EFFECT OF AUDIT QUALITY ON FINANCIAL PERFORMANCE OF LISTED COMMERCIAL BANKS IN KENYA

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DECLARATION

I hereby declare that this research project is my original work and has not been submitted for any degree or other subject matter in any academic institution.

Signed.. Date 07.12.2020.............................

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This research project has been presented for examination under my authority as a university supervisor

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I would like to dedicate this project to my late parents, Mr. Michael Ayora Orenge and Mrs. Hellena Moraa Ayora, with deep sympathy and generosity, who have taught me the value of education.

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INEDs	Independent Non-Executive Directors
NPV	Net Present Value
NSE	Nairobi Securities Exchange
ROA	Return on Firm's Assets
ROCE	Return on Company Equity
ROE	Return on Company Equity

ABSTRACT

Audit quality performs a very vital role in efficient running of any business venture by improving transparency, financial reporting integrity, boost investors' confidence and accountability in allocation of resources to maximize shareholders wealth. The overall objective is to identify the social impact on the commercial performance of Kenya's commercial banks and the specific purpose is to determine the impact of most target groups on commercial banks' financial performance in Kenya and the financial structure of the capital structure. The work of commercial banks in Kenya. The theories that were reviewed include; agency theory and resource based theory. This study received descriptive research. Number of studies; "The 11 commercial banks listed in the NFS influence the value of financial audits in relation to the performance of commercial banks in the NSE exchange. Secondary data were used during the survey. Data obtained from the 2014-2019 financial statements. Descriptive and demographic statistics have been used. Descriptive statistics was applied in summarizing the observable characteristics of the group in question using metrics such as means standard deviations, variance, kurtosis and skewness whereas inferential statistical analysis such as multiple linear regressions was used in testing the constructed statistical study hypothesis. The outcomes of the survey showed that the independent types, capital structure, size and value of the financial analysis can be used to define and therefore the financial performance of commercial banks listed by the NSE can be predicted. From the end result of the study, this survey concludes that the quality of the test leads to improved financial performance of commercial banks listed on the NSE and can thus be included in the entire banking industry. The study findings indicate that a combination of size, capital structure and audit quality when strategically aligned in combination they will all lead to in enhanced performance. From the findings of this study, prospects for growth in performance as key factor for banks listed in the NSE. Audit quality should therefore form a cornerstone of all banks so as to achieve improved performance.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Audit quality performs a very significant function in efficient running of any business venture by improving transparency, financial reporting integrity, boost investors' confidence and accountability in allocation of resources to maximize shareholders wealth. Since the emergence of global and local corporate scandals like Enron, Tyco, World Com and famous chase bank in Kenya which resulted to decrease in firm's value and loss of investors' confidence, audit function as a business monitoring tool has gained traction over time (Yahya, Abdullah, Hanim, & Ebrahim, 2012). As pointed out in the paper by Jensen and Meckling (1976) in their agency survey work, decoupling of management control from firms ownership results to principal-agent conflicts where firm agents act for their interests and give little attention to maximize shareholders wealth. This phenomenon has resulted to huge loss of company resources, poor performance and loss of investors' confidence. Many stakeholders have expressed their concerns on firm's performance and the application of audit has been recognized as one of the ways to enhance firm's value (Sayyar, Basiruddin, Abdulrasid, & Elhabib, 2015).

The study will be based on the following theories. Agency theory, management theory, and resource theory, Fiduciary theory builds on the beliefs of Jensen and Meckling (1976) that managers will not act in the interests of shareholders unless they are closely followed by shareholders. The theory posits that split of firm ownership from managerial control often results to agency conflicts in which manager's act in their best interest and do little if any to maximize the wealth of the firm. This situation diminishes firm's value and lower shareholders wealth. To counter this situation, the theory suggests that management should closely be observed by the shareholders. Audit performs a sacrosanct responsibility in monitoring the activities of the management by checking how shareholders' funds have been expended over a given stint of time. Resource based theory opines that board provides critical resources that are required for well-functioning of any firm while stewardship theory assets that people are always pro organization and endeavor to work tirelessly towards accomplishment of its objectives. Because of this belief, the theory regard audit function as unnecessary service that adds to organization costs and diminish the firm value (Donaldson and Davis, 1989).

In Kenya, commercial banks quoted at Nairobi trading bourse have continued to exhibit poor performance as evident with many profit warnings despite government's concerted efforts in ensuring there is favorable environment for doing business in the country (Ayako, Kungu and Githui, 2015). For instance, in the year 2019, National bank of Kenya and HF group issued profit warnings to its existing and potential shareholders as results of its declining performance (Guguyu, 2019). Moreover, significant numbers of firms quoted at NSE have missed the financial reporting deadlines while others have gone into administration for an assortment of internal and external reasons. In quest to find out the real cause behind this poor performance of quoted commercial banks at NSE, innumerable scholars and practitioners have strived to investigate the issues and turnaround the performance cases of listed commercial banks with no success as evidenced by many profit warnings up to date (Muhatia, 2018). This phenomenon besides lack of an empirical study scrutinizes the influence that audit quality does have on performance of commercial banks at NSE has triggered the demand for this inquiry.

1.1.1 Audit Quality

Audit quality is a complex and multi-related notion that has no universal definition. However, according to Chikwemma (2019), audit quality denotes to the ability of the auditor to give appropriate audit opinion to reflect the eminence of financial status and financial performance of the company through perusal of eventual material supporting make up elements of financial statements. This argument places more emphasis on audit judgment. It is often assumed that audit is of high quality if it is planned and done in a manner likely to detect material misstatements and errors in financial statements upon application of judgment and that the auditor will be able to report them if any. Audit quality enhances corporate accountability and proper expedience of shareholders' funds. It forms large spectrum of risk management structure and internal control systems (Beekes & Brown, 2006).

