THE IMPACT OF AUDIT FIRM TENURE, CLIENT IMPORTANCE AND AUDITOR REPUTATION ON AUDIT QUALITY: EVIDENCE FROM LISTED FIRMS IN KENYA

By

HILDA ODANGA

REG NO: D63/77608/2015

A Research Project Submitted In Partial Fulfilment of the Requirements for Degree Award of Master of Science in Finance, School of Business, University Of Nairobi

NOVEMBER 2016

DECLARATION

Student:

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

Signature....................................... Date...

Hilda Odanga

Registration No: D63/77608/2015

Supervisor:

I confirm that the work in this project was done by the candidate under my supervision

Signature....................................... Date...

Dr. Lishenga Josephat

Lecturer, Department of Finance and Accounting,

School of Business, University of Nairobi.

ACKNOWLEDGEMENT

For Him alone need to be praised for the gift of life and this far He has brought me. My deepest gratitude goes to the Father God Almighty, whose grace and mercy has brought me this far. Special gratitude to my lead supervisor, Dr. Lishenga Josephat and Supervisor Mr. Ronald Chogii for the excellent guidance and counsel you me in the course of this research.

To my parents and siblings for the support both financially and morally, your efforts and inputs though unquantifiable, I will forever be indebted for your courage, mentorship, understanding, motivation and guidance.

For my classmates: Augustine, Mercy, Ann and Marwa. I will forever remain grateful for the interactive exchange and criticisms we shared in the course of our studies, which were mind opening, insightful and above all the best learning experience to me. God bless you all. A special mention goes to my friend Anne for your genuine prayers, concern and understanding in the period of my studies. I can only pray that God rewards you in the best way He only knows how.

A big thank you to the very supportive University of Nairobi library staff for the guidance accorded to me in the search of information for the study. Your input gave me the basis of undertaking this study without which it would not have been possible.

DEDICATION

Special dedications to my parents Mr. & Mrs. Mang'unyi. The value of hard work, determination and the importance of education that you implanted in me is what has guided me this far. As long as I live your counsel will always guide me.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

AQ	Audit Quality
CMC	Cooper Motor Corporation
CMA	Capital Market Authority
GAAP	Generally Accepted Auditing Principles
IAASB	International Auditing and Assurance Standard Board
ICPAK	Institute of Chattered Professional Accountants Kenya
IFRS	International Financial Reporting Standards
IPO	Initial Public Offer
NSE	Nairobi Securities Exchange
SEC	Security and Exchange Commission
SOX	Sarbanes-Oxley
TSE	Tokyo Stock Exchange

ABSTRACT

The study aimed to investigate the joint effect of audit tenure, client importance and auditor reputation on audit quality. Previous studies have investigated these factors independently and most done in developed countries. Little published research exist on developing countries how these factors jointly affect audit quality. Secondary data was used which spanned for five year period between years 2011 and 2015. Audited and published annual reports for these companies were gathered from NSE, CMA and respective company websites. A population of 67 listed firms were the object of the study out of which 33 firms were found to be responsive representing a response rate of about 50%. Correlation approach where a single number is used to deduce the relationship between variables was used. Correlation coefficient (R) was found to be 0.86 while coefficient of determination (R^2) was found to be 0.754 implying that 75.4% of the variation in audit quality can be explained by the variables in the study, while 24.6% of the variation in audit quality is explained by the error term and other factors. The model is statistically significant as indicated by the F value of 63.354 and significance value of 0.000.The main analysis, where audit quality was inferred by accrual quality showed that companies audited by firms with higher reputation (big 4), with increased audit tenure produce higher audit quality reports.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Whenever management interests are not in order with that of shareholders, an organization contracts external auditor, Barzegar & Salehi (2008). The agency theory states that an agency relationship will exist when an agent is contracted to act on behalf of a principal. The relationship is built on certainty that the agent will perform his duties as delegated in a manner as if the principal was present and acting alone.

Due diligence, care and related skills are expected from the auditor in performing his duties. An auditor is expected to state the status of an entity audited through his final report. He may employ various methods to gather evidences and at the end of the process, he expresses an opinion which likely affects the quality of his report popularly referred to as audit quality.

The literature focused on three key factors that have been found to affect audit quality - audit firm tenure, client importance and auditor reputation. Under the first factor audit tenure; we argued that whenever an auditor serves an audit firm for a long period, the auditors are in greater pressures to provide quality. Secondly, high reputation auditors have more incentive to protect their reputation thereby less likely be compromised by client actions. Lastly, we followed the lead of Lennox (1999) and argued that large auditors have better reputations and therefore more incentive to issue accurate reports. Three main hypotheses were used to explain the audit quality phenomenon: The agency theory by Jones (1996), role theory and audit expectation gap by Oyadonghan (2011) and Information theory were widely regarded as the three plausible explanations to audit quality.

As a central component of sound corporate governance, high quality external auditing are done by organizations. However, relatively little is known on what determines audit quality. The recent scandals in Kenya provides a basis for investigating the joint effect of audit firm tenure, auditor reputation and client importance on audit quality for listed NSE firms.

1.1.1 Audit Firm Tenure

Audit firm tenure refers to the length of time an audit firm has audited a particular client. According to Geiger (2002), when the client and audit firm have an extended relationship, auditors' independence might be threatened. An extended relationship between an organization and an accounting firm might pose threat to independence of an auditor since the auditor is much familiar with the interests of its client's, (Congress, 1976). These was further asserted by Mautz and Sharaf (1961) who explained this to be contributed by reluctance and impartiality on the side of an auditor which would impair auditor independence. As suggested by Brody & Moscove (1998), it can be seen that influence on auditor judgments and auditor independence can be minimized by audit firm rotation.

It was measured by dividing the 5 year analyzed period into; short term tenure (SHORT=0) if client has been audited by accounting firm for 3 years or less, and LONG=1 if client has been audited for more than 3 years. From previous researches, various results exist about the relationship between audit firm tenure and audit quality proxy; discretionary accruals. We put forth that extended relationship between auditors and client might compromise the quality of report produced by the auditor for the client.

1.1.2 Client Importance

Client importance refers to the degree of economic dependence an auditor has on client in terms of audit fees. Economic dependence is highly influenced when an auditor performs other services to client on addition to auditing thereby posing a greater risk on audit quality. This is because there results greater financial dependence an auditing firm will have on a client. The main concerns are that; first, because of fear of losing additional income derived from the non-audit services, an auditor may fail to contradict the management even in cases and, second, performing other functions other than auditing may lead auditor to be too familiar with management and loose professional skepticism. This non-audit services may include consulting services such as taxation, accounting and system- design etcetera.

Hoitash (2007), hypothesized that audit fees paid affects audit quality in the following ways. Clients who pay high audit fees receive high quality audits resulting to high quality reports. However, high fees may compromise auditors' independence because the induced relationship may make an auditor shy away from seeking necessary information from client during the audit process for fear of losing revenue hence affecting audit quality.

The total audit fees which included but not limited to audit expenses such as cost of travel incurred by auditors, audit tax, cost on time spent auditing client etcetera are a measure of economic dependence, and could impact on audit quality. Therefore, Client importance was measured by the natural logarithm of total audit fees paid by client to an audit firm for audit services performed.

1.1.3 Auditor Reputation

Auditor reputation refers to the perceived corporate image of an auditing firm created from past performance about audit quality. Previous researchers have described auditor reputation in terms of relative standing or desirability (Shrum and Wuthnow, 1988), quality (Podolny, 1993) esteem (Dolligner et al., 1997) and favorableness (Deephouse, 2000). As suggested by Sucher (1999), reputation is based upon practical and technology an audit firm poses and that this reputation only comes with time. Aronmwan (2013) put forth that it is hard to evaluate quality which forms the basis of auditor reputation.

In general, audit quality is independent of audit firm size and that smaller audit firms are more dependent on few large clients than larger audit firms, DeAngelo (1981). As postulated in earlier researches, non-audit fees to be received from client might act as security for those audit firms whose poor audit work resulted to loss on client. This finding can be proven on the theory of incentives where auditors are motivated by the incentive they receive, the higher the perceived quality of audit. This has largely related to the auditors from big audit firms.

