

**EFFECT OF AUDITORS' ROTATION ON AUDIT QUALITY OF COMMERCIAL
BANKS IN KENYA**

BY

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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D61/5315/2017

This research project has been submitted for examination on approval as the University Supervisor

Signed: _____

Date: _____

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DEDICATION

This project is dedicated to my parents Mr. Joel Leposo and Mrs. Rael Anyanzwa to whom I owe so much. I highly cherish your love, encouragement, support, and guidance throughout all these years.

To my son, Curtis I am grateful for his patience and understanding for the long hours I spent on this paper.

Above all, thank you for believing in me and more so, training me to believe in myself.

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Extraordinary appreciation goes out to my parents for their priceless plus outstanding inspiration and efforts in encouraging and giving me an enabling environment as I conducted my study. I wish to recognize the assistance and support I got from various individuals without whom this research would not have been fruitful. I wish to acknowledge my friends and classmates for their encouragement, assistance and support from the very beginning of my project to the end. May God bless you all for your support and assistance.

Finally am entirely grateful to the almighty Deity to whom I have put all my faith who has helped me reach this far.

ABSTRACT

Theoretically, it is presumed that auditors' rotation steers to high-quality audits since the new auditor is not accustomed to management. Auditor change by a company depends on different factors that vary across companies, but according to experts some of the reasons may include, conflicts of interest, price, and service, and company ownership change, regulations are the major reasons that trigger an auditor change.

Auditor independence is the main goal of audit firm rotation. Audit committees are responsible for independence in appearance, but the auditor is the main culprit of being independent in fact. Because an auditor may not appear 100% independent in appearance, it does not mean the auditor cannot, completely unbiased, create an opinion based on evidence recovered from the audit, which would make them independent in fact.

This research looked into the effect of audit rotation on firm audit quality of commercial banks in Nairobi County, Kenya. The study population was 43 registered banks in Nairobi however the response rate reduced the numbers to 32 registered banks. Primary data was gathered using a structured questionnaire based on the different audit quality parameters and the independent variables. Analysis of data adopted descriptive statistics that used frequency tables to show the means, standard deviations and inferential statistics which included correlation and regression coefficients. Statistically, there exists a notable relationship between auditor rotation and audit quality since overall statistical significance was 0.000 which is less than 0.05 at 95% confidence level. Audit rotation had the highest correlation with audit quality with a positive value of 0.662. Audit rotation and audit additional services were statistically significant with p-values of (.007) and (.008) respectively with beta coefficients of 0.088 and 0.327 had positive beta coefficients of 0.088. Audit team characteristics and audit fees were not statistically significant at 95% confidence level. The outcomes from the study established that audit quality is influenced by auditors' rotation and putting in place rules that will ensure mandatory rotation in all banks will enhance the quality of the work done. The extra mile auditors' play in offering additional services to the bank's impacts positively on the audit quality carried out thus should be embraced. The study suggests that more analysis should be done with regards to audit quality using other measures like Chi-square and not necessarily econometric models which can also be used to ascertain the consequences on audit quality as a result of auditors' rotation. Other variables may also be identified in future studies and their impact on audit quality-analyzed so as to depict better R^2 values of at least above 80% indicates a robust association between the independent and dependent variables.

ABBREVIATIONS AND ACRONYMS

AQ	Audit Quality
AR	Auditors' Rotation
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
ICPAK	Institute of Certified Public Accountants
IAASB	International Auditing and Assurance standards Board
FP	Financial Performance

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Auditing entails systematically and objectively getting information on economic actions for purposes of evaluating evidence for purposes of evaluating whether they correspond to the normal well set procedures and communicating the results to interested users (Kanter, 1990). Auditors' rotation not only brings forth cost reduction to the auditing markets but also ensures that it brings forth many other benefits which are the backbone to the justification of the need for AR by firms which helps in financial statement reevaluation and facilitate competitiveness in audit market (Pany, 2005). Mandatory AR helps curb the problem of a lack of auditors' independence. AQ is the key measure of audit performance. AQ is a fair-measured possibility that auditors will discover substantial errors that are in financial statements and report them (DeAngelo 1981).

Agency theory which asserts that a firm is made up of contracts that exist between owners of economic resources who are also called principals and managers who are termed as agents who both are bestowed with responsibilities of using and monitoring resources, (Adams,1994) will be one of the theories guiding this study. The study and the information theory which focuses on information provided to facilitate decision making by users make economic decisions. The study will also be guided by assurance theory which states that an assurance service is one that public accountants express a certain conclusion on how reliable the written report on audits is (Cosserrat, 2009).

According to the banking Act, audit partner rotation is what is carried out rather than rotation of audit firm. Commercial banks realized that for firms to achieve improved management of assets, they need to adopt mandatory audits (Basel Committee, 2002). According to the banking act, all public accounting firms should adhere to the requirements that lead audit partner or audit partners used at any given period must not have performed audit services for the past five years for the same firm.

Despite the existence of research noting the importance of audit rotation to companies, there appears to be scarceness of research in this area in Kenya. The study context will, therefore, be the effect of auditors' rotation on audit quality of commercial banks in Kenya focusing on the audit team characteristics, audit firm size and additional services provided.

1.1.1 Auditors' Rotation

According to Hoyle, 1978, the concept of Auditors' Rotation (AR) was initiated in 1976. It involves changing auditors yearly however this change of auditors can either be mandatory or voluntary (Hoyle, 1978). AR entails situations when auditors are pushed to change their auditors (Lu, 2005) whereas an optional change of auditors by firms is what is termed as the voluntary rotation (Davidson, 2005). The mandatory rotation usually involves changing the various audit firms by listed companies over a static time or through implementation of auditors' -partners (Arel *et al.*, 2005; Orin, 2008).

A relationship that is prolonged with the auditors may lead to complications on auditors'. This overtime results in substandard audits or even auditors' inclining towards client preferences, which

would lead to deprived quality of earnings (Myers, Myers, & Omer, 2003). Generally, AR brings a new look in the books of an organization which is anticipated to increase the probability misstatements will be easily detected by the auditors as well as contest accounting practices that might be questionable.

1.1.2 Audit Quality

Audit quality is a fair-possibility of breaches (misstatements) that are identified by an auditor and reports it or takes the necessary actions as required to inform about the breaches (DeAngelo, 1981). Lee et al. (1999) gives a more audit terminology-oriented definition and refers it to the probability that the auditors' will provide a professional auditors' outlook when books of accounts are materially misstated. According to Palmrose (1988), accurate auditors' reports should give guarantee of the unequivocal financial reporting for those interested, implying whether it shows an entity's financial position and results as is in reality (Lakis, 2007).