Audit Quality has a strong implication on investors' confidence, financial reporting and firm value at large (Levitt, 2008). Traditionally, both internal and external auditors play a vital responsibility in enhancing the credibility of financial statements and other financial information. This is based on beliefs that audit quality benefits all the firm stakeholders such as auditors, issuers, and other financial statement users and enhances proper transparency, accountability and better use of firm's money. This new level of effectiveness and efficiency that is created by audit function increase firm s performance in a given industry and pull many investors who in turn provide more capital and enhance further the firm value (Bedard *et al.,* 2010).

Audit quality is amongst the most controversial matters in financial sphere due to lack of clear accepted definition of what constitute it. There are different measures of audit quality. Some of them includes; audit size, audit tenure, audit fees, audit committee meetings, independence of the audit committee. These components directly or indirectly contribute to audit quality and lack of audit quality is a major contributor to many financial and corporate scandals (Soltani, 2014). Managers as firm agents are solemnly charged with responsibility business operations and proper utilization of firms' assets. Proper use of firm resources is then reflected on well audit and other corporate governance mechanism are in securing and motivating efficient firm management (Fooladi & Shukor, 2012). High performance is an indication good firm management and effective control system to enhance firm value to its shareholders (Zunaidah, John, Hussin, Sanusi, & Carl, 2013).

1.1.2 Financial Performance

Financial performance is related to profitability, that is a key component of this work. Profitability is a matrics of a company's performance over a particular period of time. Based on Helfert (2002), profitability is the efficiency in which management uses total assets and net assets in a company's balance sheet. Financial performance is typical sedated using financial rates such as ROCE, firm asset return, equity return (ROE), and Tobin Q market share. ROA is proportioned to net income divided by average income. Thus, the measure demonstrates how management uses real investment resources to make a profit. It is also an important measure used to determine the efficacy and effective performance of a company through the revenue generated by the assets used by the entity. The second measure of profitability is return on capital (ROE); it is a measure that demonstrates that the management of the company can convert shareholder capital into a net profit. High ROA and ROE figures are associated with greater management efficiency and vice versa. Return on asset proxy is the most frequent measure of firm's performance (Mwaniki and Omagwa, 2017).

Performance refers to the ability of business establishment to achieve their goals effectively and efficiently while utilizing resources that are within their disposal (Noyé, 2002). According to Noyé (2002), Performance connotes the level at which corporate activities actualizes specific objectives and meets customer needs. Objectives and to a larger extent customer satisfaction cannot however be accurately measured. Performance is a subjective indicator of a firm's ability to achieve firm's objectives. Consequently, the concept indicates a subjective measure of what is done by an entity and its definition varies from one context to another depending on the type of business objective. According to Kaplan and Norton (2001), holistic measurement of performance involves using non-financial and financial procedures. Financial indicator of firm's performance includes profits and other accounting-based variables that can be derived from the financial reports. On the other hand, non-financial indicators include metrics such as customer satisfaction, employee satisfaction and internal business processes.

1.1.3 Audit Quality and Financial Performance

Audit performance an important role in operation and performance of business activities. It enhances good governance in management of the entity affairs and boosts the quality of financial information. Auditor forms part of the internal control system and helps in detecting, preventing and reporting of fraud and errors of material misstatement in financial statements which lower the risk posed by existence of information asymmetry and protect not only shareholders but a wider spectrum of stakeholders by reassuring them that the information relayed by management in financial statements is free of material misstatements. This in turn augments the investors' confidence and result to superb performance (Heil, 2012). The ability of the auditor to identify these financial anomalies is key in boosting the performance of firms in terms of reducing potential uncertainty that emanates from creative accounting and misstatements in financial statements. The lower uncertainty revolving around misstatements of financial statements boost investors' confidence in capital markets and assist the entity in obtaining cheap capital funds for investments (Heil, 2012).

The need to for an audit function to be incorporated as part of business improvement processes have been triggered by collapse of global reputable firms and local firms such as chase banks. Audit function magnifies the performance of the firm by increasing accountability in management of shareholders resources for value creation. It also acts as a risk management framework and falls as part of the wider internal control systems (Beekes & Brown, 2006). The quality of audit works has been widely recognized as a principal influencer of reliable reporting and this greatly influences the shareholders confidence over management of funds. The report relayed by the auditor with regard to financial statements also helps the business managers to improve execution of business activities and lead to exemplary performance (Levitt, 2008). Spate of corporate scandals in the world has led to disappointment not only to firms' investors but also other crucial stakeholders who have an interest in performance and success of the entity. Empirical evidence has indicated that long audit tenure has a direct connection with fraudulent financial reporting and loss of shareholders' funds. The composition of the audit committee similarly contributes directly to good governance which in turn results to good business performance (Levitt, 2008). Farouk & Hassan (2014) avers that audit committee constitutes an effective control system to augment corporate disclosure and scale down agency expenditures.

1.1.4 Commercial Banks Quoted at Nairobi Security Exchange

Nairobi security exchange is a public exchange for trading of financial securities in Kenya. The security exchange was brought to existence in 1954 under the society act as a "voluntary association of brokers". Its main task was to foster development of an efficient market and regulation for security trading in Kenya. The exchange also provides an avenue for companies to raise cheap finance for their business operations by providing a platform for trading debt and equity securities. Since inception, NSE has undergone numerous changes since its commencement which includes enactment of trading and settlement rules, Central depository system, automation of the market, demutualization from mutual company to company ltd by shares (NSE, 2019). Nairobi security exchange ranks fourth in terms of volumes of shares traded and fifth in terms of market capitalization in Africa (Iraya & Musyoki, 2013). The capital market authority is primarily tasked with responsibility of effecting good corporate governance practices among listed companies and efficient development of security market (NSE, 2019).

Commercial banks quoted at the Nairobi trading bourse have continued to exhibit poor performance as evident with many profit warnings despite government's concerted efforts in ensuring there is favorable environment for doing business in the country

(Ayako, Kungu and Githui, 2015). Profit warning is undisputable indication of declining performance within respective industry. For example national bank of Kenya, HF Group and chase bank nearly collapsed as a result of deteriorating performance and corporate governance issues (Waweru, 2017). Moreover, the failure of the three Kenyan commercial banks like chase banks in the year 2016 has sparked much reaction with respect to the health of the banking sector in general. These developments motivated the need for a study investigating on performance issues and specifically enquire on the influence of check eminence and performance of listed commercial banks.