The researcher measured auditor reputation by first classifying audit firms as either big 4 or non-big 4. Big 4 firms were those whose weighted market share exceeded cut off ratio of 30% while those with weighted market share less than the cut off ratio of 30% were classified as non-big 4. This measure was calculated as;

(1/**N** firm *1.2)*(1/**N** industry)

Where;

N firm is the firm market share in the industry

N industry is the industry market share.

1.1.4 Audit Quality

Researchers provide possible explanations on audit quality in the audit markets. Audit quality refers to the degree an audit is in conformity to the applicable standards. However, the basis of many explanations given by various researchers was that audit quality referred to the possibility that an auditor will identify material misstatement and errors in the financial statement of an organization and report about them, DeAngelo (1981).

Audit quality can also be explained as putting focus on the correctness of the information provided in audit report. Audited financial statements increases reliability of information provided in the financial statement. Therefore, there is auditors need to provide high quality audit services, Titman and Trueman (1986). Schauer (2002) adds that when audit services provided are of higher quality, there is a high possibility that the financial statements are précised and correct reflecting the financial position and results of operations of the entity being audited. In summary, the quality of accounting information disclosed includes audit quality, Clinch (2010).

Audit can be viewed as an assurance service performed to provide assurance on status of a company presented through the financial statements. Palmrose (1988) described audit report as of quality when there are no misstatement in financial statement. The same view was laid forth by Epstein & Geiger (1994) that the perceived audit quality for audited financial statement is higher since audited financial statement provide absolute assurance to users that the financial statement contain no material errors and misstatement.

Further, auditing process is performed in conformity to applicable auditing standards. Defond et al. (2010) raised the view that audited financial statements provided reasonable assurance that they have been presented in accordance with GAAP and that are not materially misstated. As suggested by De las Heras (2012), audit quality is related to auditing standards in that an auditor will detect audit failure, will be disciplined and further incentivized to constrain managerial opportunism.

Discretionary accrual was used as an inferential measure for audit quality. McNichols Model (2002) of accrual quality was adopted to measure discretionary accrual. When discretionary accruals was found to be high, earnings quality and audit quality were relatively low while low level of discretionary accruals meant high earnings and audit quality. This implied that low earning quality referred to low audit quality while high earning quality referred to high audit quality.

1.1.5 Audit Firm Tenure, Client Importance and Auditor Reputation on Audit Quality

Extended audit firm tenure is argued to make auditors less independent due to long familiarity with client where auditor may bend to client's demands so as to continue receiving future audit fees, Hoyle (1978). Earlier arguments put forth that extended relation between auditor and client and the fear of losing future income and the need to protect their reputations induces auditor to improve audit quality, DeAngelo (1981). Since this effects operate in opposite direction, in addition to determining how each factor affects audit quality independently, it is prudent to consider the joint effect of these factors and not either the effects of audit firm tenure, client importance and auditor reputation in isolation.

1.1.6 The Nairobi Stock Exchange

The NSE was officially set up in 1953 as an overseas stock exchange by the London Stock Exchange. Over the years, several changes occurred which included; delisting of companies established in Tanzania and Uganda, privatization of NSE, establishment of CMA, setting up a computerized delivery and settlement system (DASS), incorporation of Central Depository and Settlement Corporation Limited among others.

Currently there are 67 listed firms at the NSE, out of which banking (11); agricultural (7); automobiles (3); commercial and services (12); construction and allied (5); energy and petroleum (5); Insurance (6); Investment (1); Manufacturing and allied (10); Telecommunication and services (1) and lastly, Real Estate Investment Trust (1). (www.nse.co.ke).The need to analyze firms listed in NSE was informed by the availability of published audited financial reports of this firms in compliance with the requirement of Capital Market Authority.

1.2 Research Problem

The recent corporate scandals in Kenya such as Deloitte & Touche an external auditor which has been on the spot for professional misconduct in handling financial accounts of Mumias, Dubai bank, Tusky supermarket, the collapsed Dubai bank, Chase bank; Ernst & Young on the other hand was investigated by Commission for Co-operative Development on the role it played during the acquisition of Equatorial Commercial Bank by Mwalimu Sacco's; PKF the external auditor of Imperial Bank since set-up until collapse. Consequently, a lot of questions have been raised about the auditing profession in Kenya. Much of the concerns are about reduced audit quality and independence of the "Big 4". Economics (2004) suggested that concentration is lowering the quality of audits. Recently, the Institute of Certified Public Accountants of Kenya (ICPAK) enacted new regulations that will come into play in 2017, which will require external auditors to deepen disclosure on financial statements by companies. (ICPAK, 15).

Few documented studies exist on audit quality in Kenya. The closely related studies focus mainly on independent proxies affect audit quality which seems to assume that these proxies could jointly affect audit quality. Mriwa (2013) measured how audit tenure affected audit quality banks listed in NSE and concluded that audit quality was affected by the effectiveness of human capital and auditor independence as the period of audit tenure increases. The study also reported that audit quality in banks was low and as tenure increased the quality decreased which was consistent with the research by Simnett and Carey (2006). However, the findings contradicts Yuniarti (2012) who concluded that when audit tenure was long, audit quality increases.

There is little research available on audit quality in developing nations like Kenya. Since the significance of variables certainly changes depending on a country characteristics and period of analysis, Hay et al (2006) there was need to study this factors under developing nation. Also, ICPAK is instituting reforms which are expected to improve and curb audit failures. This further motivated researcher who therefore sought to answer the question: What is the relationship between audit tenure, auditor’s reputation, client importance and audit quality?

1 .3 Research Objectives

The objective was to determine the joint effect of audit tenure, client importance and auditor reputations on audit quality by analyzing the listed companies at the NSE.

1.4 Value of the Study

The study investigated the joint effect of audit tenure, client importance and auditor reputation on audit quality in NSE. This findings are anticipated to provide evidence from Kenya on audit quality.

Since audit quality infers financial reporting quality, this study is expected to assist in improvement of financial reporting quality.

The government through ICPAK may use the findings in formulating guidelines towards the management of conduct of its professionals in Kenya. Such guidelines will be aimed at identifying factors that relate to audit quality that have a threat in auditors independence.

Future researchers and academicians who may wish to conduct studies on audit quality will dearly benefit from the findings of the study. Currently, few documented studies on audit quality exist in Kenya. Findings from this study offers good comparative information for future researchers on the necessity of changing auditors and rotation and importance of auditor reputation and client importance on auditor reporting quality.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discusses theories that informed the study as well as the works of other researchers on the study concept.

2.2 Theoretical Literature

2.2.1 Agency theory

One useful economic theory that respond to imperfection of agency relationship is the agency theory. It suggests that, under an agreement one or more people (principals) draw in someone else (the agent) to play out some role on their sake. Depending on the agreement the agent performs duties of principal as delegated. Mistrust between the principal and their agent's as a result of information asymmetries agency conflict arises. Consequently, the principal resolves to put in place mechanisms to align their interest to that of agents to reduce any opportunistic behavior and scope of information asymmetries.

An audit is a monitoring tool implemented to address the principal-agent conflict Jones (1996). The auditor assesses financial statements prepared by the agent to assess the position of the company as presented by the financial statement in compliance with GAAPs and other applicable standards. Auditors as agents are expected to act as watchdogs thereby to align the conflicting interests between management and principal. They produce reports on audited accounts which helps to reinforce trust with the various.

2.2.2 Role Theory and Audit Expectation Gap

This theory suggests that every person in an organization has a role to play and that this roles are specific to their job requirements and that this roles outline specific forms of behavior unique to each role to be played, Oyadonghan (2011).

As expected by the public, an auditor's work is to prevent fraud and management should be prudent and transparent in managing an organization. The actual work of an auditor is to perform audit in accordance with relevant laws and regulations that governs the audited entity and present unbiased and independent audit report of his findings. As a result, expectation gap exists between what the auditor actually does and the perceived duties of an auditor as taken by the users of financial statement. That is what auditor does and what is expected of him by the users of financial statement. There exists cases where an auditor falls prey to personal, emotional or financial pressure compromising his independence resulting to poor audit quality. These possibly points out that the auditor shoulders a direct responsibility to users of the financial statement which might translate to auditors reporting quality.