It's the accuracy of the information the auditors provide third parties with (Titman and Trueman, 1986). Information accuracy is closely related to earnings management, thus Davidson and Neu (1993) emphasized on the importance of detecting earnings management as a keystone of the quality of audits, therefore, a good excellent audit should detect misstatements not only due to error but also because of such fraudulent activities as earnings management.

Gibson and Singhal, (2010) defined organizational performance as the accomplishment by firm that is seen through conjectures such as attained targets, time taken to attain the targets, and gaining efficiency and producing the expected results. Financial and non-financial terms are the two ways

that organizational achievement can evaluate. The measure of revenue growth, profitability and market share of a firm is used in determining the productivity of that firm in financial terms.

A firm performance can be computed through financials, i.e. sales growth, profitability, competitive advantage in the market, and business performance, while for non-financial firm performance measures quality of products and services offered by the firm, level of innovation, meeting customer needs and, customer loyalty due to satisfaction according to Venkatraman & Ramanujam,(1986), and can be quantified through increase in firms client number and value per customer and attainment of workers satisfaction that increases productivity (Gibson & Singhal, 2010). Based on this study, we shall measure performance based on AQ.

1.1.3 Auditors' rotation and Audit quality

Improved AQ is achieved by implementation of AR. Based on a study by Beyanga (2011), reduced levels of overheads, identification of ways to reduce overheads are achieved through AR which in the long run helps improve levels of financial performance. For management to achieve improved performance, there is a need for adoption of AR. According to Fadzil et al (2005), auditing is key to achieving improved shareholders' value. An effective AR helps gain superior organizational performance at all times.

The adoption of AR facilitates provision the insights in the financial statements of their clients (Davis, 2009). Long working periods for same client facilitates reduction in the reduction of sharpness in an auditors' judgment based on the fact that auditing as a practice has its background on adopting professionalism and long term relationships with the clients (Nagy, 2005). Competitiveness in the audit market by various firms is achieved through adoption of mandatory

rotation. Besides this facilitates the ability of medium-sized companies (non-Big Four) to get optimistic and develop and based on the fact that rotation not only does it lay wholly audit firms to a matching degree but also offers equal openings (Raiborn et al, 2006). Audit failures result in losses which are suffered by both clients and auditors' which results to lower cost of AR (Cameran et al., 2005; Jackson et al. Despite this, AR has disadvantages whereby opponents of AR assert that the change of auditors' is not beneficial based on the fact that auditors are forced to struggle and build their reputation due to litigations (Davis *et al.*, 2009).

AR increases switching together with startup costs involved not only to the auditors but also to the clients as compared to those that were in-existence based on the development of a learning curve (Davis *et al.*, 2009). Due to this fact there will be an increase in the auditors' fees charged by the auditors' in order to cut on cost of an audit, resulting to an increase in the cost of the client to increase too (Wolf *et al.*, 1999; Johnson *et al.*, 2002). Various stakeholders in support of AR assert that audit tenure in audit rotation can have an inverse impact on the AQ in instances that the auditors' tenure results in an increase in the auditors' inability to be independent which results to poor auditing, (Kim *et al.*, 2007; Lu, 2005).

1.1.4 Commercial Banks

According to Chapter 488 of the Banking Act, a Commercial Bank is a firm that implements or purposes to implement banking business in Kenya. There are currently forty- three licensed Commercial Banks in Kenya (Adhiambo, 2012). The Banking Act does not involve replacement of audit firm but of audit partner rotation. Capital Markets Authority has been campaigning for actual change of audit firms, not auditors, for the public listed entities. This includes banks that

are listed in the NSE. The Banking Act does not involve rotation of audit firm but of audit partner rotation. It states that a registered public accounting firm should make sure that the major auditing partner, who is tasked with the responsibility of carrying out reviews of audits audit, should not have carried out auditing for this firm for the last five financial years in the same firm. The listed entities shares trade freely in the financial markets because the shares are faced with restrictions which are a major hindrance to their transferability, (Adhiambo, 2012).

1.2 Research problem

Firms tend to be attached so much to their auditors and this is a major contributor to low quality of audits. Auditors' independence is very key in the firm's quest to attain the best quality audits in the auditing profession (Nichols and Price, 1976). It occurs due to the inability of the auditors to report any misstatements detected in the process of auditing financial records. This becomes a major contributor to a likely increase in the misinformation among the various stakeholders involved (Kim, 2007). This has a long term effect of an increase in the levels of poor communications between management and the shareholders. When this occurs, the GAAP reporting practices are less motivated to issue our opinions ongoing concern (Kim et al., 2007).

Capital Markets Authority has been campaigning for actual change of audit firms, not auditors', for the public listed entities. This includes banks that are listed in the NSE. The Banking Act does not involve rotation of audit firm but of audit partner rotation. Firms tend to experience deteriorating the AQ due to auditors' independence unavailability which is highly attributed to the long term attachment to the auditors which acts as a hindrance to them from detecting and reporting misstatements that may occur in the client's financial records (Kim, 2007).

Globally, Mohd and Rezae (2017) in their research on auditors' switching and audit fee discounting in Iran. Found out that costs increase was from state to private auditors or vice versa was caused by auditors' switching. The study was however based on Iran and hence the findings would not be applicable in Africa and Kenya specifically. A study carried out by Moldrich (2008) indicated on mandatory AR of firms and AQ indicated that the quality of audit carried out by various auditors in a firm has an affirmative sway on audit firm tenure. This study, however, did not focus on the effect that AR has on AQ of commercial banks in Kenya. Burke and Lee, (2015), studied on protection of public interest through mandatory auditors' firm rotation. The findings ascertained that that audit rotation results in auditors' independence in various firms. This study, however, failed to focus on effects of AR on AQ of commercial banks in Kenya.

Regionally, Mohamed (2009) studied the applicability of the mandatory AR concept in the Egyptian environment. The study findings indicated that an extended nature of relationship client's business and practices provided by clients. The study, however, failed to focus on extent of implementation of AR in commercial banks in Kenya. Besides, it was based in Egypt and not Kenya. Sarath (2015) researched on the AQ within adverse selection markets. The purpose of the study was to bring out in-depth knowledge of both audit institutions and audit regulation. The study was solely based on adverse markets and hence the results would not be applicable in the local markets.