1.2 Research Problem

Audit function has significant role in enhancing credibility, transparency and integrity, reliability among other quality of financial information. However, the auditor's role has been a controversial topic in financial sphere since the auditors independence can be impaired by financial and non-financial threats such as auditor's interest in the client business, poor supervision of audit work, establishment of non-audit services to the clients among others. This has resulted to creative accounting which has in most cases led to huge loss and collapse of some commercial banks such as chase banks. Regardless of this, audit opinion enhances credibility, quality and improves the consumption of financial information (Mgbame, *et al.*, 2012).

Commercial banks and other financial intermediation firms have in the recent formed the hub of the recent financial crises and poor performance. This has been occasioned by the drop in firms value coupled with fictitious financial reporting which resulted from fraudulent acts of management, non-adherence to corporate governance practices and distorted credit management policies. The audit failure has also been attributed to the failure of firms like Enron, Tyco, World Com and the poor performance of firms (Sanusi, 2010). Kenyan authorities, along with companies and private sector individuals, have made great efforts to create favorable conditions for doing business in the country (Ayako, Kungu and Gitui, 2015). Unfortunately, many commercial banks quoted at NSE continue to report huge financial losses in their financial reports over time while others continue to issue profit warnings due to declining profit levels (Muchira, 2018). For instance, in the year 2019, national bank of Kenya and HF group issued profit warnings to its existing and potential shareholders (Guguyu, 2019). Moreover, significant numbers of firms quoted at NSE have missed the financial reporting deadlines while others have gone into administration for an assortment of internal and external reasons. In quest to find out the real cause behind this poor performance of quoted firms at NSE, innumerable scholars and practitioners have strived to investigate the issues and turnaround the performance cases of listed commercial banks with no success as evidenced by many profit warnings up to date (Muhatia, 2018). Consequently, enlisted firms have resorted to retrenchment and employee layoffs as strategies to cut down operation costs and boost the bottom line and this phenomenon has trigged the demand for this inquiry.

Globally, Speckbacher *et al.,* (2003) inspected the implication of organization growth and size on firm's performance, Chikwemma (2019) probed the Result of Audit Quality on Financial Performance of Deposit Money Bank, Muritala (2012) evaluated the role of capital structure on the lucrativeness of entities enlisted at Nigeria security exchange for the period ranging from 2006 to 2010. Soliman and Ragab (2016) studied the influence of corporate characteristics on earnings management on the quoted firms in Egypt, Abubakar, Sulaiman and Haruna (2018) evaluated the impact of corporate characteristics on the performance of listed insurance companies, and considered that the liquidity and age of the company have a significant negative effect on the performance of listed companies. However, all these studies did not address the impact of audit quality on performance. In Nigeria, Mgbame et al. (2012) believe that in the context of auditing, the issue of audit tenure and audit quality reports has not been much discussed, other than rumors. In view of the above investigation, the term of office of accountants and the quality of the audit receive a lot of attention. This development is the research question of the research company.

Regionally, Uganda, Kaawaase (2016) examined the differences in audit quality amid audit firms in an evolving economy. Studies have shown that audit quality includes versatile design and voluntary levels of calculation. Comply with accounting standards, legal and regulatory auditing standards and audit fees. Based on these measures, the author ensures that the Big Four accounting firms comply with accounting standards, laws and other legal requirements. Nevertheless, due to the combination of these three audit quality standards, there is no significant difference in audit quality level between the Big Four audit firms and SMP. In addition, Choi et al. (2004) confirmed that the percentage of audit committee members with financial knowledge indicates that the quality of the duties of audit committee members can influence the value of the company. However, the study was not done in Kenya and the findings thereof cannot be applied in Kenyan context.

Locally, in Kenya, Maina, Gachunga, Muturi and Ogutu (2017) surveyed the impact of corporate governance on Performance of Companies Enlisted in NSE and indicated that corporate governance has an effect on how firm performs. However, the study did not examine how audit quality contributes to firm's value, Mwaniki and Omagwa (2017) empirical study in Kenya assessed the influence of asset structure on the profitability of enlisted firms and asserted that asset structure has a positive significant association with the viability of the entities. According to the survey presented above, there is a gap in the literature, which seeks to address the following question: What is the relationship between audit quality and the performance of listed commercial banks?

1.3 Research Objective

The general objective was to ascertain the influence of audit quality on financial performance of listed commercial banks in kenya

1.3.1 Specific Objectives

i. To ascertain the influence of audit size on financial performance of listed commercial banks in kenya

ii. To ascertain the influence of capital structure on financial performance of listed commercial banks in kenya

1.4 Value of the Study

The research will bring great benefits to decision makers. The information output from this research will help decision makers formulate reasonable policies to improve the performance and growth of listed commercial banks. The policy formulated will in turn enable the company to improve its business activities to enhance its performance and to achieve the shareholder goal of "maximizing wealth"

The study will benefit Management by furnishing them with pertinent information on the impact of audit quality on financial performance of listed commercial banks in Kenya which can help them in designing appropriate policies and management strategies to maximize the business. The study will also help the management to knowledge on the impact of audit service to firm value and the best way to design it to maximize shareholders wealth. The study will also benefit Scholars and Future Researchers. The study will provide basis for conducting future studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter contains comprehensive empirical and theoretical studies on the "association between audit quality and performance of enlisted commercial banks at NSE". The chapter also contains conceptual framework and lastly it highlight summary of literature review.

2.2 Theoretical Review

The chapter reviews the several theories in trying to give explanation of the influence of audit quality and performance of enlisted commercial banks at NSE. The theories that were reviewed include; agency theory and resource based theory.