2.2.3 Information Theory

As part of monitoring process, financial reporting described in the 'agency theory' forms a central part. Provision of information enables users to make key economic decisions. Investors use audited financial information to make investment decisions and assessment of expected returns and risks. Audit therefore validates the quality of financial information presented by management. Sijpesteijn (2011) stated that internal decision making process improves with data that is more accurate.

2.3 Determinants of Audit Quality

There is no defined way of measuring audit quality. Existing empirical studies have linked the audit quality phenomenon to a number of audit quality proxies to help people measure audit quality. Varied results have been documented on how audit quality is affected by factors such as the audit tenure, client importance, auditor reputation, audit firm size, auditor independence, auditor expertise, proficiency etcetera. The following audit quality factors will be considered;

2.3.1 Audit Firm Tenure

Audit firm tenure is linked with auditor's technical ability and objectivity in identify misstatements and errors and reporting about them in his report. It has been argued before that short audit tenures affect auditors' ability to identify misstatements and errors while long tenures affect auditors' objectivity and independence. Raghunandan (2002) found out that audits performed by audit firms with a short term relationship with clients had more audit failures than those performed with audit firms which had long term audit tenures.

SOX Act of 2002 found it unlawful for a lead audit partner and reviewer of a registered public auditing firm to conduct audit of client if he has ever been involved in each of the 5 previous audits of the same client. These act however falls short of requiring audit firm rotation. It has been thought that firms may go ahead and require audit firm rotation especially in cases where there is a change of the lead audit partner. Certainly, long audit tenure has been indicated as a devising factor that may have facilitated the many emerging corporate scandals.

2.3.2 Auditor Reputation

Auditor reputation is another key factor which affects audit quality since it affects resources available for a firm to conduct an audit. Many researchers put it forth that audit reports reflect level of quality and that this depends on the type of auditor. It is argued that higher reputation audit firms – the big 4 put on a lot of resources on development of their staff who certainly have a higher level of technical competence thereby providing high audit quality services. Since auditor's reputation for quality is valuable, audit findings from high reputation audit firms that have a history of producing quality work are easily adopted and recommendations implemented.

An audit firm builds its reputation over time by producing quality work. To maintain these reputation, total commitment is required from each member of the team since a well-earned reputation should conform to the report produced in each audit process. Users of financial statement use auditor reputation to infer unobserved audit quality based on the provided audit reports, De Angelo (1981).

2.3.3 Client Importance

The need for higher audit quality that lead to economic dependence on client poses as a major risk factor of auditing. Apart from audit services, an audit firm may perform other services to client namely, consultancy, tax analysis etcetera. These other service increases financial dependence on client thereby increasing risk posed by services provided. Only fees paid for audit is considered as audit fees and consists of estimated cost calculated from time to be taken by staff to audit, travel cost when conducting audit, wages if incurred in the course of audit and any other related support activities that will be necessary.

The threat to auditor independence is higher when audit fee is large, Kinney and Libby (2002) and that different audit firms will charge different fees for the same client reflecting the quality of audit work performed, Francis and Simon (1987). A recent study by Francis, (2004) which examined whether the presence of an audit committee and internal audit function in companies in Australia were related with high level of audit fees charged to clients concluded that high audit quality refers to high audit fees. Similar arguments are that there existed positive relationship between audit fees and audit quality in companies.

2.3.4 Auditor's independence

When an auditor is able to do his work free from management influence, he is said to be independent. This is enhanced by having an independent audit committee which is charged with oversight and monitoring role in an organization. Audit committee roles typically includes oversight of audit (both internal and external). To enhance independence of the auditor, audit committee conducts meetings with the external auditor in absence of the company's management. De Angelo, (1981) best describes independence as the basis of reporting a discovered breach.

2.3.5 Firm Size

Audit firm size has continued to be used as a surrogate in measuring audit quality. Bigger audit firms are associated with accurate information due to the level of expertise they possess compared to the smaller audit firms. This firms largely invest in industry expertise and develop more reputation than smaller audit firms, Titman and Trueman (1986). Smaller audit firms have been found to be likely compromised by clients to ensure for future gains as compared to larger audit firms, DeAngelo (1981). Audit quality is said to be related to audit process undertaken by auditor in terms of tests performed, Dopuch and Simunic (1982). Since big audit firms have more resources to perform extensive procedures compared to smaller audit firms they are thought to produce high quality audit reports. Moore and Scott (1989) supported this argument and concluded in their findings that audit firm size and the audit quality are positively associated.

2.3.6 Auditors Qualification and Experience

An auditor needs to have achieved sufficient knowledge and supervised experience through examination and work experience to conduct an audit. Researchers have found that auditor qualifications and proficiency positively affect audit quality. Also, employers and audit fees rates basically use technical capability to award auditor's fees: the skills an auditor possess, the working experience, certification type of the auditor and the level of education. These suggests that the technical ability of auditor positively impacts auditor remuneration.

An auditor has to maintain professional proficiency through continuous professional education. Practical work provides a key learning point for an individual. Sundgren (1998) noted that non certified auditors are less probable to customize their audit reports compared to their certified counterparts and that at minimum, audit quality differs between the two. This implied that certified auditors provide higher level of assurance than non-certified auditors.

2.4 Empirical Review

Mansi et al (2003) documented how audit tenure and cost of debt financing affects audit quality. In his analysis of data for years 1974 to 1998, he divided audit firms into big 6 and non-big 6. He used the information to test whether the bond price was included in credit ratings and further examined how the choice of the audit firm affects credit spread. In his results, it was found that when evaluating bond ratings, rating agencies considered auditor characteristics and that non big 6 audit firms were downgraded by one minor rating category. In addition, companies who have maintained long relationship with auditors were rated higher on their bond and that those with big 6 auditors who were considered to be large received premium on their bond. This implied that the results of audit impacts the capital market.

Arruñada and Paz (1997) analyzed the effect of mandatory rotation on costs and audit prices. Using analytical model to analyze total costs, the model showed that the total cost and audit period were negatively associated. This suggested that shorter audit period's increases audit costs. The present value of the total cost of audit was found to increase between 7 and 20 percent when audit tenure fall between 40 to 9 years. They further suggested that adding startup cost incurred by auditor increased the total cost of audit.

LIM & TAN (2010) investigated audit quality was associated to audit tenure moderated by auditor specialization and audit fees and analyzed this relation using OLS regression. They used accrual quality model (McNichols, 2002) to measure audit quality and found out that companies audited by specialists in their industry had relatively higher audit quality when auditor tenure was long. However, this relationship was moderated by auditors' fee dependence on clients.

Klein and Leffler (1981) formulated a model for endogenous quality to study audit firm reputation versus audit quality. They observed that reputable firms provided higher quality audits. It was further noted that in order to protect future income they ought to receive, this auditors might be compromised thereby providing low quality audit report. This implied that audit firms with reputation are related with higher quality work would do all within their power to maintain it.

Skinner and Suraj (2009) investigated events that transpired in Kanebo which was a large cosmetics company in Japan that encountered massive accounting fraud. These audit was conducted by ChuoAoyama. Using these events, they provided evidence on how auditors' reputation and audit quality are related in a setting where there is litigation. They analyzed auditor changes during the period over which ChuoAoyama an audit firm was suspended and further analyzed the stock price changes to events that led to the FSA's suspension of ChuoAoyama firms. The study focused on 200 firms that were listed in the first and second sections of TSE as was in February 2008. They found that audit clients of ChuoAoyama switched away from the firm when clients casted doubts on its audit quality consistent the reputation hypothesis for delivering quality. Client's switches happened before Chuo Aoyama wound up.

Kimeli (2013) analyzed the factors that determines audit fees for firms listed in the NSE. He used deductive approach and collected data on firms listed on NSE for a span of 5 years covering years 2008 to 2012. The research objective was tested using multiple regression and correlation analysis. He noted that the big-4's audit firms were the main auditors of these companies.

