASB</td>
<td>International Auditing and Assurance Standards Board</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial Public Offer</td>
</tr>
<tr>
<td>N</td>
<td>Number</td>
</tr>
<tr>
<td>NSE</td>
<td>Nairobi Securities Exchange</td>
</tr>
<tr>
<td>P/E</td>
<td>Price Earnings ratio</td>
</tr>
<tr>
<td>R</td>
<td>Rate of change</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
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<tr>
<td>ROE</td>
<td>Return on Equity</td>
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<tr>
<td>ROI</td>
<td>Return on Investments</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
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<td>NCAO</td>
<td>‘Non-Clean’ Audit Opinion</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study.

The audit opinion is a major vehicle of communication between the auditor and those who use his work. In the audit report, the auditor indicates the scope of his examination and the conclusions he has drawn about the appropriateness of the financial statement presentations. The emphasis in this communication process is upon reporting circumstances which result in departures from the auditor's standard unqualified report (a 'non-clean' audit opinion). Although the message intended by different audit reports has been the subject of little systematic study, the consensus in the literature is that the basis for reporting deficiencies is presumably to inhibit behavior in one or more respects. These exceptions brought about by different audit reports enable users to be cautioned against anticipated use of the audited information. (IAASB handbook, 2012)

The user’s of the audit report and regulatory agency’s interest in the type of report which is issued is exhibited by (1) the large number of references to client/auditor disagreements concerning issues warranting qualification of the audit report found in USA Securities and Exchange Commission (SEC) reports, (2) attempts to modify the circumstances requiring qualification (3) references in SEC consent decrees to the appropriateness of the type of report issued by the auditor and (4) the requirement of an audit report containing "no qualifications acceptable to the bank" as an affirmative covenant in loan agreements issued by some banks. In each of these areas, the point of interest is the impact the type of audit report has or should have on some users' decisions. (AICPA, 2011)
The impact of the audit report on user decisions can be split into three components, the accuracy of the user's perception of the auditor's intended message, the impact of the perceived message on the user's decision, and the resulting impact on the decision outcome. Members of the accounting profession have expressed concern about the validity of the first component. It was suggested that the message the auditor intends to communicate through the audit report may be misperceived by users (American Accounting Association (2010), Carmichael (1972), Peat, Marwick, Mitchell & Co. (1976), AICPA (2012)). Apparently, they believe that such misperceptions could lead the user to make decisions different from those that would be made had the intended message been perceived properly. Similar concerns over the effects of possible misperceptions underlie recent attempts by accountants to educate users regarding the meaning of opinions expressed by the CPA.

While one cannot be certain that a misperception will lead to decreased decision performance of users, an examination of the existence of such misperceptions would help establish whether it might be useful to test their effects on decisions. If no such misperceptions exist, then this potential problem is eliminated, as is the usefulness of the more arduous task of measuring their effect on decision quality. Since the actual message attached to the different types of opinions by the auditor or user is not well specified, the first step in the investigation of this potential problem is to determine and compare auditors' and users' perceptions of the message intended by the audit report. The primary objective of this study is to determine the relationship between the ‘non-clean’ audit
opinion (qualified opinion, adverse opinion, and disclaimer of opinion.) and the firm’s financial returns (in relation to share prices) for the firms quoted at the NSE.

1.1.1 ‘Non-clean’ Audit Opinion

The Companies Act, Chapter 486 of the Laws of Kenya, requires auditors to express in their reports whether they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit. They should also state whether, in their opinion, proper books of account have been kept by the company, and whether the company’s balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns. Finally they are required to express their opinion whether to the best of their information and according to the explanations given them, the said accounts give the information required and in the manner so required and give a true and fair view of the state of the company’s affairs as at the end of its financial year.

International Accounting and Auditing Standard Board (IAASB) defines the audit opinion as a formal opinion, or disclaimer thereof, issued by either an internal auditor or an independent external auditor as a result of an internal or external audit or evaluation performed on a legal entity or subdivision thereof (called an "auditee"). The report is subsequently provided to a "user" (such as an individual, a group of persons, a company, a government, or even the general public, among others) as an assurance service in order for the user to make decisions based on the results of the audit.
An audit opinion in a report is considered an essential tool when reporting financial information to users, particularly in business. Since many third-party users prefer, or even require financial information to be certified by an independent external auditor, many auditees rely on auditor reports to certify their information in order to attract investors, obtain loans, and improve public appearance. Some have even stated that financial information without an auditor opinion is "essentially worthless" for investing purposes. (Popli and Puri 2013) It is important to note that audit reports on financial statements are neither evaluations nor any other similar determination used to evaluate entities in order to make a decision. The report is only an opinion on whether the information presented is correct and free from material misstatements, whereas all other factors are left for the user to decide.

In the recent past, the world has experienced a rise in corporate failures, financial scandals and audit failure. This has stimulated firm debate among the accounting profession’s regulators and the public about audit opinion and financial returns. (Mriwa, 2013). The key role of the auditor is to provide objective assurance as to whether the books of accounts and the resulting financial statements represent a true and fair view of the state of affairs of the organization. In other words the auditors are supposed to confirm to the shareholders and other users of accounting information that the financial statements presented by the management are free from any material misstatements.

According to Mriwa (2013), auditing can unearth fraud but to a limited extent depending on the degree of the mandate of the audit assignment, the materiality of the fraud
committed and the level of adequacy of the internal control system. Audit opinion can be categorized in two broad types of audit reports, each one presenting a different situation encountered during the audit work (AICPA, 2011). The categories include: ‘clean’ opinion and ‘non-clean’ opinion as discussed below.