2.2.1 Agency Theory

Agency theory is a contract under which a person (the agent) is employed by one or more individuals (principals) to conduct some services for them; consequently, any ensuing decisions for the firm are made by the agent. Jensen and Meckling (1976) pointed out that agency theory emphasizes management behavior, agency costs and organizational ownership order. Company management is responsible for maximizing shareholder wealth. According to the authors, there is not a particular theory that signaled and explained the conflicting interest of individuals participating in business operations and have the same goals of maximizing firm returns. Jensen & Meckling (1976) explained it as a relationship between principal and agent, which involves the delegation of duties of managing the business affairs with an intention to maximize returns. The agents and principals look to get as much conceivable utility with the minimum conceivable use of resources. Therefore, for internal audit quality to be effective, support from top management is as vital to the firm as much as the independence of the stakeholders is, or else problems can arise in agency relationships linking the agents (management) and the principals (shareholders).

Agency theory also addresses the problem of conflict of the desires of the agents and principals when their attitude toward risk is different. Because of dissimilar risk tolerance levels, the principal and agent may each be prone to take dealings which are at odds with each other. Shareholder wealth maximization may not be pursued as the agents might pursue avenues that are in their own self-interest. (Bonazzi et al., 2007, Lan et al. 2010, Demsetz et al. 1985). The agency problem in separating ownership and management is therefore the assumed diverging goals of the cooperating parties. Owners (principals) must therefore ensure their interests are protected through measures like employing external auditors which constitute agency costs but internal audit if effective and efficient, is a way by which principals can ensure and check that management is acting in their interest.

2.2.2 Resource Based Theory

This theory was proposed by Wernerfelt (1984). According to this theory, organizations are viewed as a bundle of resources that have an important impact on firm's value. The theory further contemplate firm resources as pivotal determinants of the firm's performance which determines its capability, access to markets, value creation, competitive advantage and ultimately firm's performance. Accordingly, large sized firms are presumed to have enormous resources, wider strategic networks with other business partners, wider access to markets and exhibit low production costs for their products and services due to economics of scale.

This theory focuses on internal characteristics of the firm's internal characteristics and their relationship with firm's value. It attempts to explain profit variation that exists between large and small firms. Large firms are assumed to have wider access and control of critical resources such as financial resources, skills and capabilities, technology, human resources, physical resources among other resources which collectively create competencies and competitive edge for the firm (Pearce and Robinson, 2011).

2.2.3 Legitimacy Theory

Legitimacy theory is concerned with the perception that a company is operating within the acceptable norms of a society. Organizations attempt to align themselves and conform to the social values which are implied or come with their activities and the basis of allowable conduct on the social structure which they are a component of.

Legitimacy theory also explains the development and survival of organizations, preserving and receiving the support of their participants. This theory demonstrates how the company's internal audit function will assist the community based on how the organization perceives the organization's activities and the community's expectations when reporting on its operations. When the organization meets the expectations of the community, it is allowed to continue its activities. Therefore, the right to work and community acceptance are intertwined. Lack of legitimacy can affect an organization's ability to conduct economic exchanges with the necessary resources. This link encourages organizations to establish control mechanisms that create the ability to manage stakeholder relationships and maintain the legitimacy of the organization (Pasewark et al., 1995).

2.3 Determinants of Financial Performance

This segment contains discussions on critical factors of financial performance. Some of the elements of financial performance captured includes; asset quality. Capital structure and firm size.

2.3.1 Audit Quality

Arens *et. al.*, (2011) opines that audit quality is a measure of how well an audit work is planned and conducted to detect any material misstatements that may be present in financial reports which can affect user's decision-making process. Detection of any misstatements in financial reports is an indication of the auditor's competence in audits while reporting them for a corrective action to be taken depends on auditor's independence, value system and more importantly integrity. Any audit that is conducted in agreement with the generally accepted audit standards to furnish rational assurance that financial reports are free from any misstatements is deemed to be of good quality. Audit quality helps in building the much-needed investors' confidence on financial reports provided by management and meets the needs of different stakeholders. On basis of the above discussions, it can therefore be concluded that audit quality refers to any audit assignment that is conducted in agreement with GAAS to ascertain whether there is any misstatement in financial statements due to errors or fraud. It forms part of internal governance system and support firm value creation (Arens *et. al.*, 2011).

Soltani (2007) assets that auditor independence performs a vital role in improving the audit quality. Audit independence indicates the ability of the auditors to have an impaired attitude as he conducts the audit work and make an impaired judgment in issuance of audit reports based on the facts and information presented. The need for auditor independence, call for have a professional attitude throughout the audit work and to carry out the audit work with sense of responsibility different from the clients' interests. This enables the auditor to identify any misstatements in financial reports if any. Audit firm size plays a role in audit works. Big four audit firms have superiority over small other audits firms with respect to resources to carry out the work, latest audit technology and have high reputation to perform better to maintain their professional status. Similarly, audit firm rotation boost credibility of financial reports by minimizing familiarity threat that develops when audit tenure is extended over certain duration (Soltani, 2007).

2.3.2 Capital Structure

Capital structure describes "the financing choices of the business establishment which include the choice of debt finance, equity funds or the mix of the two sources". In other words, capital structure denotes the mix of different financing sources which a firm employs in funding its operational and capital expenditures (Muhammad *et al.,* 2014). According to Romano *et al.*, (2000), capital structure comprises of the four components namely; family loans, capital finance, debt finance, retained earnings and equity while Gibson (2002) argued that capital structure consist of five financial sources for the firm namely; bank loan, shareholders equity, trade credit, associated personal debt and other debt or equity finances such as government loans, trade credit or even business venture capital. According to trade off theory, capital structure has an important repercussion on the value of the firm. Accordingly, firm's managers should employ optimal capital structure by continuously balancing the benefits and associated costs of employing debt.

Capital structure is a critical variable in financial management choices since it has fundamental ability and influence to manipulate returns and risks (Mwangi *et al.,* 2014). The central focus of the financial management choices is to enhance the "shareholders wealth" by attaining maximum value of the entity. However, to realize maximum wealth of the firm, management need to invest in positive NPV projects which require sufficient finances from either debt, equity or the mixture of them. By doing so, the firm needs to set up the best capital structure in their financing structure that maximizes value. Best capital structure denotes the level of gearing that seeks to minimize the general cost of capital and augment on firm's value. Cost of capital is a crucial input factor in establishing optimal capital structure for the entity (Brigham & Daves, 2004).