Locally, Cheboi researched determinants of auditors' change among companies listed on NSE where he ascertained that auditors' change had a positive effect on performance. However, it was

solely based on companies listed in Nairobi security exchange. Onginga (2013) performed an analysis of the effect of adoption of computerized auditing on AQ in Kenya. From the outcomes, a number of challenges exist that are inhibiting the adoption of computerized auditing in Kenya. The study, however, failed to focus on effect of AR on AQ of commercial banks in Kenya. Masika (2014) researched on quality of peril-based internal audits and how it impacted the efficacy of auditing internally in state corporations in Kenya. Results from the research showed that quality of auditing and efficacy of internal audit had an affirmative significant relationship. The study failed to however focus on determinants of AR in commercial banks. Wangui (2018) researched the consequences of AR on AQ of non-governmental organizations in Kenya. The findings indicated a positive relationship existed between AR and the AQ in NGO's in Kenya. Results indicated that AR has a weak effect on AQ. The study, however, failed to focus on effect of AR on AQ of commercial banks.

From the above studies, there exists a research gap in that there is no study that serves to address the benefits that would accrue to Commercial banks in Kenya from AQ as a result of auditors' rotation. Therefore, this study seeks to answer the following research questions: What is the effect of auditors' rotation on audit quality of commercial banks in Kenya?

1.3 Research Objective

This study sort to determine the effect of auditors' rotation on Audit quality of commercial banks in Kenya

1.4 Value of the Study

Future researchers were interested in the concept of AR and found this study beneficial to them based on the fact that it would be used as reference material. The study benefited ICPAK in its overall background of AQ, assurance and continuance of audit processes, engagement performance and monitoring as it was able to adequately articulate the challenges and solutions posed by banks on AQ. It also aided the regulators (CBK and CMA) upcoming needs and guidelines on AR to specifically address upcoming market challenges on the audit assignment as a whole.

By making the recommendation suggested by the changing auditors' roles, shareholders considered it as new challenge posed by the organization and the firms understood ethical failures and act on them therefore improving on AQ.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter contains the theoretical framework and highlights e-procurement management best practices, literature review and the conceptual framework which form basis of study topic.

2.2 Theoretical Framework

A number of theories that relate to this research have been developed and proposed. These theories make up the basis of this research are that form the theoretical framework. It is made of not only principles, theories but also the various findings that were obtained. This study will be guided by:

2.2.1 Agency Theory

It was instigated by Meckling and Jensen, (1976). According to him, there exists a contract whereby one two or more people (principals) engage other people, to carry out various services on their behalf. Here, shareholders do not get directly in control of business but by professional managers who run them daily. Differences in interests and information asymmetry causes low focus on stakeholders' needs because all their focus is on their own interests. In the long run, this creates high agency costs which have to be incurred by management (Jensen and Meckling, 1976). Due to such costs, there is a need for various mechanisms to be brought up to make sure that managers act in the interests of owners. This can be carried out by ensuring that managers disclose auditing function clearly, (Watts and Zimmerman 1986; Willenborg, 1999).

Usually there exists a divergence between agent's decision and profit-maximizing welfare of the principals. Under this relationship, owners have interests in maximizing value of their shares while

on the other hand, those charged with governance are more concerned in ensuring that the firms grow and generally reserved consumption Jensen et al., (1976). Under this agent-principal relationship, their major aims are to ensure that they are able to ensure maximization of their utility at the lowest possible expenditure. Based on a situation that there is a need for making alternatives, both the principal and the agent will select an option that ensures their utilities are increased (Davis et al., 1997). Investing in information systems that clearly bring out aspects to do with behaviors explicated by the agent to the principal is very important. Here, the auditors' carries out an assessment of financial statements that are prepared by the agent on behalf of the principal, and assess whether they reflect the truth about the company (Eisenhardt, 1989).

Auditors' rotation can lessen agency threats actualized by a battle of fascination between those charged with governance and shareholders (Wafts and Zimmerman, 1983); large and small shareholders (Fan and Wong, 2005); and debt and shareholders (Wafts and Zimmerman, 1986). These agency costs arise due to a contractual affiliation amongst the auditors' and the auditee. The client Principal hires auditors' to control the stewards of the client's interests in the organization and to improve the risk-sharing arrangement by management and owners of the company.

2.2.2 Information Theory

Information theory focuses on providing information that enables users to take economic decisions. Before any investor makes a decision on whether to invest or not in a firm, there is need for audited financial information for them to carry out evaluations on in assessing expected returns and risks (Sijpesteijn, 2011). The levels of decision making are improved by accurate data in

auditing (Sijpesteijn, 2011). It was originally used in communications. As a generalization of the uncertainty theory based on the notion of possibility (Hartley, 1928).

This theory is associated with the study topic grounded by the fact that it facilitates entities to evaluate information availed to them by auditors and evaluate its quality. AR facilitates improved quality of audits in an organization. AR improved trust by investors in the firm and other stakeholders. Besides the firm is in a position to improve its performance generally based on the adequate information provided by the auditors.

2.2.3 The Assurance Theory

An Assurance service is when a conclusion about its reliability of a written contention expressed by an accountant, (Cosserat, 2009). According to Elder (2010), an independent professional service that helps better information quality for decision-makers is what is termed as assurance service. To improve reliability and the levels of relevance of information, there is a need for seeking assurance by personalities responsible for creating business resolutions.

Five classes of assurance services are distinguished: ancient books of account audits, internal control over monetary reporting audits, assessment of past books of accounts, assurance services on information technology, and other authentication services that may apply to a broad range of subject matter numerous of other assurance amenities can be accomplished. Those in management are supposed to deliver a statement per case before the auditors can offer his or her evidence.

Eilifsen et al, (2010) set out instances of specific data, that involve reporting on sustainability, greenhouse gas, proform financial information, and internal control, included in prospectuses.

This theory is married to the study since the adoption of independent professional services by firms helps in enlightening the worth of information. This is highly related to firms changing the auditors that they use after a specific period to gain assurance on the audit reports presented.

2.3 Determinants of Audit Quality

The way the audit assignment is structured and conducted affects the quality of audit. A number of variables affect the AQ in an organization: They include audit team characteristics additional services, AQ model, factors related to reporting and audit firm size. These areas discussed below:

2.3.1 Audit Team Characteristics

These are the features explicitly shown by the audit team of any firm. It is a very crucial determinant of AQ. A firm that employs auditors in the correct way hires a good audit team (Wooten, 2003). According to professional committees, to dictate material misstatements, there is need for a very close evaluation of the individuals' integrity as well those assigned to carry out the engagements as a way to assist the detection of material misstatements. An audit team made up of personnel with superior level of professionalism has a more likelihood of performing their tasks in auditing tasks properly and rather not sign off on uncompleted audit steps. Additionally, staff who uphold great levels of distrust are not as likely to take up evidence that is insufficient, (Agunda, 2014).