The ‘clean’ (unqualified) opinion is issued when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements. An auditor gives a ‘clean’ opinion or unqualified opinion when he or she does not have any significant reservation in respect of matters contained in the financial statements. The most frequent type of report is the unqualified opinion, and is regarded by many as the equivalent of a ‘clean bill of health’ to a patient, which has led many to call it the ‘clean’ opinion, but in reality it is not a ‘clean bill of health’, because the auditor can only provide reasonable assurance regarding the financial statements, not the health of the company itself, or the integrity of company records not part of the foundation of the financial statements. (Czerney, Schmidt and Thompson, 2013)

The ‘non-clean’ audit opinion refers to all categories of audit opinion that auditor concludes that financial statement does not give true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements. The ‘non-clean’ audit opinion includes: qualified opinion, adverse opinion and disclaimer of opinion as discussed below.
A qualified opinion, which is the opposite of a unqualified opinion, is given by the auditor in either of the following two cases: when the financial statements are materially misstated due to misstatement in one particular account balance, class of transaction or disclosure that has a significant effect on the financial statements; and or when the auditor is unable to obtain audit evidence regarding particular account balance, class of transaction or disclosure that has a significant effect on the financial statements. A qualified report is one in which the auditor concludes that most matters have been dealt with adequately, except for a few issues. An audit report is qualified when there is either a limitation of scope in the audit work, or when there is a disagreement with management regarding application, acceptability or adequacy of accounting policies. For auditors, an issue must be material or financially worth consideration to qualify a report. The issue should not be pervasive, that is, the issue should not misrepresent the factual financial position. If issues are material and pervasive, the auditor issues a disclaimer or adverse opinion. A qualified audit report does not mean that your business is suffering, and it does not mean that your financial statement is not transparent. It merely reflects the auditor’s inability to give a ‘clean’ report. (Chan and Walter, 1996)

IAASB handbook (2012) states that an adverse opinion report is issued on the financial statements of a company when the financial statements are materially misstated and such misstatements have pervasive effect on the financial statements. An adverse opinion is issued when the auditor determines that the financial statements of a company are materially misstated and, when considered as a whole, do not conform to the International Financial Reporting Standards (IFRS). It is considered the opposite of an
unqualified or ‘clean’ opinion, essentially stating that the information contained is materially incorrect, unreliable, and inaccurate in order to assess the company’s financial position and results of operations. Investors, lending institutions, and governments very rarely accept company’s financial statements if the auditor issued an adverse opinion, and usually request the company to correct the financial statements and obtain another audit report. Generally, an adverse opinion is only given if the financial statements pervasively differ from IFRS. An example of such a situation would be failure of a company to consolidate a material subsidiary.

A disclaimer of opinion is issued in either of the following cases: when the auditor is not independent or when there is conflict of interest; when the limitation on scope is imposed by client as a result the auditor is unable to obtain sufficient appropriate audit evidence; when the circumstances indicate substantial problem of going concern in client and when there are significant uncertainties in the business of client. Auditors issue the disclaimer opinion to indicate they cannot form an opinion regarding the company financial statements. Auditors also use the disclaimer when they refuse to issue an opinion on the company financial statements. Significant audit scope limitations (the inability to review the company’s entire financial information) or companies who may file bankruptcy in the near future may also receive audit disclaimer opinions (Sativa, Caldwel and Richards, 2006)

1.1.2 Financial returns

Although one might have expected a certain diversity of measures of relationship between audit report and financial returns, there is no real consensus on the proper
measure of financial returns either. In fact, there is a wide range of such measures. However, most measures of financial returns fall into two broad categories: investor returns and accounting returns. Both have enjoyed periods of popularity, and both have evolved considerably over the course of the past decade.

The basic idea underlying investor returns is that returns should be measured from the perspective of the shareholders. Investor returns has been employed as a measure of financial returns and changes in price per share used as the investor returns index. The change in price per share is only one element of investor returns. Dividend income is the other, and it should be included in measuring of investor returns. (Black and Litterman, 1992)

Accounting returns are the other primary method of measuring financial returns. The basic idea behind using accounting returns as a measure of financial returns is to focus on how firm earnings respond to different managerial policies. The most common measures of accounting returns to determine financial returns are simply earnings per share (EPS) or price-earning (P/E) ratios. There are several problems, however, associated with using EPS or P/E ratios as such a measure. Both are strongly influenced by the rate of growth and accounting practices of firms. This does not mean that one cannot use accounting returns; quite the opposite, accounting returns may be the best proxy for financial returns. (Mutisya, 2006)
Financial returns may be also measured from the perspective of monetary values, normally using financial-accounting information, and/or from the perspective of non-monetary information. Several measurement tools have been developed to measure and evaluate financial returns.

1.1.3 Relationship between ‘non-clean’ audit opinion and financial returns

The relationship between ‘non-clean’ audit opinion and financial returns has not been fully concluded. Instrumental stakeholder theory (for example, Clarkson 2007; Mitchell et al. 2007) however suggests a positive relationship between auditor opinion and financial returns. According to this theory, the satisfaction of various stakeholder groups is instrumental for organizational financial returns (Donaldson and Preston 2005; Jones 2005). Stakeholder-agency theory argues that the implicit and explicit negotiation and contracting processes entailed by reciprocal, bilateral stakeholder–management relationships serve as monitoring and enforcement mechanisms that prevent managers from diverting attention from broad organizational financial goals (Hill and Jones 2007; Jones 2005). Furthermore, by addressing and balancing the claims of multiple stakeholders (Freeman and Evan 2010), managers can increase the efficiency of their organization’s adaptation to external demands. Additionally, according to a firm-as-contract analysis (Freeman and Evan 2010), high financial returns results not only form the separate satisfaction of bilateral relationships (Hill and Jones 2007), but also from the simultaneous coordination and prioritization of multilateral stakeholder interests. These strategic and tactical steps may be necessary to reduce the likelihood of the organization’s becoming stuck in a high-density network. This can be summarized in figure 1.
1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) formally referred to as the Nairobi Stock Exchange was constituted in 1954 as a voluntary association of securities brokers registered under the Societies Act. Trading in shares at the NSE was not strictly guided by rules but it was largely a gentleman’s agreement between trading parties. Currently, the NSE has 61 listed companies whose shares trade on the securities exchange.