2.3.3 Firm Size

Stierwald (2010) assessed critical and positive parameters for firm size. Examination displays that large companies are more lucrative than literal organization. The size of the company fundamentally increases its performance. The reason Sterwald (2010) can say is that large firms use economies of scale and their advantages over economies of scale. The explanation is that large companies can get into capital at a much lower cost than small ones. Forteberg and Malkiel (1994) confirmed that when there were eight or fewer people on the board, this increased focus, collaboration, and real collaboration and dialogue intensified.

2.4 Empirical Review

This section discusses the empirical studies related to the question under concern. The empirical studies have been organized as global studies, regional and local studies respectively.

2.4.1 Global Studies

Ilaboya and Okoy (2015) made inquiry on the nature of the association among audit firm size, non-audit services and audit quality from 2013-2015. The study population comprised of commercial banks enlisted at NISE. A sample of 18 commercial banks participated in the inquiry. The study applied primary data which was amassed via use of structured questionnaire which was personally governed to respondents who were picked using purposive sampling approach. Survey design was applied, and least square procedure was used to approximate the relationships. The outcomes divulged that audit firm size and non –audit services were statistically significant and positively related to audit quality. The study revealed that large sized audit firm enables the auditor to carry out a thorough audit work and acquire comprehensive knowledge of business thus enhancing the quality of audit conducted.

Speckbacher *et al.,* (2003) examined the implication of organization growth and size on firm's performance. In this study, Speckbacher *et al.,* (2003) contended that expansion of the firm size is more likely to lead to more dispersed and complicated management processes. He further postulated that big firms are highly decentralized and scattered over different operating locations which give rise to information overloads to management. Consequently, large firms require a systematic, specialized, formal and sophisticated management control system which give rise to more operational overhead costs and lower the value of the firm. A similar study supporting this negative association between firm size and performance includes studies done by Kartikasari and Merianti (2016).

Muritala (2012) evaluated the role of capital structure on the profitability of entities enlisted at Nigeria security exchange for the period ranging from 2006 to 2010. Capital structure variable was measured by debt ratio while the performance of quoted firms was measured by return on asset indicator. Asset turnover, firm's age; asset tangibility and firm size were applied as study control variables. The empirical study employed descriptive research design and collected data from financial statement reports of 5 companies quoted at Nigeria security exchange. Panel least square regression model was applied, and the findings documented that financing makeup has a undesirable implication on the quoted businesses performance at NISE. In addition, the study also indicated that asset size, firms age, asset turnover and asset perceptibility have a favorable influence on the performance of business.

Moradi, Salehi and Shirdel (2011) researched on correlation among size of audit firm and revenue management in mentioned companies in Tehran Stock Exchange from 2005 to 2009. The survey used survey research design and collected secondary data. The findings revealed that no significant difference companies audited by audit firms and those audited by other members of SCA in Iran. Similarly, Naslmosavi, Sofian & Mohamed Saat (2013) indicated that audit firm size doesn't have any impact on audit opinion though some specific factors such as competence, experience, education and skills do have.

2.4.2 Regional Studies

Kaawaase (2016) has examined the differences in the value of financial analysis among development economic analysis firms, for example, Uganda. The study was based on information from 106 auditors, 31 credit auditors and 13 board members, and a rating scale to assess the value of audits approved by the financial services department. The study used NVIVo, a "separate test" to analyze 13 written interviews and to determine the size and value of the test quality. The authors use an improved matrix, obtain numerical data obtained from 183 board members and CEOs in the financial services industry, and verify the value of the audit differences between auditing firms using the Mann test. - Whitney U, proves the quality of the test is high. - volumetric construction with statistical emergencies; In accordance with the criteria for the evaluation of legal requirements, rules and regulations; And test fees. Grounded on such measures, the authors verify that the Big 4 audit firm complies with legal requirements, rules and other regulatory requirements. However, there is not much difference in the quality of the test quality between Big 4 and SMP, with three test quality values combined.

Choi et al., (2004) confirmed that the percentage of audit committee members with financial experience demonstrates that the quality of CA members in the performance of their duties affects the value of firms. Previous research has shown that financial competence is one of the most important qualities a CA should have, as all key responsibilities of CA members are related to accounting, finance, and auditing issues (Si et al. 2003; uiui and Gul, 2003). The percentage of independent executive directors (INEDs) on the audit committee is another important element of the CA structure. The presence of INED in AC enhances committee independence (uiui and Gul, 2003; Blue

Ribbon Committee, 1999; Razai et al., 2003; Zhang, Zhou, & Zhou, 2007). A non-executive director (NED) may have a business or family relationship with the shareholders who control the company, so a CA composed of more INED may be more independent and efficient than the management of AC and the largest shareholder.

2.4.3 Local Studies

Muturi and Githire (2015) evaluated the implication of capital structure composition on the viability of quoted entity at NSE. The study involved all the 67 quoted firms and garnered data for five-year tenure starting from 2008 to 2013 from published financial reports. Explanatory research design was applied. Profitability was operationalized using return on asset accounting ratio while capital structure was captured by debt ratios. The analysis of data was done via regression and the outcomes indicated that long term loan and equity has a positive implication on the business value. They further avers that long-term debt provides ample financial resources which enable the firm to make the most of the investment chances in the marketplace and enhance its value.

Mwangi and Birundu (2015) tested the role on capital structure on the profitability of SMEs situated at Thika town, Kiambu County. Descriptive research design was applied. The study gathered data from 40 SMES at Thika town for the period dated 2009 to 2013. The primary data garnered was subsequently scrutinized using multiple regression models. The independent variable was capital structure while asset structure and turnover were applied as control variables. The findings showed that capital structure, asset tangibility and sales turnover have no influence on the way in which small and medium businesses perform.