Agunda (2013) documented evidence on how audit firm tenure was affecting audit quality in the banking industry in Kenya. Multiple linear regression was used with audit quality as the dependent variable and audit rotation, consultancy services offered and audit as the independent variables was used. A population of 43 commercial banks was used with primary data collected through questionnaires and interviews for financial year ends 2013 and analyzed using statistical tools. The study results indicated that by providing consultancy services, the effect on audit quality will be high compared to audit fees and auditor rotation.

Ndisya (2015) investigated factors affecting audit quality in commercial and manufacturing companies listed in Kenya. To establish the impact of the independent variables namely; auditor size, financial status of the company and the logarithm of the auditor fees, a linear regression model was used. Ten manufacturing and commercial service companies listed in Nairobi Stock exchange were used in the study. In her findings, logarithm of audit the fees, company financial position and audit firm size were significant in influencing the leverage of the companies and thus audit quality. Even though audit firm size had affected audit quality positively, she noted that companies experiencing financial distress were less probable to have high audit quality and that logarithm of audit fees was negatively related with the audit quality.

The available studies majorly examine one of this factors; auditor tenure, auditor reputation or fee dependence independently providing variant findings. By providing extensive literature on these factors, the researcher showed how auditor tenure, auditor reputation and client importance jointly affect audit quality. Focusing on either one moderator alone (either audit tenure, auditor reputation or client importance) barely provides enough information to show how this factors jointly affects audit quality

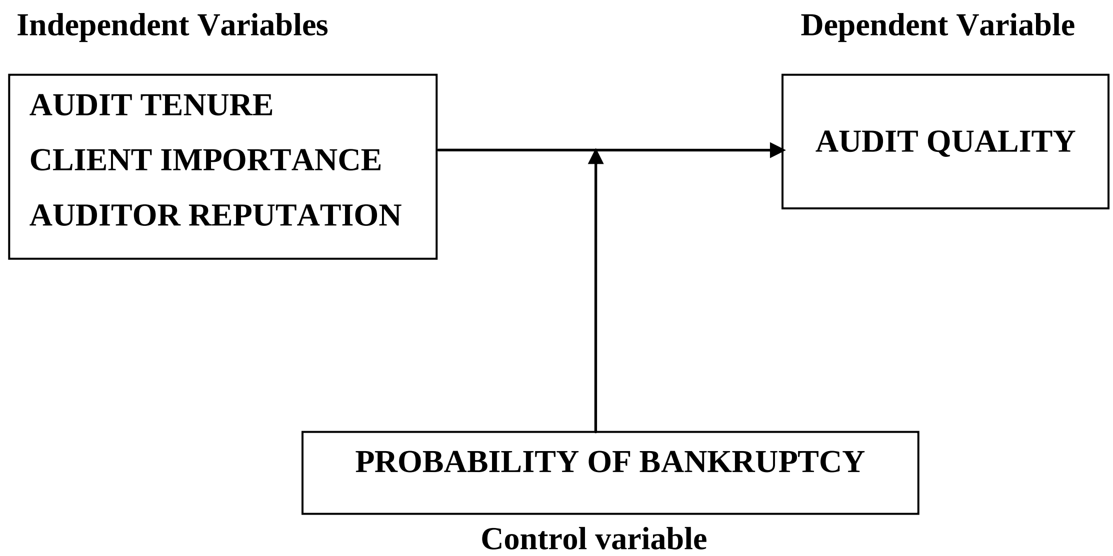
2.5 Summary of Empirical Review

Following the insights of these studies, a number of factors can influence audit quality and audit tenure, client importance and auditor reputation are just a few of them. Even though many definitions on audit quality exist, there is no plausible definition of what its determinants are. Rather it does seem that audit quality is defined by elements which are largely unobservable and approached broadly with focus on various attributes of audit which includes judgments, outcomes and process. It is also true that audit quality phenomenon varies across range of users.

There is currently little literature on audit quality in African countries. Most of the literature on audit quality has employed proxies approach, in particular the size of the audit firm, industry specialization, auditor reputation, audit tenure, auditor expertise, audit firm experience of clients industry, etcetera. Since audit quality definition varies with the users, it will be unreasonable to look in only one of the many attributes of audit quality independently. This would not provide a clear view of audit quality. Consequently, the study focused to find out whether there exists a joint effect between auditor rotation, auditor reputation and client importance on audit quality of listed firms in Kenya for the years 2011 to 2015.

2.6 Conceptual Framework

Figure 1: Conceptual Model



Source: Researcher

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodology that was adopted in this study is discussed as follows; Section 3.2 presents research design; Section 3.3 presents population of study; Section 3.4 presents sample of study; data collection in Section 3.5 and Section 3.6 presents data analysis.

3.2 Research Design

Correlational design was used to obtain more information about audit quality and explore the association between observed audit quality and explanatory variables. The study aimed to establish the extent to which auditors report quality for the non-financial listed firms in Nairobi Securities Exchange, determine the measures of audit quality, define the explanatory variables, and indicate their expected relationship to audit quality that is observed.

Financial reports were obtained from the NSE and CMA Websites. Different determinants of audit quality exist. The study period of interest was year ended 2011 to 2015 financial reports.

3.3 Population of Study

A population can be defined as a group of individuals or objects who share the same characteristics from an experimentally generalized induction can be accomplished. The population encompassed observations from all the 67 companies listed at the Nairobi Securities Exchange (NSE) for a span of five years from January 2011 to December, (Appendix 1). The type of data used was mainly quantitative taken from the published annual reports of the listed firms which was found in their respective websites, Nairobi Securities Exchange (NSE) and the Capital Markets Authority. Other sources of information such as newspaper and magazines was also considered for respective companies. Once the company is identified, the company auditor was identified too from the respective company annual report.

3.4 Sample of Study

A sample of 56 non-financial companies was taken from population of study. Companies listed in between the year of study were excluded. Accordingly, we excluded 13 companies that were listed during the study period. 2 companies that had not prepared consolidated financial statements for the period were not analyzed. Due the difference in reporting currencies, 2 Companies incorporated outside Kenya were not analyzed. Given the different operating characteristics of insurance companies, we excluded 6 insurance companies from companies' analyses. The final sample used in the study was 33 firms with complete information.

3.5 Data Collection

Secondary data sources were used; the published annual reports of the listed firms from Nairobi Securities Exchange (NSE) and the Capital Markets Authority. Secondary data was valuable to this study due to its availability making it fast an easy to collect as well as its ability in light of money and time constraint. However, this type of data is usually outdated. The impact of out-datedness did not arise in this study since the data used was for five years that spanned between years 2011 and 2015.

Evaluation of yearly financial reports for sampled companies during the period under study was done with a focus on the quality of audited reports. Focusing on three main factors; audit tenure, client importance and auditor reputation, their assessment was done pertaining to their relevance to audit quality.

3.6 Data Analysis

Analysis of data focused on identifying the relationship of audit quality on the joint effect of audit tenure, client importance and auditor reputation. Ordinary Least Square regression was used to analyze data collected. Section 3.6.1 sets out the conceptual model and defines the variables whereas Section 3.6.2 presented the analytical model.

3.6.1 Conceptual Model

To explore whether audit quality was explained by audit firm tenure, auditor reputation and client importance, the study used the following conceptual model;

Audit Quality (X) = f [Audit Firm Tenure (TENU), Auditor Reputation (AR), Client Importance (FEE)] (1)

As postulated by Chen (2012), it is expected that companies audited by reputable audit firms (big 4) will be positively correlated with audit quality and extended audit tenure and that this relation is negatively affected by reliance on audit fees from clients.

3.6.2 Analytical Model

The study conducted regression analysis to establish the joint effect of audit firm tenure, auditor reputation and client importance on audit quality. Audit quality was established by the measure of accrual quality which was established as its inferential measure. This was justified by its previous applications based on Mc Nichols model (2002) as follows;

$$CA_{i,t} = \beta_0 + \beta_1 OCF_{i,t-1} + \beta_2 OCF_{i,t} + \beta_3 OCF_{i,t+1} + \beta_4 \Delta REV_{i,t} + \beta_5 PPE_{i,t} + v_{i,t} \quad (1)$$

Where;

CA = current accruals given by net income before extraordinary items plus depreciation and amortization minus operating cash flow;

OCF = operating cash flow at year t-1, t, and t+1;

ΔREV = change in revenues;

PPE = gross value of property, plant, and equipment.