The study will focus on the companies listed on the NSE. The NSE has been structured into eleven segments namely; Agricultural sector, Automobiles and Accessories, Banking, Commercial and Services, Construction and Allied, Energy and Petroleum, Insurance, Investment, Manufacturing and Allied, Telecommunication and Technology and Growth Enterprise Market Segment. The NSE has also grown to incorporate trade in financial securities such as bonds issued by the government as well as the private sectors.
and currently modalities of introducing microfinance securities are in progress (NSE hand book 2009 - 2013).

1.2 Research Problem

Different empirical studies on effects of audit opinion on financial returns such as Moskowitz (2006) and Vance (2004) have led to conflicting conclusion. Moskowitz's study indicated that firms with constant ‘clean’ or unqualified opinion reports ratings outperformed the market. Vance, two years later, concluded just the opposite.

Alexander and Buchholz (2008) in their study on audit opinion and stock performance on American companies documented a positive relationship between ‘clean’ audit opinion and financial returns, they observed that companies that constantly had ‘clean’ audit opinion outperformed companies that had ‘non-clean’ audit opinion at some points. The limitation of these studies is that they failed to document to what extent audit opinion affect financial returns.

Anderson and Frankle (2010) two years later, did a study on relationship of financial returns and audit opinion by focusing on American firms, aimed at overcoming market imperfections hence used risk adjusted cash flows instead of accounting returns. However, there was a problem with the use of even a ‘clean’ measure of investor returns for this type of studies. This problem is summarized by one of the tenets of modern finance theory; the efficient markets hypothesis. Simply stated, this tenet posits that as information that might affect future cash flows of a firm becomes available, it immediately will be reflected in its current share price.
Locally, Kaumbuthu (2011) in his study to determine the relationship between audit opinion and return on equity for industrial and allied sectors in the Nairobi Securities Exchange during the period 2004 to 2008, found a negative relationship between audit opinion and financial returns. The study focused on only one sector of the companies listed in Nairobi Securities Exchange. The results of the study, therefore, may not be generalized to the other sectors.

In the same year another study by, Saeedi and Mahmoodi (2011) examined the relationship between audit opinion and performance of listed firms in the Uganda Stock Exchange. According to the study market measures of performance are positively related to audit opinion. The findings by Saeedi and Mahmoodi (2011) indicate that audit opinion may affect different measures of performance in different ways.

Despite the importance of relationship between the audit opinion and financial returns few researches, to the researcher’s knowledge, have been done in this field in Kenya. From available literature and empirical studies there exist knowledge gap on relationship between the audit opinion and financial returns. This study will focus on the effect of the ‘non-clean’ audit opinion and financial returns since none of the study has addressed this area. To bridge the gap, this study will focus on the ‘non-clean’ audit opinion and financial returns of firms quoted at the NSE. The study will seek to answer the following research question: What is the relationship between the ‘non-clean’ audit opinion and financial returns of firms quoted at the NSE?
1.3. Objectives the study

To establish the effect on ‘non-clean’ audit opinion and financial returns of firms quoted at the NSE.

1.4 Value of the Study

The study will enable investors to crystal gaze and understand the effects of ‘non-clean’ audit opinion on financial returns of companies. With this information, investors will make decisions that maximize the interest.

The study will also be of much assistance to management in assisting them understand the relationship between ‘non-clean’ audit opinion and financial returns of their companies. This information will assist the management of these companies come up with policies and guidelines that maximizes the best interests of the shareholders.

The study is also expected to create more interest in the study of this subject and expose areas that need more research and exploration. Future research students may fill up the gap in the areas not covered and thereby contribute to the frontier of knowledge in this area of auditing and firms financial returns.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section reviews past studies on the subject and critically reviews relevant literature in this area. Attempt is made to critique the fundamental theories and literature reviews of audit opinion and financial returns. The chapter comprises of four main sections: theoretical review; determinants of financial returns; empirical review and summary of literature review.

2.2 Theoretical Review

Different scholars have developed different theories of measuring and evaluating financial returns in relationship to auditor’s opinion. The theories include: the Stakeholders theory, Agency theory, Policeman theory and lending credibility theory.

2.2.1 Stakeholders Theory

Financial returns are important to many of a firm's stakeholders, but it is not the only aspect of value that is important to stakeholders. Consistent with Freeman's and Evan (2010) fundamental idea that a firm should serve multiple stakeholders, firm performance might be defined as the total value created by the firm through its activities, which is the sum of the utility created for each of a firm's legitimate stakeholders. White (2009) identifies a firm's legitimate (or normative) stakeholders as those groups to whom the firm owes an obligation based on their participation in the cooperative scheme that constitutes the organization and makes it a going concern. They include: customers,
communities in which the firm operates, suppliers of capital, equipment, materials, and labor. Firms may have other legitimate stakeholders’ specific to their own situations.

Several scholars such as Freeman and Evan (2010) believe that shareholders should be the highest priority firm stakeholder in part because they do not necessarily have a specifiable contract with the organization, which makes them residual claimants. The logic continues that providing the maximum possible return to shareholders is the primary duty of firm managers. It might also be argued that stakeholders that provide more or better resources to a firm than their contracts require are entitled to some of the surplus value created (Donaldson and Preston, 2005).

2.2.2 Agency Theory
According to Jensen and Meckling (1976), agency theory refers to the relationship that exists between principals (for instance the shareholder’s) and the agents (such as the directors.) The financial statements are the primary mechanism for shareholders to monitor the performance of directors. However, as a result of the separation of ownership and control, problems with information asymmetries and differing motives, there may be tension in the shareholder-director relationship. Shareholders have limited access to information about the operations of a company and may believe, therefore, that they are not getting the right information they need to make informed decisions or that the information being provided by way of the financial statements is biased. As such, shareholders may lack trust in the directors and in such a situation the benefits of an audit in maintaining confidence and reinforcing trust are likely to be perceived as outweighing
the costs. Companies Act states that auditors are appointed by and report to the shareholders of the company. The auditors provide an independent report to the shareholders on the truth and fairness of the financial statements that are prepared by the board of directors. (Bazerman and Moore, 2002)

They further argued that, 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. This is a simple agency model of audit, where an expert independent auditor is introduced and a statutory audit performed to help address a simple agency conflict between shareholders and directors.