Mwangi (2018) carried out a survey on the rate of commercial growth in the value of commercial banks in Kenya for the period 2007-2016. The volume was determined using the natural logarithm of all factory equipment while the factory value was determined by the use of factory equipment. The study used a descriptive research framework and relied on information from published financial statements of Kenya's 43 commercial banks. The results showed that the size of the company has a positive effect on the quality of the company. According to Mwangi (2018), most large companies reduce sales costs due to the benefits associated with the scale economy that improves the financial outcome.

2.5 Conceptual Framework

The conceptual framework outlines the nature of association among the study concepts. In this conceptual framework, financial performance is the dependent variable while audit quality and capital structure are the independent variables as shown below:

Independent variable **Dependent variable**

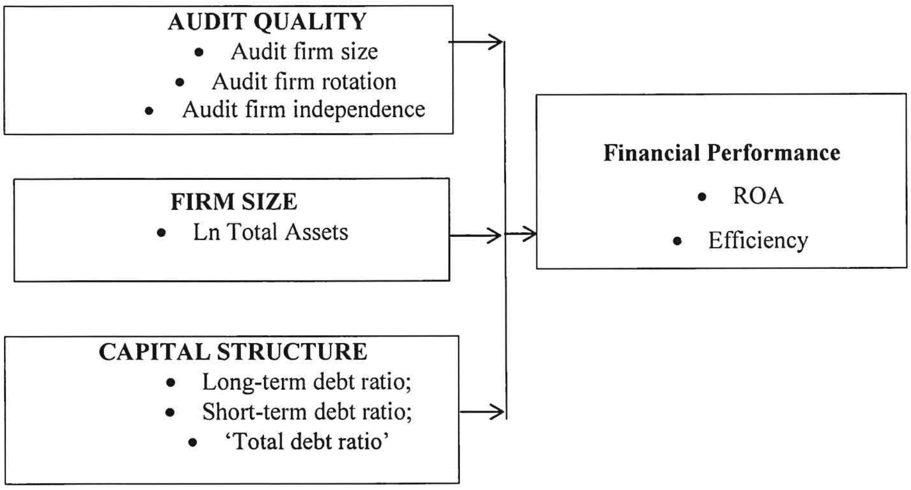

Figure 2.1: Conceptual Model

2.6 Summary of Literature Review and Research Gaps

The review of empirical studies carried out locally and globally on the subject matter reviews mixed and conflicting results which necessitate the need for a further study. According to Jensen and Meckling (1976), in their agency theory, audit quality helps to minimizes information asymmetry and agency costs which ultimately boost the firm performance. Conversely, stewardship view regards audit function as additional and unnecessary costs to the firm which erodes the value of the entity. Similarly, the same empirical controversy has been witnessed with no conclusion on the matter. For instance, Moradi, Salehi and Shirdel (2011) avers that audit quality has a positive bearing on the earning management while Naslmosavi, Sofian & Mohamed (2013) indicated that audit firm size doesn't have any impact on audit opinion though some specific factors such as competence, experience, education and skills do have. In addition, Mwangi and Birundu

(2015) tested the role of capital structure in the profitability of small and medium organizations located in Tika and confirmed that capital structure doesn't affect the firm's value. However, these studies does not focus on the influence audit quality have on firms' value which creates a void in empirical literature that this study seeks to fill. This survey seeks to address this void by addressing the question; what is the link among audit quality and performance of commercial banks quoted at NSE?

Table 2.1: Summary of Studies and Knowledge Gaps

Author	Objective	Findings	Knowledge Gap
Moradi, Salehi and Shirdel (2011)	An investigation of the association among the size of audit firms and financial controls between 2005 and 2009 of Tehran Stock Exchange-listed companies.	The findings revealed that no significant difference companies audited by audit firms and those audited by other members of SCA in Iran.	The survey investigated not the influence of audit quality on performance of commercial banks. Moreover, the study was done in Iran and the findings thereof cannot be applied in Kenyan context
Naslmosavi, Sofian & Mohamed Saat (2013)	Establish a link between the majority of the management of the audit firm in the entities listed on the Tehran Stock Exchange during 2005-2009.	The study indicated that audit firm size doesn't have any impact on earning management among companies in Tehran stock exchange	The study was done in Tehran and the findings thereof cannot be applied in Kenyan context
Mwangi and Birundu (2015)	It examines the role of capital structure for SME profit in TIKA, Kiambo District	The findings showed that capital structure, asset tangibility and sales turnover have no influence on the way in which small and medium businesses perform.	The study focused did not focus on enlisted commercial banks. Instead, the study focused small and medium businesses situated at Thika town, Kiambu County
Muturi and Githire (2015)	It assesses the profitability of the composition of the capital structure listed in the NSE	The findings showed that long term loan and equity has a positive implication on the business value of enlisted firms at NSE	The study focused on capital structure and did not examine the influence audit quality has on commercial banks at NSE
Examined audit quality differences among audit firms in developing economy, a	The results of the study revealed that the audit quality was multi-dimensional and consisted of a number of criteria. Additionally, the Big 4 audit is more compliant with other accounting standards, laws and regulatory requirements		The study didn't investigate on the role of audit size in creation of firms value. The study was also based in Uganda and the findings thereof cannot be applied in Kenya.

case study of Uganda.	than SMPs.		

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section summarizes the methods used to study the relationship between analytical quality and efficiency of NSE-registered commercial banks. Research plan, data collection and data analysis are amongst the components of the chapter.

3.2 Research Design

Research design is a comprehensive plot of the proposed study which postulates the plan to be adopted in proffering solutions to the problem in question (Groenewald, 2004). This research study adopted a descriptive research because it provides an objective approach of testing the formulated hypotheses and relationships which falls broadly within the positivist school of thought that posits that the best way to comprehend reality is through the application of the quantitative approaches, scientific and statistical procedures.

3.3 Population

Populace denotes a collection of a group of people and firms of prime interest to researcher (Creswell, 2002). The study population 'comprised; of "all the 11 commercial banks enlisted at NSE in establishing the influence of audit quality on performance of enlisted commercial banks at NSE trading bourse.