All variables were standardized by dividing by average total assets. The coefficients β_1 to β_3 measure the associations of Current Accruals with operating cash flow at year's t, t-1, t+1 respectively. The residual of the equation was the estimate of discretionary accrual denoted as DA. Since DA can either be positive or negative, the absolute measure denoted as |DA| was used to rank company with respect to the other companies listed.

The study conducted regression analysis using the following regression model:

$$DA = \lambda_0 + \lambda_1 TENU + \lambda_2 AR + \lambda_3 FEE + \lambda_4 TENU*AR + \lambda_5 TENU*FEE + \lambda_6 AR*FEE + \lambda_7 TENU*AR*FEE + \lambda_8 ZFC + £ \quad (2)$$

Where;

DA=Discretionary Accrual which is the inferential measure of Audit Quality.;

TENU = Audit Firm Tenure referred to the number of consecutive years the client has retained the same auditor measured as follows;

SHORT = Equals 0 when the length of the auditor- client relationship is three years or less, and 1 otherwise;

LONG = Equals 1 when the length of the auditor- client relationship is more than three years, and 0 otherwise;

AR = 1 if the auditor is among big 4, and 0 otherwise

FEE = Natural Logarithm of Total Audit fees received from client;

ZFC = Probability of bankruptcy calculated from Zmijewski's Financial Condition (1984) as follows: -4.336-4.513*(Net Income/Total Assets) +5.679*(Total Liabilities/Total Assets) +0.004*(Current Assets/Current Liabilities);

And λ_0 λ_1 λ_2 λ_3 λ_4 λ_5 λ_6 λ_7 and λ_8 are regression coefficients.

The researcher used probability of bankruptcy to control for financially distressed firms.

The regression equation was solved using a multivariate regression analysis. The relationship between each two variable was tested using Pearson's correlation. If the correlation is positive, a positive relationship is inferred. If it is negative, the relationship is negative. Test of significance on correlation between variables was measured using the p-values. Multicollinearity was tested using Variance Inflation Factors (VIF) and Tolerance Values. The models significance was established using the F-statistic and the p-values from the ANOVA table.

3.6.3 Test of Significance

One argument is that extended audit firm tenure, the less independent the auditor becomes and consequently audit quality decreases. This is because of the economic dependence by an auditor on client. This suggested that with longer audit firm tenure, audit quality was lower when economic dependence was higher. This means that since the client contribution to audit firm is high, an audit firm would be reluctant to loose such client. However, economic dependence due to high audit fees also argued against short auditor tenure. It was suggested by DeAngelo (1981) that auditors outwardly give into clients' demands in exchange of low audit fees for fear of losing future revenue especially in their earlier years of audit. In light of the above, it is not clear to tell the directional effect of audit quality for both short and long tenure with greater economic dependence in side with auditor reputation. As argued before, high reputation firms have incentive to protect their reputation hence are less likely to acquiesce themselves with client demands. Since the control nature of the economic dependence by tenure relation is unclear, the following hypothesis follows:

H_a: The joint effect of auditor tenure and fee dependence on audit quality is determined by auditor reputation.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

In this chapter, data analysis, results and discussion of the research have been laid forth. Summary statistics of research are covered under Section 4.2; correlation analysis of variables under Section 4.3; tests for multicollinearity of variables under Section 4.4; and regression analysis under section 4.5.

4.2 Summary Statistics

Table 4.1 presents the mean coefficients from the annual cross sectional regression for estimating accrual quality. Adj. R^2 is the average of the adjusted R^2 from the regression. The t-statistics were calculated from the mean of the coefficients from the regression. The coefficients of at time t-1, (β_1) and t+1, (β_3) cash flows were found to be positive while the coefficient of the current cash flow (β_2) at time t were found to be negative. It was also observed that sales and current accruals were positively associated and significant while the relationship between current accruals and plant property and equipment (PPE) was not significant. The average adjusted R^2 was 0.24.

Table 4.1: Coefficient estimate in estimating accrual quality

Variable	**Coefficients**		**t-statistics**
Intercept	β_0	0.0001	-0.0110***
$OCF_{i,t-1}$	β_1	0.1212	4.213***
$OCF_{i,t}$	β_2	-0.2546	-6.743***
$OCF_{i,t+1}$	β_3	0.2144	8.124***
ΔREV	β_4	0.0392	3.480***

PPE	β_5	-0.0029	-0.453
Adjusted R^2			0.24
N (observations)			165

*Source: Research data 2011-2015 ****denotes significance level at 1% (2 tailed)*

Table 4.2 below presents the descriptive statistics for variables Tenure, Auditor Reputation, Audit Fees and Discretionary Accruals. The table further shows that the mean price of DD for the firms analyzed during 2011-2015 period had a mean of 0.0461 with a maximum value of 0.0795 while 0.0654 was the minimum. Auditor tenure had a mean value of 4.55(4 year) for the listed analyzed firms at NSE was approximately. This implied that on average, 46% of the firms had retained the same auditor for less than or equal to three years, while 54% of the firms had retained the same auditor for more than three years. Audit fee paid by this firms had a mean of 1.4287 and standard deviation of 3.5410 over the period while auditor reputation had a mean of 0.189, 0.0007 median and standard deviation of approximately 0.45. On the other hand the probability of bankruptcy on average was approximately -2.104 and averagely deviated by approximately 1.429.

Table 4.2: Descriptive Statistics 2011-2015

	Mean	Median	Minimum	Maximum	Std Dev.	Observations
DD	0.0461	0.0391	0.0654	0.0795	0.0371	165
TENU	4.5122	6.0120	3.1650	12.120	7.342	165
SHORT	0.1951	0.0010	0.0000	0.0000	0.3910	165
LONG	0.4610	0.0000	0.0000	1.000	0.3409	165
FEE	1.4287	0.1990	0.0516	0.9670	3.5410	165
AR	0.1890	0.0007	0.0000	1.0000	0.4500	165
ZFC	-2.104	-2.841	-5.130	-1.983	1.429	165

Source: Research data 2011-2015

4.3 Correlation analysis

The correlation matrix table 4.3 showed that the relationship between DD and SHORT tenure was 0.04 suggesting that short tenure positively affects audit quality and that the relationship was statistically significant at 10%. The correlation between DD and LONG tenure had an inverse relationship (r = -0.06) suggesting that long audit tenure was associated with lower audit quality. It was also be observed that DD was negatively and significantly associated with auditor reputation (AR) with correlation -0.06. The correlation between DD and FEE was -0.03 implying that the relationship between discretionary accrual and audit fee was negative and significant at 10%.

Table 4.3: Correlation Matrix 2011-2015

	DD	SHORT	LONG	FEE	AR	ZFC
DD	1					
SHORT	0.04*	1				
LONG	-0.06*	-0.50*	1			
FEE	-0.03*	-0.04*	0.10*	1		
AR	-0.06*	-0.02*	0.05*	0.01	1	
ZFC	0.07	0.03*	0.07*	0.05*	0.03*	1

*Source: Research data 2011-2015 * denotes 10% significance level*

4.4 Test of Multicollinearity

The classical linear regression assumption requires that the independent variables should not be correlated. The test for multicollinearity was therefore conducted using the variance inflation factors (VIF) and the tolerance levels. Variance Inflation Factors (VIF) measures extent of multicollinearity in linear regression analysis. VIFs will be 1 when there is no correlation between two independent variables. If there are two or more variables with VIF around or greater than 10, this indicates the existence of multicollinearity. On the other hand, the Tolerance level value should be greater than 0.10. Any Tolerance value less than 0.10 indicates a collinearity problem. Table 4.4 below presents the Tolerance and VIF values. The VIF values as indicated in the table show that all the values are below 10 as is also the case with Tolerance values which are above 0.10. This therefore implies that the audit tenure, auditor reputation and client importance (audit fee) doesn't suffer multicollinearity.