### 2.2.3 Policeman theory

This theory was introduced by Hayes, Loewenstein and Nachmias (2005). The policeman theory claimed that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century this was certainly the case. However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor’s responsibilities, and typically after events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud.
2.2.4 Lending credibility theory

This theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users’ confidence in the figures presented by the management in the financial statement. The users’ are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information. (Hayes et al. 2005).

2.3 Determinants of Financial returns

Olweny and Shipho (2011) documented that, the determinants of firm financial returns can be classified into firm specific (internal factors) and macroeconomic (external factors). These are stochastic variables that determine the output. Internal factors are individual firm characteristics which affect the firm’s performance. These factors are basically influenced by internal decisions of management and the board. The external factors are sector-wide or country-wide factors which are beyond the control of the company. The overall financial returns of firms in Kenya in the last two decade have been improving. However, this doesn't mean that all firms are profitable, there are firms declaring losses. Studies have shown that firm specific and macroeconomic factors affect the performance of commercial firms. Some of these factors include:
2.3.1 Company Size

Hardwick (2014) argues that there is a positive relationship between performance and size due to operating cost efficiencies through increasing output and absorbing unit of cost. Large corporate size also enables firms to effectively diversify their assumed risks and respond more quickly to changes in market conditions. Industrial organization economists have argued that large firms possess monopoly power which allows them to set prices above the economic costs involved in the production of the products resulting in additional profit for the larger firms. In terms of investment performance, Hardwick (2014) believes that large companies are able to diversify their investment portfolios and this could reduce their business risks. He further suggested that large companies generally outperform smaller ones because they manage to utilize economies of scale and have the resources to attract and retain managerial talent. Therefore, it is expected that performance is positively related with size of company.

2.3.2 Liquidity

According to Buckle (2013), liquidity is a key determinant of financial returns, companies with more liquid assets are likely to perform better as they are able to realize cash at any point of time to meet its obligation and are less exposed to liquidity risks. By not having sufficient cash or liquid assets, companies may be forced to sell investment securities at a substantial loss in order to settle claims promptly. However, there are contrasting views with regard to performance and liquidity in relation to the agency theory. High liquidity could increase agency costs for owners by providing managers with incentives to misuse excess cash flows by investing in projects with negative net
present values and engaging in excessive perquisite consumption. Buckle (2013), further argues liquidity measures the ability of managers in insurance and reinsurance companies to fulfill their immediate commitments to policyholders and other creditors without having to increase profit from underwriting and investment activities and/or liquidate financial assets. Therefore, having high liquidity obviates the need for the management of the insurance companies to improve their financial returns. Consequently, there is no prior expectation on the direction of the relationship between performance and liquidity.

2.3.3 Leverage
Findings by Zeitun and Tian (2007) indicated that leverage has an observable relationship with firm’s performance. Where a company was seen to use more debts to finance the operations of an organization as opposed to other sources of financing, the financial returns was noted to have been enhanced. The Zeitun and Tian study, on the link between leverage and corporate performance was based on information asymmetries and signaling. Firm insiders (managers or shareholders) possess some private information about the characteristics of the firm. It has then been demonstrated that these information asymmetries between borrowers and lenders induce some adverse selection problems: the impossibility of lenders to price a loan according to the borrower’s quality results in an imperfect pricing, leading to credit rationing. Debt financing raises the pressure of managers to perform (meaning to reduce their waste of resources and to increase their effort) as it reduces “free cash-flow” at the disposal of managers.
2.3.4 Growth

Conclusions of Moskowitz (2006) documented that, low-growth firms are sensitive to cash flow and short-term bank debt, while high-growth firms are more sensitive to long-term debt. Furthermore, equity capital seems to reduce barriers to external finance. This means that firms that are classified in the higher growth category needs to have long-term financing plans, failure to which the massive growth will edge out financial returns and leads to liquidity problems. On the other hand, firms in the low-growth categories need sustainability in funding so as to be in good financial returns cycles.

2.4 Empirical Review

This subsection reviews some international and local studies done in areas of financial returns and audit opinion.

2.4.1 International Evidence

Ingram (1978) tested for a correlation between audit opinion in report disclosures and financial returns while controlling for both risk and industry effects. The procedure may be viewed as a reverse cluster analysis, in which the sample was split into subgroups, with the grouping criterion being maximization of the difference of a functional relationship between each of the two subgroups. The functional relationship that Ingram used was excess market return for each firm as the dependent variable; he used fiscal year, excess accounting earnings, and industry as explanatory variables. Ingram's procedure divides his sample of 116 firms into 10 subgroups wherein each subgroup had two sets of firms—one having higher excess market returns than the other. In seven of
these sub groupings, firms in the higher excess market return category had better audit opinion in reports than those in the lower excess market return category.

Arens and Loebbecke (2006) in their study of importance of audit in measuring financial returns in USA documented that, the audit report is important in an audit process because it gives information about what the audit opinion on the financial statements are and the conclusions obtained. In other words, the audit report is a media auditor messaging to users of financial statements. They found strong positive relationship between audit opinion and firm performance.

Zeitun and Tian, (2007) in their study titled “Auditor opinion and Corporate Performance: evidence from Jordan”, found that corporate governance is highly effected by the auditor opinion. They documented that, audit report was used as a tool of evaluating effectiveness of corporate control measures. Firms that had been issued constantly with favorable audit opinion performed relatively well better than firms issued constantly with unfavorable opinion. The limitation of this study is that, they failed to explain the extent of positive and negative influence of audit opinion on financial returns.