3.4 Data Collection Technique

Data collection techniques refer to the systematic approaches of gathering data for the study (Craddick *et al.*, 2003). The study applied secondary data in executing the study. The data was mined from financial statements for the period 2014-2019. The study period 2014-2019 is chosen because most commercial banks enlisted at NSE reported huge losses in their financial reports and hence the study would like to investigate whether there is any association amongest audit quality and performance of quoted commercial banks at NSE.

3.5 Data Analysis

Data analysis denotes a procedure of attaching meanings to the collected data (Shamoo and Resnik, 2003). The study employed Cross sectional data in seeking answers to the research questions. Both descriptive and inferential statistical analysis was applied. Descriptive statistics was applied in summarizing the observable characteristics of the group in question using metrics such as means standard deviations, variance, kurtosis and skewness.

Inferential statistical analysis such as multiple linear regressions was used in testing the constructed statistical study hypothesis. T test, f-test and p-value were used in testing for the research hypotheses. The findings will be revealed using tables. The following model will be applied in estimating the relationship implied by the hypotheses;

$$Y= \beta_0+ \beta_1X_1+ \beta_2X_2 +\beta_3X_3+£$$

Where Y= Performance – ROA and Efficiency

X_1=Audit quality

X_2= Capital structure

X_3 = Firm size

B_1-B_3 = Regression Coefficients

$£_t$ = white noise

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This section presents findings and discussions on educational objectives. The aim of this study is to influence the quality of the financial audits of commercial banks based in NSE Kenya. The purpose of the research guide is: The effect of most financial controls on a bank's financial performance. NSE-registered banks and the impact of capitalization on the performance of NSE-registered banks, the survey looks at the full list of Kenyan registered commercial banks Data was gathered from a sample of 11 commercial banks registered by NSE. Sources include business management and financial statement data from 11 NSE commercial banks.

4.2 Reliability statistics

A reliability test was performed on the panel data. Cronbach's alpha reliability test yielded a value of 0.898. The value presented shows that the information was statistically significant, and the value is 0.6 as values, so the value of 0.894 is considered statistically significant.

Table 4.1: Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.894	.900	16

The study relied solely on secondary data which was extracted from the companies' annual financial statements for the year ending December 2018. The populations of companies under study were all the 12 Banks listed in the Nairobi stock exchange (NSE). The annual financial reports available at the Capital Markets Authority offices were however for 11 Banks companies. The response rate was thus 91.6%. Record data in Ms Excel and SPSS for analysis and regression analysis to guide the model to determine the relationship between performance and audit quality.

4.3 Descriptive Statistics

The study assessed the association between size, discretional accruals, liquidity and firm performance of listed ban in the Nairobi Stock Exchange.

Table 4.2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA 2015	11	.0120	.0560	.031727	.0146976
ROA 2016	11	.0040	.0670	.028818	.0186431
ROA 2017	11	-.0100	.3900	.086727	.1395071
ROA 2018	11	-.0040	.0470	.023364	.0170310
LIQUIDITY 2015	11	.3130	.5290	.405455	.0631496
LIQUIDITY 2016	11	.3000	.7370	.437091	.1551331
LIQUIDITY 2017	11	.2400	.5460	.367091	.0903399
LIQUIDITY 2018	11	.2300	.7370	.387545	.1633275
SIZE 2015	11	7.4090	8.5090	7.963727	.3672648
SIZE 2016	11	7.5180	8.5760	8.086545	.3477089
SIZE 2017	11	7.0610	8.6700	8.048091	.5011412
SIZE 2018	11	7.0000	8.7030	8.061091	.5256726
DISCREATIONAL ACCRUALS 2015	11	.00	1.00	.8182	.40452
DISCREATIONAL ACCRUALS 2016	11	.00	1.00	.8182	.40452
DISCREATIONAL ACCRUALS 2017	11	.00	1.00	.8182	.40452
DISCREATIONAL ACCRUALS 2018	11	.00	1.00	.8182	.40452
Valid N (listwise)	11				

Of the Banks studied, the mean performance indicator was highest at 0.086727 for the year 2017 suggesting that the banks in the Nairobi Stock Exchange are relatively moderated by factors since it is lower before 2017 and after. The mean of the board sizes is highest at 8.061091 for 2018 with a minimum mean7.963727 for 2015. The Bank sizes are relatively clustered around the mean at an average 3 standard deviation away from the mean thereby implying that the commercial banks were averagely had similar sizes. All the banks displayed a similar trend as far as discretionary accruals are concerned mean=0. .8182 With a standard deviation of 0. 40452 meaning that on average all banks had provision for audit activity

4.4 Regression Analysis

Differential statistics are related to population observations and sample analyzes from sample observations and analyzes. The results of the analysis of the relevant tests involved may be accidental when there is no complete correlation amid the changes premeditated in the populace. The survey used correlation and regression analysis.

Linear compression has been used to obtain a clear pattern that describes the relationship between each individual type and the return of assets. The general model table below shows the forte of the association between the model and the dependency variation.

Table 4.3: Model Summary

Model Summary[b]									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.992[a]	.984	.918	.0053400	.984	14.986	8	2	.004
a. Predictors: (Constant), DISCREATIONAL ACCRUALS 2018, LIQUIDITY 2016, LIQUIDITY 2015, LIQUIDITY 2018, SIZE 2015, LIQUIDITY 2017, SIZE 2018, SIZE 2016									
b. Dependent Variable: ROA									

Differential statistics are related to population observations and sample analyses from sample observations and analysis. If there is no full correlation among changes in the overall study, the analysis results of the relevant tests may be accidental. The research used correlation and regression analysis.

Table 4.3 also shows that R, the coefficients of the connection have a value of 0.992 and this shows the corresponding connection among the witnessed and expected values from the dependent variance method. R square, the determination coefficient gave a value of 0.984. This means that 98.4% of the ROE variant defined by model or model is 98.4% effective in estimating the relationship.