Table 4.4: Test for Multicollinearity

Variable	Collinearity Statistics	
	Tolerance	VIF
Audit Tenure	0.717	1.396
Audit fee	0.733	1.365
Auditor Reputation	0.472	2.117

Source: Research data 2011-2015

4.5 Regression Results

This study conducted regression analysis on the analytical model the summary results, ANOVA Table and the regression results obtained for the model are as indicated below.

4.5.1 Model Summary Results

The model summary of the regression results are shown in table 4.5 below. The correlation between the variables is 0.86. The table also indicates that the R-square of the model and in this case audit tenure, audit fee and auditor reputation accounted for 75.4% of the variance in discretionary accrual for firms quoted on NSE for the period 2011-2015.

Table 4.5: Model Summary

Model	R	R Square	Std. Error of the Estimate
	0.86	0.754	1.756

Source: Research data 2011-2015

4.5.2 Goodness of Fit for the Model

The goodness of fit of a model can be inferred from the ANOVA table. The ANOVA table tests whether or not the model significantly explains the outcome variable, which in this case is audit quality.

Table 4. 6 below shows the significance of the model in explaining the joint effect of audit tenure, auditor reputation and client importance (audit fee) on audit quality.

Table 4.6: ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	135.431	3	13.54	63.354	0.000
Residual	48.953	128	0.214		
Total	184.384	131			

Source: Research data 2011-2015

The overall model was significant with an F (3,128) = 63.354, P value 0.000 and accounted for 11.6 % (R^2 = 75.4) of the variance in discretionary accrual.

4.5.3 Multivariate Regression Model Results

From table 4.5.3 below, model 1; with all factors constant, the constant term was 0.125. Short tenure and long tenure were both positive. Short tenure was significantly related to DD while long tenure is insignificant at 5% level. This implies that long tenure was not related to DD. Model 2; the interaction between LONG*AR had a negative coefficient and was statistically insignificant but inverse implying that audit quality is low when audit tenure is long and client audited by big 4. In contrast, the coefficient of interaction between SHORT*AR was significant at 5% level but negative showing that audit quality is higher when audit tenure was short for non-big 4 relative to big 4. In Model 3; the coefficients of LONG*FEE and SHORT*FEE were both negative and but statistically insignificant at 5% level. Lastly, in Model 4, the coefficient of interaction LONG*AR is negative and statistically significant .The relationship between LONG*AR*FEE is positive and statistically significant. The coefficient between SHORT*AR and that of SHORT*AR*FEE are both negative and insignificant at 5% level. This implies that when audit tenure is long and client audited by big 4, audit quality was low. But when audit fee is high, with increased audit tenure, the level of audit quality is higher with big 4 relative to non-big 4.

Table 4.7: Regression analysis results

	coefficients	Model 1	Model 2	Model 3	Model 4
Constant	λ_0	0.125	0.152	0.122	0.124
SHORT	λ_{1a}	0.040	0.015	0.005	0.016
LONG	λ_{1b}	0.060	0.022	0.010	0.028
AR	λ_2	-0.030	0.014	-0.020	0.012
FEE	λ_3	-0.021	-0.210	-0.070	0.110
SHORT*AR	λ_{4a}		-0.043		
LONG*AR	λ_{4b}		0.053		
SHORT*FEE	λ_{5a}			-0.123	0.123
LONG*FEE	λ_{5b}			-0.222	-0.432
AR*FEE	λ_6				
SHORT*AR*FEE	λ_{7a}				0.600
LONG*AR*FEE	λ_{7b}				-0.105
ZFC	λ_8	0.013	0.013	0.013	0.013
N					165
Adjusted R^2		11.81	11.83	11.80	11.81

*Model 1; Variables TENU, FEE, AR: Model 2; Variables TENU, FEE, AR & TENU*AR: Model 3; TENU, FEE, AR, TENU*FEE: Model 4; TENU, FEE, AR, TENU*FEE*AR*

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

5.1 Introduction

This chapter presents a summary of the study, conclusions, study limitations and recommendations. The summary of the study is covered under Section 5.2; conclusions in Section 5.3; limitations of the study in Section 5.4; and recommendations in Section 5.5

5.2 Summary of the Study

The study sought to find out the joint effect of audit tenure, client importance and auditor reputation on audit quality. The researcher used correlation approach of study. Data was collected on the 33 listed financial companies which formed the sample of study covering period from 2011-2015.Annual reports were obtained from companies, NSE and CMA websites. Correlation analysis and multiple linear regression were used for analysis of data. The test for multicollinearity revealed that the VIF and Tolerance values were below 10 and greater than 0.10 respectively and therefore the predictor variables (Audit tenure, Client Importance (Fee) and Auditor reputation) did not suffer from multi colinearity.

The multiple linear regression model coefficient of correlation (R) was 0.86 and coefficient of determination R^2 was 0.754 implying that 75.4% of the variation can be explained by the variables while 11.6% is explained by the error term.

5.3 Conclusions and Recommendations

From the study, it is evident that audit quality is not only affected by independent factors such as audit tenure, client importance or auditor reputation but also the joint effects of this factors which are important in determining the quality of audit.

The study recommends that measures should be put in place by relevant authorities like ICPAK for disclosure of financial statements by the audit fees to encourage availability of data on variables such as audit fee received by this audit firms. It was also noted that some listed companies' failed to publish their audited accounts as per requirement by the CMA Act making available information limited. Consequently, disciplinary actions should be taken upon such companies for failure to comply.

5.4 Limitations of the Study

Various challenges were encountered in this study. First, data available from NSE was limited since some financial statements were missing and others were not complete.

The aim of the study was to investigate the joint effect of the key factors; audit tenure, client importance and auditor reputation on audit quality observed on listed firms at NSE. Among the data required for the study was the audit fee charged by audit firms for a particular. This would require data from audit firms if not disclosed by listed firms which were not readily available.

Lastly, there was limited empirical evidence of research on joint effects of this factors affecting audit quality. Much of the studies around audit quality have concentrated on individual proxies. In the rise of corporate failures attributed mostly attributed by audit failures, there is need to conduct

5.5 Suggestions for further research

The research findings are limited to the companies listed in NSE. Further research work could be carried out on those firms not listed and in other sectors of various industries in the country. The effects of audit quality in public sector should also be studied.

Finally, more factors should be used to analyze their effects in audit quality for various sectors and industries of an economy.

REFERENCES

Aghaei Chadegani, A2011Review of studies on audit quality . *Available at SSRN 2227359.*

Agunda, J. O.2014 The relationship between auditor rotation and audit quality of Commercial Banks in Keny*Doctoral dissertation*

Al-Thuneibat, A. A., Issa, R. T. I. A., & Baker, R. A. A2011Do audit tenure and firm size contribute to audit quality?: Empirical evidence from Jordan. *Managerial Auditing Journal, 26(4)*317-334

Anandarajan, A., LaSalle, R. E., & Anandarajan, M2001 Policy issues concerning the choice of a disclaimer in the presence of going concern uncertainties: An empirical analysis*Managerial Auditing Journal, 16(3)*165-175

Anderson, R. C., Mansi, S. A., & Reeb, D. M2003Founding family ownership and the agency cost of debt*Journal of Financial economics, 68(2)*263-285

Aronmwan, E. J., Ashafoke, T. O., & Mgbame, C. O. (2013). Audit Firm Reputation and Audit Quality. Aronmwan, EJ, Ashafoke, TO, & Mgbame, CO2013 Audit firm reputation and audit quality *European Journal of Business and Management, 5(7)*66-75

Arrunada, B., & Paz-Ares, C1997 Mandatory rotation of company auditors: A critical examination *International Review of Law and Economics, 17(1)*31-61

Barzegar, B., & Salehi, M 2008Re-Emerging of Agency Problem: Some Evidence from Practicing Non-Audit Services by External Auditors *ICFAI Journal of Audit Practice, 5(2)*

Barzegar, B., & Salehi, M2008 Re-Emerging of Agency Problem: Some Evidence from Practicing Non-Audit Services by External Auditors. *ICFAI Journal of Audit Practice, 5(2).*

Beatty, R. P1989 Auditor reputation and the pricing of initial public offerings *Accounting Review*693-709.