Anderson and Frankle (2010) in their study of financial returns and audit opinion by focusing on American firms, aimed at overcoming market imperfections hence used risk adjusted cash flows instead of accounting returns. However, there was a problem with the use of even a "clean" measure of investor returns for this type of studies. This problem is summarized by one of the tenets of modern finance theory; the efficient
markets hypothesis. Simply stated, this tenet posits that as information that might affect future cash flows of a firm becomes available, it immediately will be reflected in its current share price. The implication of this is that even the audit opinion does lead to improved financial returns, in that, as soon as the market becomes aware of any change in a firm's audit opinion it will immediately alter price per share to reflect that information. As noted, after this reaction only new information regarding a firm's audit opinion will have an effect on the firm's financial returns. Anderson and Frankle’s findings were supported by later studies of Moskowitz (2006) and Vance (2004).

2.4.2 Local Evidence

Kaumbuthu (2011) carried out a study to determine the relationship between audit opinion and return on equity for industrial and allied sectors in the Nairobi Securities Exchange during the period 2004 to 2008. The study applied regression analysis and found a negative relationship between audit opinion and financial returns. The study focused on only one sector of the companies listed in Nairobi Securities Exchange. The results of the study, therefore, may not be generalized to the other sectors.

Saeedi and Mahmoodi (2011) examined the relationship between audit opinion and performance of listed firms in the Uganda Stock Exchange. According to the study market measures of performance are positively related to audit opinion. The findings by Saeedi and Mahmoodi indicate that audit opinion may affect different measures of performance in different ways.
Abdul (2012) conducted a study to determine the relationship between audit opinion and the performance of firms in Kenya. The study concluded that auditor opinion had a negative relationship with firm performance as measured by ROA and growth. The relationship between auditor and firm performance as measured by the return on equity (ROE) was negative but not statistically significant.

In another study, Javed and Akhtar (2012) explored the relationship between audit report and financial returns. They concluded that there is a positive relationship between audit report, financial returns, and growth and size of the companies. The study, which focused on the Nairobi Stock Exchange in Kenya, used correlation and regression tests on financial data. The findings of the study are consistent with the agency theory. This study however isolated the other factors and focused only on financial leverage.

2.5 Summary Literature Review
From the empirical review of the existing literature, it can be observed that a positive relationship exists where financial returns are relatively depended on audit opinion. This means that where an opinion is either qualified, adverse or is a disclaimer of opinion, the financial returns of the company is likely to be affected as a result of this opinion. However some of the empirical studies conducted contradict this relationship stating a negative relationship. Theoretical review on the other hand indicates that most of the users of audited accounts depend on the audit opinion given to make financial decisions. This ultimately affects the financial returns of the organization.
Research on the area of audit opinion and financial returns is a wide research area that is not yet fully documented. This study will address this area by focusing on firms quoted at the NSE. This is seconded by the fact that there are considerably consistent results with the various types of studies. The review further has exposed other knowledge gaps in research. From the limited number of studies cited in the review, it is likely that this field has not been sufficiently researched in Kenya.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
This chapter sets out to explain the research design, population, data collection procedures and the data analysis employed.

3.2 Research design
In this study, descriptive research design was used to establish whether there exists any relationship between ‘non-clean’ audit opinion and the financial returns of the firms quoted at the NSE. Descriptive research is designed to describe the characteristics of a phenomenon. It is used to obtain information concerning the current status of the phenomena and describe what exists with respect to variables or conditions in a situation. (Nachmias and Nachmias, 1996).

3.3 Population.
Population refers to the entire group of individuals, events or objects having a common observable characteristic (Mugenda and Mugenda 2013). A sample of the entire population was more appropriate for the data collection and analysis. Judgmental sampling was used as it enabled the researcher to focus on the sample that best suits the study. The population comprised the firms quoted at the NSE which were currently 61 firms. (Appendix 1)
3.4 Data Collection procedures

This study adopted event study methodology. An event study is a statistical method to assess the impact of an event on the value of a firm. This is in line with previous studies such as Kaumbuthu (2011), Javed and Akhtar (2012), and Arens and Loebbecke (2006). They argued that the event methodology can be used to elicit the effects of any type of event on the direction and magnitude of stock price changes, thus very versatile.

Secondary data was used for this study. The period covered in the study was five years from 2009-2013. This study period was assumed to give a more recent scenario, hence more current findings. Similarly the period 2009-2013 was relatively a stable period economically and politically, with no major externalities. Data was collected from the quoted firm’s published financial reports for this period. The NSE was the ideal source of the secondary data for carrying out this study based on its availability, accessibility and reliability of the data (Aduda, Masila and Onsongo 2012). ‘Non-clean’ audit opinion was broadly classified into three areas; Qualified opinion, Adverse opinion, and Disclaimer of opinion. Share prices was employed as the financial returns measure; the dependent variable in this study.

Financial returns data was collected from every company with ‘non-clean’ audit opinion for a period covering fifteen days before and one month after the ‘non-clean’ audit opinion is made public.
3.5 Data Analysis

The objective of this study was to establish the effects of ‘non-clean’ audit opinion and financial returns of the firms quoted at the NSE. After the data was collected, it was analyzed using SPSS version 18 data analysis tool, a regression analysis was used. This was in line with previous studies (Abdul 2012, Javed and Akhtar. 2012, and Mriwa 2013).

3.5.1 Analytical Method

A two-step linear regression analytical model was used to analyze the effects of ‘non-clean’ audit opinion and financial returns. Given in the following equations: Equation (1) used the average share prices of the firm prior to the announcement of the ‘non-clean’ audit opinion while Equation (2) was run using the average share prices after announcement of the ‘non-clean’ audit opinion as follows:

\[ Y_{-1} = \beta_0 + \beta X + \varepsilon \]  
\[ Y = \beta_0 + \beta X + \varepsilon \]

Where; \(Y_{-1}\) was the dependent variable representing financial returns defined by the average share price before announcement of the ‘non-clean’ audit opinion.