2.3.2 Audit Firm Size

An enormity of an audit firm has much impact on the AQ in an organization. In most instances small audit firms most at times highly rely on large clients as compared to larger audit firms (DeAngelo, 1981). The level of independence in a firm is highly affected by the size of a firm in auditing. It has a long term impact on the AQ and there is a high probability that independence is compromised by the large auditing firms as compared to small firms. Large firms avail a collection of services to their clients and hence are intuit in offering higher quality audits cause of independence. Centered on the high number of resources available in the large audit firms to provide various services to their clients, they are purported to provide great quality of audit due to the great status they have and hence there is a need to maintain that image they possess (Deangelo, 1981).

2.3.3 Factors Related to Reporting

This relates to the auditors' independence whereby firms are able to point out any material misstatement. Auditors' independence is usually compromised whenever firms fall for emotional, financial and personal pressure which has a long term result in poor quality. Financial statement misstatements detection is highly hindered by audit pricing, tenure, among others (Wooten, 2003). Most at times auditors' face challenges of pressure to avoid reporting certain accounting deficiencies in their quest to avoid loss of future audit fees.

2.3.4 Additional Services

Pricing in auditing is highly affected by the number of services that are provided by the firm. Receipt of large fees that are unrelated to the audits leads to causes loss of independence by firms

due to high levels of bondage financially. Additional services provision has been proved to have a direct relationship to improved quality of audits, (Wooten, 2003).

2.5 Literature Review

AR concept has been researched by a number of researchers:

2.5.1 Global studies

Globally, Bocconi (2002) carried out a study on the costs relating to compulsory rotation. The aim of the study was to assess costs related to compulsory AR. The study used questionnaires in data collection. The results previous external auditors are paid more money as compared to new auditors. This study concluded that the startup costs to the two people in the agreement, the auditors' and audit increases caused by mandatory rotation. The study, however, was solely based on the costs that are incurred in AR and failed to focus on aspects that affect AQ in commercial banks in Kenya.

Mohd and Rezae (2017) researched on the auditors' switching and discounting audit fee in Iran, so as to ascertain the impact that auditors' switching would have on discounting the audit fee in Iran. It adopted use of descriptive statistics whereby sample size data of 1,022 was utilized. The study findings ascertained that auditors' switching caused an increase in costs from state to private auditors or vice versa. The study was however based in Iran and the study would not be based in the Kenyan context.

Moldrich (2008) studied on mandatory AR and AQ. The aim was to hit upon the influence a regime of mandatory AR would cause on the audit quality and found out that quality of the audit was positively linked with firm audit tenure. The study also concluded that there are minimal benefits of auditors' switching in the firm. The study, however, was based on impact of AR impact on AQ and failed to focus on the fact that AR needs not to be mandatory it could be voluntary on commercial banks in Kenya.

2.5.2 Regional Studies

Regionally, Mohamed (2009) studied the applicability of the mandatory AR concept in Egypt. The study findings indicated that an extended nature of relationship between clients and auditors helps improve AQ highly contributed by good practice with an entity's operations. The study, however, failed to focus on extent of implementation of AR in commercial banks in Kenya. Besides, it was based in Egypt and not Kenya.

Mayer and Borne (2007) studied the impact auditors'- client associations have in the beginning-time audit experiences reversals. The study objective was to ascertain the influence auditors'-client associations have on the first-time audit qualifications reversals. Descriptive research design was implemented whereby data was collected and analyzed by use of discrete-time analysis. The study established that various opinion decisions in a firm are adversely affected by interpersonal and inter-organizational attachments that need higher levels of auditors' judgment. However, the study was based only on the impact that auditors'-client relationship has on the first time. It failed to focus on the impact that auditors' rotation has on AQ of commercial banks in Kenya.

Burke and Lee (2015) studied on protection of public interest through mandatory auditors' firm rotation. The study used questionnaires in data collection. The findings ascertained that that audit rotation results in auditors' independence in various firms. It facilitates protection of stakeholder interests and the public through mandatory rotation. The study was however based on protection of public interest through mandatory rotation and failed to find out the impact of AR on AQ of commercial banks.

2.5.3 Local Studies

Internal audit influence on FP of commercial banks in Kenya study by Moraa, (2013), aimed at ascertaining the impact of internal audit on commercial banks' financial performance. Questionnaires were used to collect primary data from twenty sample banks. The findings revealed that there were changes in FP of commercial banks as a result of alterations in internal audit standards the level of independence status of the audit done internally, the competency of the professionals, and internal control. Audit effectiveness and bank performance are positively related. However, the study solely looked at the impact of internal audits on the performance of commercial banks and failed to look at the impact of AR on AQ.

Masika, (2014), the study assesses how threat-based internal auditing quality impacted the efficiency of internal audit in regulatory state corporations in Kenya. Descriptive research design whereby data was acquired by use of questionnaires. The findings indicated a positive correlation between the quality of threat-based internal auditing and efficiency of internal audit had a positive valuable relationship exists. The independent variable was AR while AQ dependent variable that is affected by additional Services, audit Quality Model, audit team characteristics and factors

related to Reporting. The study was based on an internal auditing effect in regulatory state corporations in Kenya.

Agunda (2014) in his study to establish the association between AQ and AR in Kenya, the banking industry. Study Objective determining connection of AR and AQ in banking industry. Primary data was gathered through questionnaires and interviews in regards to 2013 financial year ends and analyzed using statistical tools. The population used was the 43 commercial banks in Kenya. The research paper results indicated that provision of consultancy services had the main effect on AQ preceded by audit fees. Audit rotation had the least effect of the three variables with a small beta coefficient. The research showed that there was an optimistic association amongst the two however he did not advance further to establish the effect of auditors' rotation on audit quality.