Becker, C. L., DeFond, M. L., Jiambalvo, J., & Subramanyam, K. R1998 The effect of audit quality on earnings management* . *Contemporary accounting research, 15(1)*1-24

Bédard, J., & Gendron, Y2010Strengthening the financial reporting system: Can audit committees deliver *International journal of auditing, 14(2)*174-210

Behn, B. K., Choi, J. H., & Kang, T2008 Audit quality and properties of analyst earnings forecasts*The Accounting Review, 83(2)*327-349

Beneish, M. D., & Vargus, M. E 2002Insider trading, earnings quality, and accrual mispricing*The Accounting Review, 77(4)*755-791

Bing, J. J., Huang, C. X., Li, A. L., & Zhu, X. L2014Audit Quality Research Report

Brennan MJ, Franks J1997Underpricing, ownership and control in initial public offerings of equity securities in the UK *J. Financ. Econ. 45(3)*391-413

Brody, R. G., & Moscove, S. A1998Mandatory auditor rotation*National Public Accountant, 43*32-36

Burgstahler D, Dichev I 1997 Earnings Management to Avoid Earnings Decreases and Losses*J. Account. Econ. 24 (1)*99-126

Carey, P., & Simnett, R. 2006 Audit partner tenure and audit quality *The accounting review 81(3)*653-676

Charitou A, Lambertides N, Trigeorgis L 2011 Distress risk, growth and earnings quality*Abacus 47(2)*158-181

Charitou A, Lambertides N, Trigeorgis L2007Earnings Behaviour of Financially Distressed Firms: The Role of Institutional Ownership*Abacus, 43(3)*271-296

Chen, B.,Chi, W., & Lin, W.Y2012*Auditos' brand-name reputation, Audit Office size and the Impact of client Importance on Audit quality at the Office level: Evidence from China*In Zhongnan University of Economics and Law and National ChengchiCollege of business

Chen, H., Chen, J.Z., Lobo, G.J. and Wang, Y2011Effects of Audit Quality on Earnings Management and Cost of Equity Capital: evidence from China*Contemporary Accounting Research, vol. 28, no. 3*pp. 892-925.

Chen, K. C., & Church, B. K1992Default on debt obligations and the issuance of going-concern opinions*Auditing, 11(2),* 30

Choi, J-H, Kim, C.F, Kim, J-B, & Zang, Y2010Audit office size, audit quality, and audit pricing.*Auditing:A Journal of Practice & Theory, 29(1)*73-97

Congress, U.S. (1976). *Accounting and Management of the Committee on Government Operations. The Accounting Establishment: A Staff Study (Metcalf Report).* In 94th Congress, 2d session

Colbert, G., & Murray, D1998The association between auditor quality and auditor size: An analysis of small CPA firms. *Journal of Accounting, Auditing & Finance, 13(2)*135-150

Davis, L.R., B.S. Soo and G.M. Trompeter 2009Auditor tenure and the ability to meet or beat earnings forecasts*Contemporary accounting Research, 26, (2)* 517-548

de las Heras, E., Cañibano, L. and Moreira, J.A2012The Impact of the Spanish Financial Act (44|2002) on audit quality /El impacto de la Ley Financiera (44|2002) en la calidad de auditoría *Revista Española de Financiación y Contabilidad, vol. 41 ,no. 156* pp. 521-546

DeAngelo, H., DeAngelo, L., & Skinner, D. J 1994Accounting choice in troubled companies*Journal of accounting and economics, 17(1-2)*113-143

DeAngelo, L. E1981 Auditor size and audit quality *Journal of accounting and economics, 3(3)*183-199

Dechow, P. M., & Dichev, I. D2002 The quality of accruals and earnings: The role of accrual estimation errors*The accounting review, 77(s-1)* 35-59
Dechow, P. M., & Dichev, I. D2002 The quality of accruals and earnings: The role of accrual estimation errors*The accounting review, 77(s-1)* 35-59
Dedman, E., Kausar, A., & Lennox, C2014The demand for audit in private firms: recent large-sample evidence from the UK *European Accounting Review, 23(1)*1-23

Deephouse, David L.2000Media Reputation as a Strategic Resource: an Integration of Mass Communication and Resource-Based Theories *Journal of Management, Vol.26*1091-1112

DeFond ML, Jiambalvo J 1994 Debt Covenant Violations and Manipulation of Accruals*J. Account. Econ. 17(1/2)*145-176

DeFond, M. L2010 How should the auditors be audited? Comparing the PCAOB inspections with the AICPA peer review . *Journal of Accounting and Economics, 49(1)*104-108

DeFond, M. L., & Jiambalvo, J1994Debt covenant violation and manipulation of accruals *Journal of accounting and economics, 17(1)*145-176

DeFond, M. L., & Subramanyam, K. R1998 Auditor changes and discretionary accruals*Journal of accounting and Economics, 25(1)*35-67

Defond, M. L., Jiambalvo, J. 1994 Debt covenant violation and manipulation of accruals *Journal of Accounting and Economics, 17* 145-176

DeFond, M., Erkens, D. H., & Zhang J2014Do client characteristics really drive Big N quality differentiation*Unpublished Working Paper, University of Southern California*

Dollinger, Marc J., Golden, Paggy A. and Saxton, Todd1997The Effect of Reputation on the Decision to Joint Venture*Strategic Management Journal, Vol.18*127-40

Dopuch, N., & Simunic, D1980The nature of competition in the auditing profession: a descriptive and normative view *Regulation and the accounting profession, 34(2)*283-289

Dopuch, N., King, R. R., & Schwartz, R2001 An experimental investigation of retention and rotation requirements *Journal of Accounting Research, 39(1)*93-117

Dye, R. A1993Auditing standards, legal liability, and auditor wealth *Journal of political Economy*887-914

Eisenberg, T., Sundgren, S., & Wells, M. T1998Larger board size and decreasing firm value in small firms*Journal of financial economics, 48(1)* 35-54

Elkana Kiptum Kimeli2013Determinants of audit fees for listed firms in Kenya*Doctoral Dissertation*

Epstein, M. J., & Geiger, M. A.1994Investor views of audit assurance: Recent evidence of the e.*Journal of Accountancy, 177(1)*60

Ezzamel, M., Gwilliam, D. R., & Holland, K. M1996Some empirical evidence from publicly quoted UK companies on the relationship between the pricing of audit and non-audit services*Accounting and Business research, 27(1)* 3-16

Ezzamel, M., Gwilliam, D. R., & Holland, K. M.1996Some empirical evidence from publicly quoted UK companies on the relationship between the pricing of audit and non-audit services*Accounting and Business research, 27(1)*3-16

Francis, J. R2004 What do we know about audit quality?*The British accounting review, 36(4)*345-368

Francis, J. R. and Yu, M. D.2009Big 4 Office Size and Audit Quality*The Accounting Review, vol.84, no.5*pp.1521-1552

Francis, J. R., & Simon, D. T 1987A test of audit pricing in the small-client segment of the US audit market*Accounting Review*145-157

Geiger, M. A., & Raghunandan, K.2002Auditor tenure and audit reporting failures*Auditing: A Journal of Practice & Theory, 21(1)*67-78

Hay, D., Knechel, W. R., and Wong, N 2006Audit fees: A meta-analysis of the Effect Supply and Demand Attributes*Contemporary Accounting Research* 141-191

Hoitash, R., Markelevich, A., & Barragato, C. A.2007Auditor fees and audit quality*Managerial Auditing Journal, 22(8)*761-786

Hopwood, W., McKeown, J., & Mutchler, J.1989A test of the incremental explanatory power of opinions qualified for consistency and uncertainty*Accounting Review,*28-48

Hoyle, J1978Mandatory auditor rotation: The arguments and an alternative *Journal of Accountancy (pre-1986), 145(000005)*69

ICPAK News

Jamal, K. and Sunder, S.2011Is mandated independence necessary for audit quality?*Accounting, Organizations and Society, vol. 36(4–5)*pp. 284-292

Jenkins, D. S., & Velury, U.2008Does auditor tenure influence the reporting of conservative earnings?.*Journal of Accounting and public policy, 27(2)*115-132