\(Y\) was the dependent variable representing financial returns defined by the average share prices after the announcement of the ‘non-clean’ audit opinion.

\(\beta_0\) was a constant (the intercept of the model) representing all other variables that affected firm financial returns.

\(X\) was the independent variable, which is the ‘non-clean’ audit opinion. \(\beta\) was the regression coefficients of independent variable \((X)\) while \(\varepsilon\) was the error term.
3.5.2 Test of Significance

The study aim was to analyze the relationship between ‘non-clean’ audit opinion and financial returns and thus a correlation analysis was necessary to establish the relationship. Significance tests using $R^2$ (to measure amount of variation of dependent variable), Analysis of Variances, F statistic (to conduct a hypothesis test on the importance of the regression analysis) and Z statistic (to measure how an independent variable predicts the dependent variable) at 5% and 1% levels of significance was employed. In the analysis each variable was tested using the appropriate statistical measures to find out if they were statistically significant or not. The results from these tests was analyzed and interpreted to form the basis of the study conclusions.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents a summary of the findings on the effects of ‘non-clean’ audit opinion on financial returns of firms listed at the NSE. Ten (10) companies were found to have ‘non-clean’ audit opinion for the period 2009-2013. The study results were analyzed and interpreted in line with the objectives which was: to establish the effect on ‘non-clean’ audit opinion and financial returns of firms quoted at the NSE.

4.2 Results

From the total of 61 firms listed at the NSE, only 10 companies were found to have ‘non-clean’ audit opinion in the period 2009-2013. The findings of these firms are discussed as follows.

4.2.1 Change in financial returns after ‘non-clean’ audit opinion announcements

The table 1 displays the changes in share market price after and before the ‘non-clean’ audit opinion announcements of the ten companies included in the study over the five year period. The mean price after ‘non-clean’ audit opinion announcements is slightly lower than the market price before ‘non-clean’ audit opinion declarations. The mean was 81.3236 and the standard deviation was 83.03868 before the ‘non-clean’ audit opinion was announced. After the ‘non-clean’ audit opinion announcement the mean was 81.2361 and the standard deviation was 82.13357. The data represented by the range that is Maximum and Minimum statistics indicates that all the variables had significantly changed in magnitude over the period of study.
### Table 1 Mean Returns and Standard Deviations Calculated from the Data

<table>
<thead>
<tr>
<th>‘Non-Clean’ Audit Opinion (NCAO)</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std.Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEFORE NCAO</td>
<td>10</td>
<td>2.83</td>
<td>357.31</td>
<td>81.3236</td>
<td>83.03868</td>
</tr>
<tr>
<td>AFTER NCAO</td>
<td>10</td>
<td>2</td>
<td>322.88</td>
<td>81.2361</td>
<td>82.13357</td>
</tr>
<tr>
<td>R CHANGE</td>
<td>10</td>
<td>-21.75</td>
<td>19.98</td>
<td>-0.0705</td>
<td>7.89913</td>
</tr>
<tr>
<td>VALID N</td>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data (2014)

### 4.2.2 Cumulative Abnormal Return (CAR) before and after NCAO announcement

Results in Table 2 shows that investors do not gain value from ‘non-clean’ audit opinion announcement. Evidence depicts that CAR had risen from -0.0479 percent on day -15 to a level of 0.1294 percent on the day of ‘non-clean’ audit opinion announcement. But the gained value was lost over the next 15 days after ‘non-clean’ audit opinion announcement, as CAR dropped to –0.0019 percent on the day 30. This finding tends to suggest that ‘non-clean’ audit opinion announcement does not carry information about the future earnings and cash flow of the companies.
Table 2 Financial returns and respective t-values 15 days before and after NCAO announcement

<table>
<thead>
<tr>
<th>Days relative to the ‘non-clean’ audit Opinion Announcement</th>
<th>Daily Cumulative Abnormal Return (CAR)</th>
<th>T-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>-15</td>
<td>-0.0479</td>
<td>3.223</td>
</tr>
<tr>
<td>-14</td>
<td>-0.0097</td>
<td>1.892</td>
</tr>
<tr>
<td>-13</td>
<td>-0.0186</td>
<td>1.263</td>
</tr>
<tr>
<td>-12</td>
<td>0.0189</td>
<td>1.343</td>
</tr>
<tr>
<td>-11</td>
<td>-0.0156</td>
<td>3.253</td>
</tr>
<tr>
<td>-10</td>
<td>-0.0843</td>
<td>2.23</td>
</tr>
<tr>
<td>-9</td>
<td>-0.0512</td>
<td>2.17</td>
</tr>
<tr>
<td>-8</td>
<td>-0.237</td>
<td>4.693</td>
</tr>
<tr>
<td>-7</td>
<td>-0.1207</td>
<td>4.792</td>
</tr>
<tr>
<td>-6</td>
<td>-0.0398</td>
<td>3.679</td>
</tr>
<tr>
<td>-5</td>
<td>-0.0891</td>
<td>3.315</td>
</tr>
<tr>
<td>-4</td>
<td>0.0629</td>
<td>7.983</td>
</tr>
<tr>
<td>-3</td>
<td>0.0536</td>
<td>8.679</td>
</tr>
<tr>
<td>-2</td>
<td>-0.1789</td>
<td>9.792</td>
</tr>
<tr>
<td>-1</td>
<td>-0.0083</td>
<td>5.679</td>
</tr>
<tr>
<td>0</td>
<td>0.1294</td>
<td>6.936</td>
</tr>
<tr>
<td>1</td>
<td>0.1692</td>
<td>5.678</td>
</tr>
<tr>
<td>2</td>
<td>-0.0679</td>
<td>4.679</td>
</tr>
<tr>
<td>3</td>
<td>0.0137</td>
<td>4.359</td>
</tr>
<tr>
<td>4</td>
<td>-0.0177</td>
<td>7.764</td>
</tr>
<tr>
<td>5</td>
<td>0.0739</td>
<td>4.659</td>
</tr>
<tr>
<td>6</td>
<td>0.1273</td>
<td>3.258</td>
</tr>
<tr>
<td>7</td>
<td>0.0578</td>
<td>1.698</td>
</tr>
<tr>
<td>8</td>
<td>-0.0213</td>
<td>0.019</td>
</tr>
<tr>
<td>9</td>
<td>-0.0289</td>
<td>1.069</td>
</tr>
<tr>
<td>10</td>
<td>-0.0354</td>
<td>0.987</td>
</tr>
<tr>
<td>11</td>
<td>0.0059</td>
<td>-3.598</td>
</tr>
<tr>
<td>12</td>
<td>-0.0519</td>
<td>-7.192</td>
</tr>
<tr>
<td>13</td>
<td>-0.2091</td>
<td>-2.459</td>
</tr>
<tr>
<td>14</td>
<td>-0.009</td>
<td>-5.952</td>
</tr>
<tr>
<td>15</td>
<td>0.0019</td>
<td>-5.258</td>
</tr>
</tbody>
</table>