2.6 Summary of Literature Review and Knowledge gaps

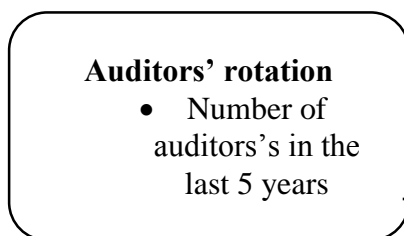
Author(s)	Objective(s)	Research Methodology	Findings	Research gaps
Bocconi (2002).	The study objective was to evaluate costs related to mandatory AR	It adopted the use of descriptive statics	Results of previous external auditors are paid more money as compared to new auditors. This study concluded that the start-up costs to the two people in the agreement, the auditors' and audit increases caused by mandatory rotation	The study, however, was solely based on the costs that are incurred in auditors' rotation and failed to focus on factors that determine AQ in commercial banks in Kenya.
Mohd and Rezae (2017).	The purpose of the study was to ascertain the effect that auditors' switching would have on audit fee discounting in Iran.	It adopted the use of descriptive statistics whereby data from a sample size of 1,022 was used	The results of the study ascertained that auditors' switching caused an increase in costs from the state to private auditors' or vice versa.	The study was however based in Iran and the study would not be based in the Kenyan context.
Moraa (2013)	Impact of Internal Audit on the FP of commercial banks in Kenya.	Descriptive statics. The researcher used questionnaires in data collection were she collected data from a sample size of 20 commercial banks from 43 commercial banks in Kenya.	A positive relationship between internal audit and performance in commercial banks	However, the study solely looked at the impact of internal audits on the performance of commercial banks in the Kenyan context and not the effect of AR on AQ.
Agunda (2014)	Finding out the correlation between AQ and AR in the banking industry in Kenya	Descriptive statistics were utilized Questionnaires utilized for data collection.	The findings indicated that provision of consultancy services had the greatest effect on AQ then audit fees followed. Audit rotation had the least effect of the three variables with a small beta coefficient.	The research showed that there was an optimistic association amongst the two however he did not advance further to establish the effect of auditors' rotation on audit quality.
Burke and Lee (2015)	To ascertain the protection of public interest through mandatory auditors' firm rotation.	The study adopted the use of descriptive statistics in the research methodology. The study used questionnaires in data collection.	The findings ascertained that that audit rotation results in auditors' independence in various firms. It facilitates protection of stakeholder interests and the public through mandatory rotation.	The study was however based on the protection of public interest through mandatory rotation and failed to ascertain the impact of AR on AQ of commercial banks.

2.7 Conceptual Framework

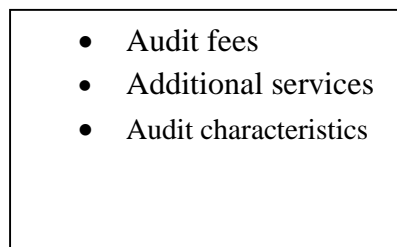
The independent variable is auditors' rotation while performance is the dependent variable which is affected by audit characteristics, additional services, and audit fees that act as control variables in this study.

Figure 2.1 Conceptual Framework

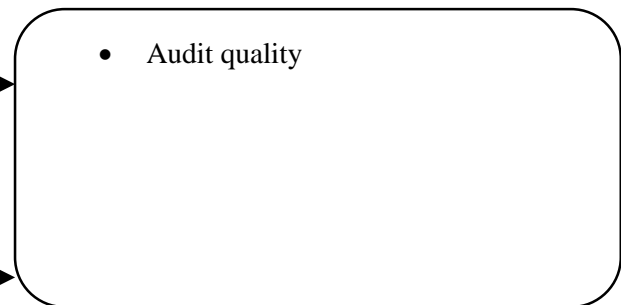
Independent Variable



Controlling variables



Dependent variable



Source: (Researcher, 2019)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Determination of how auditors' rotation affects Audit Quality of commercial banks in Kenya, requires research methodology that outlines how the research was carried out. This chapter has four sections namely; research design, data collection and diagnostic tests and also analysis of data.

3.2 Research Design

The descriptive research design was utilized for this study whereby the effect on auditors' rotation on audit quality of the commercial banks in Kenya. It was preferred because it ensured that the respondent input was documented as practiced. With a descriptive research design, a firm is able to accurately describe the study population (Kothari, 2014). It helped a firm obtain relevant and precise information based on the status of a problem at a specific time and come up with conclusions from the study.

3.3 Population

A set of people, items, and firms among other things is what is termed as a study population. The population of interest for this study comprised of the 43 commercial banks licensed to carry out banking business in Kenya to Central Bank of Kenya (2017). Based on the fact that the study population was relatively small, therefore census will be carried out.

3.4 Data Collection

This study adopted primary and secondary data. Primary data was gathered using questionnaires that consisted of open-ended and closed questionnaires as they helped in answering questions in an elaborate way while closed questions guided respondents on quick responses. Questionnaires helped meet confidentiality, saved on time and were easily administered. Secondary data was to supplement primary data.

3.5 Data Analysis

Collected data were evaluated for completeness forrader it was coded and used for analysis. This study made use of regression analysis in ascertaining the effect of AR on AQ while descriptive statistics like mean, standard deviations were used in analyzing the extent of implementation of auditors' rotation in commercial banks.

3.5.1 Diagnostic Tests

Linearity used the mathematical equation $Y=a+bx$ where a is a constant to show the association between variant X and Y. The linearity test sought through the use of scatterplot testing or F-statistic in ANOVA, (Khan, 2008). A nearly exact or exact linear correlation among two or more of the explanatory variables is what causes multi-collinearity. Correlation matrices, which varies from zero to one is what is used in testing multi-collinearity. Where Orthogonal independent variable- zero. It becomes intense when there is absolute linear reliance between them towards zero, (Burns & Burns, 2008).

3.5.2 Analytical Model

The study applied the following regression model:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$$

Where;

Y= Audit Quality as measured by an overall rating of audit by the commercial banks' senior managers or their representatives based on the International Auditing and Assurance Standards Board (IAASB) parameters.

β_0 = Constant Term

β_i = Beta Coefficient of variable I which measures the change Y to change in i

X_1 = Auditors' rotation as measured by the number of auditors' in the last 5 years

X_2 = Additional services as measured by management opinion on whether there are other services provided by audit firms.

X_3 = Audit fees as measured by the actual audit fees charged to them.

X_4 = Audit team characteristics.

ε =Error term

3.5.3. Test of Significance

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

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter presents the study results. It is divided into various sections which include descriptive of the study, response rate, analysis of variance, correlation, regression coefficients and lastly the summary of findings.

4.1 Response rate

A total of forty-three questionnaires were used to gather primary data from the registered forty-three banks in Nairobi County, only 32 were filled and returned from the financial managers of the respective banks. This translates to 74.42% which deemed sufficient to undertake the analysis.