Table 4.4: ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.003	8	.000	14.986	.004[b]
	Residual	.000	2	.000		
	Total	.003	10			
a. Dependent Variable: ROA						
b. Predictors: (Constant), DISCREATIONAL ACCRUALS 2018, LIQUIDITY 2016, LIQUIDITY 2015, LIQUIDITY 2018, SIZE 2015, LIQUIDITY 2017, SIZE 2018, SIZE 2016						

In table 4.4, the results analysed the variables in the regression model. These outcomes show 14.986 as the model's f-ratio, which is significant at 95%. This result reflects a statistical significancy of the regression model and can be used for prediction purposes. The analysis of variance gives the value P, where p> 0.5 0.04. It is resolved that there's a statistically significant association among bank performance and audit quality.

Coefficients

The proportion of each independent variable in the model is indicated by the magnitude of the coefficient. Table 4 shows the coefficients of independent variables in the model. The analysis gave the results of a variance analysis producing variance coefficients. When analyzing the p values of these variables, no statistically significant significance level of 0.05 was found.

Table 4.5: Coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.470	.116		-4.055	.050
	LIQUIDITY 2015	-.006	.032	-.022	-.205	.857
	LIQUIDITY 2016	.065	.037	.541	1.741	.224
	LIQUIDITY 2017	-.068	.070	-.328	-.968	.435
	LIQUIDITY 2018	.101	.026	.886	3.958	.058
	SIZE 2015	-.016	.020	-.309	-.789	.513
	SIZE 2016	.021	.046	.393	.457	.692
	SIZE 2018	.053	.023	1.492	2.340	.144
	DISCREATIONAL ACCRUALS 2018	-.016	.011	-.349	-1.421	.291

a. Dependent Variable: ROA 2016

The t ratio for the ROA value was -4.055, which represents a significant p value of 9550 at the 95% level, equal to 0.5%. This cost of ROA reflects the success of commercial banks. This demonstrates that the value of liquidity, volume and quality of audit increase profitability.

The analysis suggests that amongst all the other variables only size 2016, size 2018 and liquidity 2016, liquidity 2018 were positively related to ROA. In summation the linear model for estimating the effect of corporate governance on performance of a company in terms of other variables can be expressed thus: -.470 = 006 + 0.065 – 0.68+ 101 -0.016 +0.021+0.053 3.328 Auditcomp + εit

4.5 Discussion

According to the research, the ROA was the rate of return of 11 commercial banks listed on the NSE. However, earnings show that banks have experienced high growth in 4 years since 2017, the highest in liquidity.437091 in 2016. In other words, the standard deviation indicates a change in the size matrics, while the calculations remain. The same goes for the different commercial banks listed on the NSE.

The verdicts additional portray the relation between audit quality and performance as a dichotomous variable and feign that since the size of the banks is relatively similar then performance is also associated with capital structure. Although performance is confined by unrestricted accumulations that are approximated using the Jones 1991 a cross sectional version of model, this study assumes that the fact that all the 11 banks quoted in the NSE depict similar size characteristics then the value of discretionary accruals is therefore equal.

Based on the results of this survey, the conclusion is that the amount of audit has a substantial effect on the financial performance and capital structure of the commercial banks listed on the NSE list and on the performance of the banks listed on the NSE list.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section contains a summary of the results of the study. Research results and conclusions. It also presents the results, study limitations, and barriers. The final section of this section presents future research and policy discoveries and practices.

5.2 Summary of Findings

This survey should define the impact of audit quality among the commercial banks included in the NSE list in Kenya. The purposes were to evaluate the impact of the audit amount on the financial performance of commercial banks listed in the NSE and to establish the impact of the capital structure on performance of banks.

The data collected came from 11 commercial banks listed on Kenya's NSE. Analysis of data was done through linear regression as well as correlation. The study results of the study reflects that independent changes can be used to explain the capital structure, volume, and quality of the audit, so it can predict the financial performance of commercial banks on the NSE list.

This indicates that the change in ROE was elucidated by the 98.4% model or that the model was 98.4% effective in assessing the relationship. These variables may represent 98.4% of the variation in ROA in banks listed on NSE. Sectoral coefficient of determination (r-square = 0.987). This demonstrates that the regression model has strong elucidatory power because the model does not explain a 14% change in profitability in the banking sector.

For the ROA value, the t ratio was -4.055, which was significant at the 95% level, with a corresponding p value of 0.050, which is equal to 0.5. The ANOVA model obtained a value of P, p> 0.5 at 0.04. This led to the conclusion that there exists an association amongst banking performance and audit quality.

5.3 Conclusion

Despite the fact that clears performance measures, coordination, managerial ability and marketing mix are factors leading to overall Bank performance. As per the study outcomes or the study findings, this study concludes that audit quality leads to improved financial performance of commercial banks listed in the NSE and thereby can be universal to the whole banking industry

The study findings indicate that a combination of size, capital structure and audit quality when strategically aligned in combination they will all result in improved performance

5.4 Recommendations

From the verdicts of this survey, prospects for growth in performance as key factor for banks listed in the NSE. Audit quality should therefore form a cornerstone of all banks so achieve improved performance.

5.3 Limitations of the Study

The survey was fraught with several drawbacks especially in collecting the data. One was the fact that most banks panel data was not available freely. The other major limitation was the unwillingness of the banks to give comprehensive information about audit operations.

Comparing ROE in the same industry can also be misleading because ROA ignores the effect of debt. Similarly, ROE comparisons within the same industry can be misleading because ROA ignores the effects of debt. If a company offers a loan at a lower interest rate than the return rate on its investment, it could increase the tax rate. Nonetheless, high debt also increases the company's risk of failure.

5.4 Recommendations for Further Research

The same survey can be done in different industries which are involved in frequent public and external Audit especially the ever-versatile Banking industry.

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APPENDIX I: DATA COLLECTION SHEET

VARIABLES	Measure	Indicator	TYPE OF VARIABLE	2015	2016	2017	2018	2019
Capital Structure	Debt ratio	Total Debt	Independent variable					
		Total Assets						
Firm Size		Log of Total Assets	Independent variable					
Audit quality	Audit Quality measures	Discretionary accruals	Independent Variable					
		Audit Fees						
Performance	Return on asset	Profit After Tax	Dependent Variable					
		Total Assets						
	Efficiency	Inputs (expenses)	Dependent Variable					
		Outputs (revenues)						

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