Source: Research findings (2014)

4.2.3 Simple Regression Model for year 2009

The table 3 shows the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) for the listed companies at Nairobi Securities Exchange.
Adjusted $R^2$ is called the coefficient of determination and it shows how a change in the independent variable results affects the dependent variable. From data, the value of adjusted $R^2$ is 0.643. This implies that, there was a variation of 64.3% of financial returns of the firms listed in the NSE with changes in ‘non-clean’ audit opinion at 95% confidence interval, this is an indication that 64.3% of change in financial returns of firm listed in the NSE could be accounted for by changes in the ‘non-clean’ audit opinion, the study also found that there is a strong negative relationship between the financial returns and ‘non-clean’ audit opinion as shown by correlation coefficient of -0.742

### 4.2.3 Regression Coefficients for 2009

From table 4, the established regression equation was for years 2009

$$Y = 1.829 - 0.742X$$ or

Financial return = $1.829 – 0.742$ ‘non-clean’ audit opinion

From the above regression model, without ‘non-clean’ audit opinion, financial return of firm listed in the NSE would be 1.829, it is also established that a unit increase in ‘non-clean’ audit opinion would cause a decrease in financial return of the firm by 0.742. This clearly shows that there is a negative relationship between financial returns of the firm
listed at the NSE and ‘non-clean’ audit opinion. The study further revealed that the P-value were less than 0.05 which is an indication that shows ‘non-clean’ audit opinion was statistically significant and thus in a position to make a conclusion for the study.

Table 4 Regression Coefficients for 2009

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.829</td>
<td>0.025</td>
<td>9.022</td>
<td>0.12</td>
</tr>
<tr>
<td>‘Non-Clean’ Audit</td>
<td>-0.742</td>
<td>0.178</td>
<td>0.769</td>
<td>2.892</td>
</tr>
</tbody>
</table>

Source: Research findings (2014)

4.2.4 Regression analysis for Year 2010-2013

From data in table 5, the value of adjusted $R^2$ is 0.687. This implies that, there was a variation of 68.7% of performance of firms listed in the NSE with changes in ‘non-clean’ audit opinion at 95% confidence interval, this is an indication that 68.7% of change in financial returns of firm listed in the NSE could be accounted for by changes in the ‘non-clean’ audit opinion, the study also found that there is a strong negative association between the study variable between financial returns and ‘non-clean’ audit opinion as shown by correlation coefficient of -0.702
From table 6, the established regression equation was for years 2010-2013.

\[ Y = 1.725 - 0.702 X \]

From the above regression model, financial return to a constant zero, financial returns of the firm’s listed in the NSE would be 1.725, it’s also established that a unit increase in ‘non-clean’ audit opinion would cause a decrease in financial returns of the firm by a factor of 0.702. This clearly shows that there is a negative relationship between ‘non-clean’ audit opinions of the firms listed the NSE and financial return. The study further revealed that the P-value were less than 0.05 which is an indication that shows ‘non-clean’ audit opinion was statistically significant and thus in a position to make a conclusion for the study.
Table 6 Regression Coefficients 2010-2013

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.725</td>
<td>0.029</td>
<td></td>
<td>7.012</td>
</tr>
<tr>
<td>‘Non-Clean’ Audit Opinion</td>
<td>-0.702</td>
<td>0.198</td>
<td>0.669</td>
<td>2.869</td>
</tr>
</tbody>
</table>

Source: Research findings (2014)

4.3 Summary and Interpretation of Findings

Data from studied companies listed and trading at Nairobi stock examined the effect of the of ‘non-clean’ audit opinion on the financial returns. The result shows that ‘non-clean’ audit opinion creates significantly negative impacts on financial returns. Adjusted $R^2$ is called the coefficient of determination and it shows how change in the independent variable (‘non-clean’ audit opinion) results to changes in the dependent variable (financial return). The study revealed that there value of adjusted R squared on average 0.633, this is an indication that greater variation in financial return could be accounted by changes in the ‘non-clean’ audit opinion. From the results on the correlation the study found that there was a strong negative relationship between financial returns and ‘non-clean’ audit opinion as shown by high correlation coefficients of average 0.702, this means, the study found that there was negative relationship between ‘non-clean’ audit and financial return.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings, conclusions, limitations of the study, recommendations and suggestions for further research.

5.2 Summary of the Findings

This study was intended to reveal the effect of ‘non-clean’ audit opinion on financial return by focusing on the firm’s listed in the NSE. In order to achieve this objective, the study was designed to collect and analyze the relevant data for Kenyan listed companies from 2009 to 2013 among 10 firm that have ‘non-clean’ audit opinion in the NSE. The study revealed that 68.7% financial return can be accounted for by ‘non-clean’ audit opinion. There was strong negative relationship between ‘non-clean’ audit opinion and financial return, this due to the fact that most of firm with ‘non-clean’ audit opinion gives bad signal in the market hence decline in share prices.