4.2 Reliability Test

Data validity is a crucial aspect especially when you use a tool that has a Likert scale. Cronbach's Alpha was used in establishing the reliability of the questionnaire whether it has internal consistency.

Table 4.1: Reliability Test

Reliability statistics

Cronbach's Alpha	.741
Cronbach's Alpha Based on Standardized Items	.740
N of Items	16

Source: Researcher Findings, 2019

From the study, the results show a 0.741 value from the 16 items that used the scale which indicates a 74.1 % reliability of the scale used to collect data. According to many methodologists recommend a minimum α coefficient between 0.65 and 0.8 (or higher in many cases); α coefficients that are less than 0.5 are usually unacceptable, especially for scales seeming to be unidimensional.

4.3 Descriptive Statistics

Descriptive statistics are used for data description collected from the study based mostly on the means, frequencies and standard deviation. Charts, graphs, and frequency tables are used to explain the variables of the study.

Table 4.2: Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
audit rotation	32	1.00	3.00	1.8906	.57830
audit additional services	32	1.00	1.80	1.6457	.28316
audit team characteristics	32	1.00	2.50	2.1479	.37977
audit fees	32	1.00	3.00	2.8687	.42001
Audit quality	32	1.00	5.00	4.3652	.21567
Valid N (listwise)	32				

Source: Research Findings, 2019

The above table showed the descriptive statistics for the dependent variables which were audit rotation, audit Fees, audit team characteristics and audit additional services and independent variables for this study was audit quality. These statistics included the minimum, maximum mean, standard deviation, values. Audit quality was the independent variable for the study which had five different parameters using a likert scale of 1 being poor and 5 being very good. The results indicated that audit quality had a mean of 4.3652 which implies that based on the five parameters used in this research they had a good audit quality. The standard deviation was 0.21567 with the maximum and minimum values being 1 and 5 respectively.

Audit rotation had a mean of 1.8906 which showed that most responses indicated that rotation happened in between 1-3 years which is a good thing for the banks since previous studies done have shown a shorter period is preferred so as to ensure quality of audit. Also it showed that in the last five years, at least 2 auditors have been engaged.

Audit additional services were the various services auditors offered while carrying out their main audit duties. They included tax compliance, human resource, business management, book keeping and information design. The had a yes or no response and with a mean of 1.6457 it indicated that most responses were yes meaning that the auditors provided other additional services other than carrying out audits.

With regards to audit team characteristics, these were mainly their independence in giving reports, efficiency and communication skills and understanding bank challenges. This variable had a likert scale measure where 1 being strongly agree and 4 strongly disagree. The minimum and maximum

values were 1 and 2.50. The mean value was 2.1479 which imply that most respondents agreed that the auditors in their banks are independent and have good team characteristics. The last independent variable was audit fees which were represented by question asking how high or low the charges are. From the table the results show that audit fees had a mean of 2.867 which implied that most of the respondents felt that the fees charged by the auditors was high. The standard deviation was 0.42001 while the minimum value of 1 and maximum value of 3.00.

4.4 Correlation Analysis

Table 4.3: Correlation

		Audit rotation	Audit additional services	Audit fees	Audit Team characteristics	Audit quality
Audit rotation	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	32				
Audit additional services	Pearson Correlation	-.076	1			
	Sig. (2-tailed)	.679				
	N	32	32			
Audit fees	Pearson Correlation	-.048	-.126	1		
	Sig. (2-tailed)	.795	.493			
	N	32	32	32		
Audit Team characteristics	Pearson Correlation	-.099	-.037	-.035	1	
	Sig. (2-tailed)	.591	.842	.849		
	N	32	32	32	32	
Audit quality	Pearson Correlation	.662	.259	.016	.238	1
	Sig. (2-tailed)	.148	.152	.930	.189	
	N	32	32	32	32	32

Source: Research Findings, 2019

Table 4.3 indicated that the relationship between the audit quality which is the measured variable and the manipulated variables audit rotation and fees, audit additional services and team characteristics. From the results above, there exists a strong correlation that is positive between audit quality and audit rotation (0.662). A weak positive correlation with audit additional services, audit fees, audit team characteristics which are 0.259, 0.016, and 0.238 respectively. Correlation tests show the extent to which one variable relates to another variable and ranges from between -1 which indicates a perfect negative correlation and +1 which indicates a perfect positive correlation. A correlation value of 0 or near zero means there is no relationship between the two variables.

4.5 Inferential Statistics

Inferential statistics are used to define properties of population by trying to make predictions from the data collected. Statistical models used include t-tests, ANOVA regression analysis, and other various models depending on the study.

4.5.1 Model Summary

The multiple correlation coefficients were represented by R which indicates the degree of association between the dependent and independent variables. The table below shows a 0.842 which represents 84.2% this shows a strong relationship between the dependent and independent variables. Adjusted R^2 represents variance in proportion in which the independent variables can explain the dependent variables. It shows what cause and effect of the independent variables on the predicted variable. The study showed a value of 0.701 which translates to a variance of 70.1% indicates that the independent variables have a 70.1% effect on audit quality. standard error of

estimates for this study was at 0.426 which implies that 42.6 is the estimate in which the model can accurately be predicted.

Table 4.4 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 ^a	.801	.701	.426

a. Predictors: (Constant), auditors rotation , audit fees, audit team characteristics

4.5.2 Analysis Of Variance (Anova)

Table 4.5 Analysis of Variance

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.301	4	.075	1.467	.0032 ^b
	Residual	1.385	27	.051		
	Total	1.686	31			

a. Dependent Variable: audit quality

b. Predictors: (Constant), audit fees, audit team characteristics, audit rotation, audit additional services

Source: Research Findings, 2019

From the ANOVA statistics, the processed data had a significance level of 0.032 which is below 0.05 an indication it is significant. The F statistics are used to determine if a group of variables are jointly significant. From our study results, the computed F-value was (1.467) is greater than the F-Critical value (6.39) therefore we accept that audit rotation affects firm quality.

4.5.3 Regression Analysis

Table 4.6 Regression Coefficients

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.803	.431		6.506	.000
	audit rotation	.288	.071	.418	1.236	.007
	audit additional services	.327	.225	.257	1.454	.008
	audit team characteristics	.111	.085	.228	1.296	.206
	audit fees	.026	.098	.046	.261	.796

a. Dependent Variable: audit quality

Source: Research findings, 2019

Table 4.6 results above showed the different regression coefficients of the independent variables and the constant values of this study. The constant value of the study was 2.803 and was statistically significant at 0.000. This indicated that whether the bank engages in audit rotation or not, the quality of the audit will be at 2.803.