Johnson, V. E., Khurana, I. K., & Reynolds, J. K2002 Audit-firm tenure and the quality of financial reports*Contemporary accounting research, 19(4)*637-660

Jones, K. L., Krishnan, G. V., & Melendrez, K. D2008 Do models of discretionary accruals detect actual cases of fraudulent and restated earnings? An empirical analysis. *Contemporary Accounting Research, 25(2)*499-531

Jones, K. L., Krishnan, G. V., & Melendrez, K. D.2008Do Models of Discretionary Accruals Detect Actual Cases of Fraudulent and Restated Earnings? An Empirical Analysis*Contemporary Accounting Research, 25(2)*499-531

Kasznik, R., & McNichols, M. F.2002Does meeting earnings expectations matter? Evidence from analyst forecast revisions and share prices.*Journal of Accounting research, 40(3)*727-759

Klein, B., & Leffler, K. B1981The role of market forces in assuring contractual performance*The Journal of Political Economy*615-641

Klein, B., & Leffler, K. B.1981The role of market forces in assuring contractual performance*The Journal of Political Economy*615-641

Kleinman, G., & Anandarajan, A.1999The usefulness of off-balance sheet variables as predictors of auditors' going concern opinions: an empirical analysis*Managerial Auditing Journal, 14(6)*273-285

Lennox, C. S. .1999Audit quality and auditor size: An evaluation of reputation and deep pockets hypotheses*Journal of Business Finance & Accounting, 26(7-8*779-805

LIM, C. Y., & TAN, H. T2010 Does auditor tenure improve audit quality? Moderating effects of industry specialization and fee dependence*Contemporary Accounting Research, 27(3)*923-957

Malihi, Seyyed Ali and Mahdavikhou, Mahdi and Khotanlou, Mohsen2013An Investigation into the Relationship between Audit Committee and Audit Quality*Australian Journal of Basic and Applied Sciences, 6(10)*409-416

Mansouri, A., Pirayesh, R., and Salehi, M.2009Audit competence and audit quality: Case in emerging economy*International Journal of Business and Management, vol.4, no.2*pp.17-25

Mautz, R. K., & Sharaf, H. A1961*The philosophy of auditing (No. 6).*MaidenheadMC Graw-Hill Education

McLennan, A., & Pack, I2004The market for liars: Reputation and auditor honesty*Journal of Economic Literature*1-27

McNichols, M 2002 Discussion of The quality of accruals and earnings: the role of accrual estimation errors*The Accounting Review 77 (Supplement)*61–69

Md Nassir, A., Mohd, R., Mohamad, S., & Ngu, M. H.1997Selectivity and timing: evidence from the performance of Malaysian unit trusts*Pertanika Journal of Social Sciences & Humanities, 5(1)*45-57

Memis, M. U., & Cetenak, E. H.2012Earnings management, audit quality and legal environment: An international comparison.*International Journal of Economics and Financial Issues, 2(4)*460.

Moizer, P.1997Auditor reputation: The international empirical evidence*International Journal of Auditing, 1(1)*61-74

Mriwa, S. J.2013EFFECTS OF AUDITOR TENURE ON AUDIT QUALITY: CASE STUDY OF LISTED BANKS IN NAIROBI SECURITY EXCHANGE *Doctoral dissertation*KCA UNIVERSITY

Myers, J. N., Myers, L. A., & Omer, T. C 2003Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation?*The Accounting Review, 78(3)* 779-799

Ndisya, A2015 Factors affecting audit quality in listed manufacturing and commercial services companies in Kenya *Doctoral dissertation, University of Nairobi*

O'Keefe, T. B., Simunic, D. A., & Stein, M. T1994The production of audit services: Evidence from a major public accounting firm*Journal of Accounting Research*241-261

Oyadonghan, J. C., & Eke, F. M2011Factors affecting student use of information technology: a comparative study of federal university of technology, Owerri and Niger Delta University*Amazoma*

Palmrose, Z. V19881987 Competitive Manuscript Co-Winner: An analysis of auditor litigation and audit service quality. *Accounting review*55-73

Podolny, Joel1993A Status-Based Model of Market Competition*American Journal of Sociology, Vol.98*829-872

Press, E. G., & Weintrop, J. B1990 Accounting-based constraints in public and private debt agreements: Their association with leverage and impact on accounting choice*Journal of accounting and economics, 12(1)*65-95

*Quality of Audit*2011

Rangan, S. 1998Earnings management and the performance of seasoned equity offerings*Journal of Financial Economics, 50(1)*101-122

Reynolds, J. K., & Francis, J. R2001Does size matter? The influence of large clients on office-level auditor reporting decisions. *Journal of accounting and Economics, 30(3)*375–400

Rezaee, Z., Lo, D., Suen, A., & Garcia, H. .Is Mandatory Audit Firm Rotation Feasible? Evidence from Hong Kong*APPLIED FINANCE*523

Rosner R 2003Earnings Manipulation in Failing Firms*Contemp. Account. Res. 20(2)*361-408

Ross L. Watts and Jerold L. ZimmermanPositive Accounting Theory: A Ten Year Perspective.*The Accounting Review Vol. 65, No. 1* pp. 131-156

Schauer, P.C 2002"The Effect of Industry Specialization on Audit quality: An Examination Using Bid-ask Spreads", *Journal of accounting and Finance Research, vol. 10, no. 1* pp. 76-86.

Shapiro, C1983 Premiums for high quality products as returns to reputations*The quarterly journal of economics* 659-679

Shrum, Wesley and Wuthnow, Robert1988Reputational Status of Organizations in Technical Systems *American Journal of Sociology, Vol.93*882-912

Skinner, D. J., & Srinivasan, S. 2012 Audit quality and auditor reputation: Evidence from Japan*The Accounting Review, 87(5)*1737-1765

Sucher, P., Moizer, P., & Zarova, M1999 The images of the Big Six audit firms in the Czech Republic *European Accounting Review, 8(3)*499-521

Teoh, H. Y., & Lim, C. C1996 An empirical study of the effects of audit committees, disclosure of nonaudit fees, and other issues on audit independence: Malaysian evidence. *Journal of International Accounting, Auditing and Taxation, 5(2)*231-248

Teoh, S. H., Wong, T. J., & Rao, G. R1998 Are accruals during initial public offerings opportunistic? *Review of Accounting Studies, 3(1-2)*175-208

Titman, S., & Trueman, B1986Information quality and the valuation of new issues*Journal of Accounting and Economics, 8(2)*159-172

Vanstraelen, A2000 Impact of renewable long-term audit mandates on audit quality *European Accounting Review, 9(3)*419-442

Venkataraman, R., Weber, J. P., & Willenborg, M2008 Litigation risk, audit quality, and audit fees: Evidence from initial public offerings *The Accounting Review, 83(5)*1315-1345

Yuniarti,R2012The effect of tenure audit and dysfunctional behaviour on audit quality*International Conference on Economics, Business and Markrting Management,IPEDR vol(29)*

Zmijewski, M1984Methodological issues related to the estimation of financial distress prediction models *Journal of Accounting Research, 22*59-82

APPENDICES

Appendix 1: List of firms analyzed in the Study

1	Carbacid Investment	18	Kakuzi
2	East Africa Breweries Ltd	19	Express Ltd
3	Mumias Sugar Co	20	NMG
4	Unga Group	21	Standard Group Ltd
5	Eveready EA	22	TPS Serena
6	Olympia capital	23	Scan Group
7	Safaricom Ltd	24	Uchumi Supermarkets
8	Eaagads Ltd	25	Athi River Mining
9	Kapchorua Tea Co	26	Crown Berger
10	Limuru Tea Co	27	Bamburi Cement

11	Rea Vipingo Plantation	28	Centum
12	Sasini Ltd	29	EA Portland Cement
13	Car & General Ltd	30	Kenol Kobil
14	Sameer Africa Ltd	31	Total Kenya
15	Marshalls EA Ltd	32	Kengen
16	Kenya Airways	33	Kenya Power & Lightning Co
17	Longhorn Kenya		

Source: www.nse.co.ke