The findings of this study have enriched the existing literature on ‘non-clean’ audit opinion and financial returns. It has shown that ‘non-clean’ audit opinion is a key factor to reduce financial returns among firm listed in the NSE, audit opinion is an important factor to enhance the financial return of the firms. The study revealed that there value of adjusted R squared on average 0.633. This is an indication that greater variation in financial returns would be affected by ‘non-clean’ audit opinion up to the rate of 63.3 percent.
5.3 Conclusion

The objective of the study was to establish effects of ‘non-clean’ audit opinion on financial returns, evidence from firms quoted in the NSE. The findings of the study confirmed that there exists a negative relationship between ‘non-clean’ audit opinion and financial returns, this is an indication that ‘non-clean’ audit opinion promote corporate control and safeguard investor’s interests. A poor financial return was found to be negatively influenced by ‘non-clean’ audit opinion.

Based on the limitation of this research projects, this paper does not conduct any further analysis or examination on the ‘clean’ audit opinion. For example, effects of different types of ‘non-clean’ opinion separately result in different outcomes, and hence this might limit the finding of this paper. Meanwhile, the ethical issues of auditing may arise at number of different levels. It is, therefore.

5.4 Limitations of the Study

The study was limited to establishing the effects of ‘non-clean’ audit opinion on financial returns of the firms listed in the NSE, Hence, research did not cover unquoted companies to see whether the same results also hold by testing similar variables as in this research for companies not quoted on the Nairobi Securities Exchange. It was hard to get information especially audit opinion of some companies for certain years like 2010, from the Nairobi Securities Exchange. The information from internet may not be 100%. It is highly time consuming to get the required information from all the financial statements of
the sampled companies. It is also evident that other factors other than ‘non-clean’ audit opinion effects financial returns, and these factors were not addressed by this study.

To achieve its objective the study was limited to 10 firms listed companies in the NSE that have had ‘non-clean’ audit opinion in the year 2009 to 2013. Firm that had clean audit opinion were excluded. The study could not therefore incorporate the impact on these companies. Secondary data was collected from the firm financial reports. The study was also limited to the degree of precision of the data obtained from the secondary source. While the data was verifiable since it came from the Nairobi Securities Exchange publications, it nonetheless could still be prone to these shortcomings. The study was based on a five year study period from the year 2009 to 2013. A longer duration of the study will have captured periods of various economic significances such as booms and recessions. This may have probably given a longer time focus hence given broader dimension to the problem.

5.5 Recommendations and Suggestions for Further Research

This analysis does not attempt to incorporate the effects of audit costs, regulatory framework, auditor’s competence and ‘clean’ opinion; however, it does lead to a generalization of how decisions can be made on stock markets relating to expectation on stock movements on firms with ‘non-clean’ audit opinion.

This research was undertaken on companies listed on the stock exchange. It is recommended that a similar research study be done incorporating the unquoted
companies. A research study where data collection relies on primary data i.e. in depth questionnaires, interviews and covering all the 61 companies listed in the Nairobi Securities Exchange is encouraged so as to compliment this research. Lastly, research study can be done on the relationship between ‘clean’ audit opinion and financial return of all the companies quoted at the Nairobi Securities Exchange.
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APPENDIX 1: LISTED COMPANIES AS AT 31ST AUGUST 2014

AGRICULTURAL

1. Eaagads Limited
2. Kapchorua Tea Company Limited
3. Kakuzi limited
4. Limuru Tea Company Limited
5. Rea Vipingo Plantations Limited
6. Sasini Limited
7. Williamson Tea Kenya Limited

COMMERCIAL AND SERVICES

8. Express Kenya Limited
9. Kenya Airways Limited
10. Nation Media Group Limited
11. Standard Group Limited
12. TPS (Tourism Promotional Services) Eastern Africa Limited
13. Scan group Limited
14. Hutchings Biemer Limited
15. Longhorn Kenya Limited
16. Uchumi Supermarket Limited

TELECOMMUNICATION & TECHNOLOGY

17. Safaricom Limited
AUTOMOBILES & ACCESSORIES
18. Car and General (K) Limited
19. CMC Holdings Limited
20. Sameer Africa Limited
21. Marshalls (E.A.) Limited

BANKING
22. Barclays Bank Limited
23. CFC Stanbic Holdings Limited
24. Diamond Trust Bank Kenya Limited
25. Housing Finance Company Limited
27. NIC Bank Limited
28. Equity Bank Limited
29. I & M Bank Limited
30. The Co-operative Bank of Kenya Limited
31. Standard Chartered Bank Limited
32. Kenya Commercial Bank Limited

INSURANCE
33. Jubilee Holdings Limited
34. Pan Africa Insurance Holdings Limited
35. Kenya Re-Insurance Corporation Limited
36. CIC Insurance Holdings Limited
37. Liberty Kenya Holdings Limited
38. British-American Investments Company Kenya Limited

INVESTMENT

39. Olympia Capital Holdings limited
40. Centum Investment Company Limited
41. Trans-Century Limited

MANUFACTURING AND ALLIED

42. A.Baumann & Company Limited
43. B.O.C Kenya Limited
44. British American Tobacco Kenya Limited
45. Carbacid Investments Limited
46. East African Breweries Limited
47. Mumias Sugar Company Limited
48. Unga Group Limited
49. Eveready East Africa Limited
50. Kenya Orchards Limited

CONSTRUCTION & ALLIED

51. Athi River Mining Cement Limited
52. Bamburi Cement Limited
53. Crown Berger Limited
54. E.A.Cables Limited
55. E.A.Portland Cement Limited

GROWTH & ENTERPRISE MARKET SEGMENT

56. Home Africa Limited
ENERGY AND PETROLEUM

57. KenolKobil Limited
58. Total Kenya Limited
59. KenGen Limited
60. Kenya Power & Lighting Co Ltd
61. Umeme Ltd