The audit fees which are the charges that auditors are given for the work done had a positive beta coefficient of 0.111 which means that a unit increase in audit fees will lead to a 0.111 change in

audit quality. However, the audit fees was not statistically significant for this study since $0.796 > 0.05$ at 95% confidence level.

Audit team characteristics were used in this study to show the independence and the efficiency of the auditors while executing their duties. It had a positive beta coefficient of 0.026 which means that a unit increase in team characteristics will lead to a 0.026 change in audit quality but it was statistically insignificant since the p-value (0.206) is greater than 0.05 at 95% confidence interval. Audit additional services had a positive coefficient of 0.327. This means that unit increase in additional services offered by the banks will lead to a 0.327 change in audit quality. The variable was statistically significant since p-value $0.008 < 0.05$ at 95% confidence level.

Audit rotation which was the rate at which banks change their auditors had a positive coefficient of 0.088 which indicates a positive effect of auditor rotation on audit quality. Thus the more frequent the rotations the better the audit quality in the banks. It was also statistically significant since $0.007 < 0.05$ at 95% confidence interval level.

4.6 Discussion of findings

The study objective was to analyze the effect of firm audit rotation and audit quality. The study employed descriptive statistics, correlation and multiple regression analysis, which is used for analyzing the data as it showed the impact of audit rotation on audit quality and it included the model summary, analysis of variance table and the regression coefficients.

A validity test was done using Cronbach Alpha to test the degree by which the data collecting tool is reliable to give the data expected. The value of 0.741 indicated that the independent variables (audit rotation, additional services, audit team characteristics, and audit fees) were sufficiently valid to measure audit quality.

The descriptive statistics indicate the degree to which the respondents agreed with the statements of the questionnaire. Audit quality had a mean of 4.3652, audit rotation had a mean of 1.8706, while audit fees had a mean of 2.8687. Audit additional service had a mean of 1.6457 while audit team characteristics were 2.1479. These values indicated a strong response towards the variables under analysis and that generally the audit quality was good as the mean was 4.3652 which indicated the responses were good based on the Likert scale.

The correlation test between audit quality as the dependent variable and the independent variables showed a strong positive relationship (0.418) with all the independent variables, strong positive interdependence with audit rotation (.662), weak positive relationship with audit additional services (0.259) and (0.238) for audit team characteristics and a low positive correlation with audit fees (0.160). This shows that audit rotation had the strongest relationship with audit quality, followed by additional services, audit team characteristics then lastly audit fees. This test only shows the relationship of the variables and so correlation tests were carried out to indicate the extent of causation of the variables.

Multiple Regression analysis tests were conducted to establish the extent of association between the dependent and independent variables. The correlation coefficient for the study was 0.842

indicating a strong relationship of 84.2%. the cause and effect were represented by the adjusted R2 was 0.701 or 70.1% which indicated the variance of the dependent variable for an increase in the independent variables.

The ANOVA of the study indicated an F value of 1.467 and a p-value of 0.000. This indicates independent variables, in general, are statistically significant in terms of goodness of fit since the p-value of 0.000 is below the significant levels 0.05. The coefficients table provided the various beta coefficients indicating the extent to which the independent variables affected audit quality.

The first independent variable was audit rotation with a coefficient of 0.088 and a value of 1.236. This together with the significance value of 0.007 indicated that audit rotation had a significance related to audit quality. Mandatory rotation of audit firms is to be considered as important in enhancing auditor independence as there is a significant relationship between them and their effect on audit quality. Based on a study by Beyanga (2011), reduced levels of overheads, identification of ways to reduce overheads are achieved through AR which in the long run helps improve levels of financial performance. For management to achieve improved performance, there is a need for the adoption of AR.

Auditor independence communication skills and efficiency are known to enhance audit quality and therefore this study can be concluded that audit team characteristics have a positive effect on audit quality. Variable had a positive coefficient of 0.026 however it was not statistically significant. According to professional committees, to dictate material misstatements, there is a

need for a very close evaluation of the individuals' integrity as well those assigned to carry out the engagements as a way to assist the detection of material misstatements.

The third variable, was additional audit services of consultancy services, had a beta coefficient of 0.327 at a value of 3.631 and a significant value of 0.008 indicating that it was a significant factor in audit quality. This is consistent with a study by (Wooten, 2003), concluded additional services provision has been proved to have a direct relationship to improved quality of audits.

The last independent variable was audit fees which had a Beta positive coefficient of 0.111, and an insignificant value of 0.796 indicating that it was not a significant factor to audit quality. This was because the p-value, 0.796, was greater than the significance value of 0.05. But was not consistent with Arruñada and Paz (1997) and other studies which indicated that audit quality increased with audit fees.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings, conclusions, and recommendations of the study. It presents a brief discussion of the main findings and conclusions made based on the analysis, policy implications and suggestions for further research of the study with regards to the effect of auditors' rotation on audit quality among commercial banks in Nairobi County.

5.2 Summary of the Findings

Companies are kept in line mainly by auditors who act as watchdogs of the owners. This applies also for banks who are entrusted with so many financial responsibilities especially by their clients who are majorly their customers. The audit report provides a true and fair view of the auditor's opinion based on the financial statements provided by management of banks. This report is availed to the general public and the shareholders thus the quality of the report should be free of material error and should be independent of any bias. This study, therefore, sought to establish the effect of audit firm rotation on the quality of the audit work done in commercial banks.

The literature review of this study outlined the theories that were relevant and also analyzed the empirical studies previously done by other researchers in the topic area noting the methodology and outcomes. The literature review also assisted the study in identifying variables that were used in the research analysis and forming the conceptual framework of the study. The variables that were used included audit rotation, provision of additional services, audit team characteristics and audit fees charged.

Primary data was the main source of data where a questionnaire was administered to the financial managers among the commercial banks under this study. 32 of the banks responded which was sufficient to continue and analyze the data. The data collected was then verified, coded and analyzed using SPSS software. Both descriptive statistics and inferential statistics were calculated and results interpreted. The means and standard deviations were calculated for descriptive data and multiple regression analysis was used to analyze responses from research questions. A validity test was also conducted using Cronbach's alpha test which in our case was 0.741 which was good.

The study results indicated that the constant value of the study was 2.803 and was statistically significant at 0.000. This indicated that whether the bank engages in audit rotation or not, the quality of audit will be at 2.803. The audit fees which are the charges that auditors are given for the work done had a positive beta coefficient of 0.111. However, the audit fees were not statistically significant for this study since $0.796 > 0.05$.

Audit team characteristics were used in this study to show the independence and the efficiency of the auditors while executing their duties. It had a positive beta coefficient of 0.026 but it was statistically significant at 0.008. Audit additional services had a positive coefficient of 0.327.

Audit rotation rate at which banks change their auditors had a positive coefficient of 0.088 which indicates a positive effect of auditors' rotation on audit quality. Thus the more frequent the rotations the better the audit quality in the banks. It was also statistically significant since $0.007 < 0.05$.

5.3 Conclusions

Auditors play a crucial role in banks and other companies so as to keep in check as to how the operations are being carried out which is beneficial to the owners and shareholders. The study through the research gap identified the research objective which was to identify the effect of audit firm rotation and audit quality. From the data analysis done and the results presented, it revealed audit rotation had a significant influence on the audit quality with short audit tenure in our case 1-3 years being better for banks as the audit quality improves. The study findings also indicated that presence of additional services had did not have a significant impact on audit quality but the beta coefficient was positive. Audit fees indicated a positive effect on audit quality with a higher audit fee indicating better audit quality while audit rotation had a small effect on audit quality. This shows that most commercial banks who have audit experience charged high fees and it was indicated in the audit work as the respondents stated that they were satisfied with audit work despite the fees. The additional services like tax compliance, human resource, bookkeeping, and others, had an effect on audit quality with a significant value meaning auditors offering additional services help achieve the quality of audit done in the banks. Finally audit team characteristics that entailed independence and efficiency of the auditors had a positive but small effect on audit quality.

5.4 Recommendations of the Study

The study recommends audit quality be achieved other stakeholders should be involved not only the financial managers. This would help improve the audit quality done by auditors to their clients. Making audit rotation mandatory would help increase efficiency and improve audit quality in the long run. A centralized audit rating agency would provide objective information as opposed to asking a staff member what they think was the quality. This would help improve audit quality

provided by the firms and help improve the accountability of managers who are agents of shareholders.

From the study findings, the study also recommends that audit firms should provide other additional services so as to improve audit quality. These services not only improve audit quality but also increase the profit levels of the banks. Since auditors are informed on what areas are important for performance and audit, they would help in improving a company. The study also recommends on sensitizing on the independence of the auditors and their competence to do their due diligence in executing their work.

Despite most banks feeling that the audit fees charged are quite high, the auditors should ensure that the quality of the work corresponds with the fees they charge therefore banks could strike a balance and price the audit work based on the quality.

Auditor's independence is very crucial and engaging just one auditor would ring complacency to the quality of work done thus auditors should be rotated as regularly as possible. It helps bring fresh eyes to the banks and thus one is less likely to be biased.

5.5 Limitations of the study

One of the drawbacks the study encountered was the respondents were not 100% despite the numbers being sufficient to continue with the analysis of the study. With a higher response rate, the margin of error is always reduced as the sample characteristics are always near the population characteristics.

The second drawback of the study was the precision of analysis when dealing with ordinal data. Measurements of some of the variables are in ordinal scale so as to capture some of the relevant information but they are not as accurate as to scale measurement. Also some of questions had different measurements for example use of yes or no while still using a Likert scale of strongly agree to strongly disagree.

5.6 Suggestions for Further Research

The study suggests more analysis should be undertaken with regards to audit quality using other measures like Chi-square and not necessarily econometric models which can also be used to determine the effect of audit rotation on audit quality. Other variables may also be identified in future studies and their impact on audit quality-analyzed so as to depict better R^2 values of at least above 80% which will show a strong relationship between the independent and the dependent variable.

The study could also involve other respondents like managers who would answer the questionnaire better and even incorporate some demographic characteristics of the banks.

The study should also look at other sectors of the economy that engage in audit services which will present a holistic approach to the status of audit quality in Nairobi and other geographical areas in the country.

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APPENDIX I: RESEARCH QUESTIONNAIRE

This questionnaire has been designed to collect information on the effect of auditors’ rotation on performance among commercial banks in Kenya. Please read carefully and answer the questions as honestly as possible. The information gathered will be used purely for the purpose of academic research and will be treated with utmost confidence.

Instructions

1. Tick appropriately in the box or fill in the space provided.
2. Feel free to give further relevant information to the research.

PART A: AUDIT QUALITY

1. How would you rate the last audit done by external auditors based on the following 5 parameters?

Please indicate on a Scale of 1 – 5 where: 1 = Poor; 2 = Average; 3 = Satisfactory; 4 = Good; 5 = Excellent

Parameter	Question	1	2	3	4	5
1.Audit inputs	A. Audit carried out in accordance with the audit and ethical standards B. The auditor is highly competent and independent C. Audit firm experience in the industry					
2.Audit Process	A. Investment in infrastructure supporting quality auditing i.e technology and methodology with benefits.					

	<p>B. The audit work is determined by a proper planning process and is subject to review before completion i.e Engagement control quality reviews</p> <p>C. Compliance with independence requirements</p>					
3.Audit output/Results	<p>A. The audit opinions, financial statements and annual reports are accurate and free from errors and restatements</p> <p>B. Timely reporting of internal control and going concern weaknesses.</p>					
4.Interactions with financial reporting supply chain	Adequate and timely communication between the audit team and those charged with governance					

5. Contextual Environment

Have the auditors been free from negative findings or have any suits against the auditors being brought forward?

Yes No

PART B: AUDITOR ROTATION

1. How long have you been having your current auditor?

1 – 3 years

4 – 6 years

7 – 10 years

Over 10 years

2. In the last 5 years, how many external auditors has your company engaged?

3. What is your opinion on auditor rotation for firms whether mandatory or voluntary rotation?

PART C: ADDITIONAL SERVICES

	Yes	No
	1	2
Tax advisory/compliance and planning services		
Business/management consulting services		
information system design and implementation services i.e data migration tips		
Book keeping advisory services		
Human resource consulting services		

PART D: AUDIT FEES

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

- Very high
- High
- Medium
- Low
- Very low

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

- YES
- NO

PART E: AUDIT TEAM CHARACTERISTICS

	Strongly Agree	Agree	Disagree	Strongly disagree
	1	2	3	4
The auditors understand the business needs and Bank’s operations including operational challenges.				
They are able to make independent decisions and able to meet stakeholders expectations.				
The auditors have the required experience and have effective communication skills				