EXTERNAL AUDITOR ATTRIBUTES AND FINANCIAL PERFORMANCE OF LISTED COMPANIES IN THE NAIROBI SECURITIES EXCHANGE

BY

MIRIAM WAKERU NGUNJIRI

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DECLARATION

This research project is my original work and has not been presented for an academic award at any other university.

Signed……………………………………………………Date 01/12/2021……………………………

MIRIAM WAKERU NGUNJIRI

D61/35733/2019

APPROVAL

This research project has been submitted for examinations with my approval as the university supervisor.

Signed………………………………………………….Date 01/12/2021…………………………

MARTIN KHOYA ODIPO

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DEDICATION

I dedicate this project to my family especially my father John Ngunjiri for the inspiration and faith in me. I also dedicate this work to my mother Jenifer and everyone who has supported and encouraged me in one way or another throughout the study period

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ABBREVIATIONS

ADX	Abu Dhabi Securities Exchange
CMA	Capital Markets Authority
CSR	Corporate Social Responsibility
GDP	Gross Domestic Product
HF	Housing Finance
I&M	Investments and Mortgages
ICAWE	Institute of Chartered Accountants in Wales and England
ICPAK	Institute of Certified Public Accountants of Kenya
ISACA	Information Systems Audit and Control Association
KCB	Kenya Commercial Bank
KES	Kenya Shilling
KPMG	Klynveld Peat Marwick Goerdeler
NGO	Non-Governmental Organization
NSE	Nairobi Securities Exchange
PwC	PriceWaterHouseCoopers
ROA	Return on Assets
ROE	Return on Equity
UAE	United Arab Emirates

ABSTRACT

The financial performance of companies listed on the Nairobi Securities Exchange (NSE) over the last five years has been on a downward trend. External auditors have vital qualities that are important in enhancing financial performance. This research sought to assess the influence of external auditor attributes on the financial performance of listed companies at the NSE. The specific objectives of the study were to assess the influence of external auditor's professional competence, years of experience, audit approach and independence on financial performance of listed firms in Kenya. The study was based on the agency theory and stakeholder salience theory. The study employed descriptive research design. The 63 companies listed at the NSE were the study population. Data collection was done using two instruments; a questionnaire (for data on external auditor attributes) and a secondary data collection sheet (for data on financial performance). Descriptive statistics and multiple linear regression were used to analyze the collected data. Study findings determined that professional competence, audit approach and independence had a significant positive influence on financial performance of firms listed at the NSE. However, experience of the external auditors had no significant influence on financial performance of firms listed at the NSE. The study recommends to ICPAK and ISACA to ensure continued professional development of external auditors. Board of directors should always ensure independence of external auditors, and audit firms should ensure that auditors are regularly rotated according to guidelines and best practices.

CHAPTER ONE

INTRODUCTION

1.1 Background

The share performance of companies listed on the Nairobi Securities Exchange (NSE) over the last five years has been on a downward trend. The daily market capitalization and NSE 20-share index trend have plummeted consistently since 2014, reaching their lowest levels in 2020 as reported by the Capital Markets Authority (CMA) (CMA, 2020). Although the overall performance of firms in the NSE is poor, certain record consistent positive performance. For instance, the market performance of firms like Safaricom, Kenya Commercial Bank (KCB), and Equity have reported positive share price growth and profitability over the last five years. On the contrary, firms like Uchumi, Mumias Sugar, and Kenya Airways have reported negative financial results over the same period. Stark differences are also noted in the financial performance of companies operating in the same industry with similar regulatory provisions (Orayo & Ombaba, 2017).

Based on the financial performance of these organizations over the last five years, certain industries consist of highly profitable companies, as well as firms making major losses. This phenomenon can be illustrated by looking at some of the best performing and worst performing firms in the NSE and their respective industries. Safaricom is the best performing firm in the country. It is the only NSE-listed telecommunications company. In 2020, the company reported KES 74.7 billion (Safaricom, 2020). Equity Bank Holdings and KCB Group Ltd, two firms in the banking industry, take up position two and three in profitability, respectively. In 2020, Equity and KCB reported net incomes of KES 20.1 billion and KES 19.6 billion, respectively (Equity Group, 2021; KCB, 2021). Other firms that are highly profitable within the same industry include Stanbic Holdings Limited, I&M Holdings Plc., Standard Chartered Bank Kenya Ltd. and Diamond Trust Bank. However, other firms within the same industry have been reporting losses over the last few years, including HF Group (HF Group, 2020). Bamburi Cement Limited is also a highly profitable firm with a net income of KES 1.1 billion in 2020 (Bamburi Cement, 2021). Other firms within the construction & allied industry have reported losses over the last few years. Within the same year, firms operating in the same industries reported large losses. For instance, East Africa Portland Cement Limited has been recording losses in the recent past.

Past researchers have sought to explain the aspects affecting the financial performance of listed firms in the NSE. Corporate governance, liquidity, and industry risks are the primary reported aspects affecting financial performance of publicly-traded firms in Kenya (Ayako, Githui, & Kungu, 2015; Orayo & Ombaba, 2017; Otieno, Tibbs, & Musiega, 2020; Odiero, 2018). Corporate governance is among the most reported factors influencing financial performance that is in the firm's control. Existing studies report significant correlation between corporate governance practices and the profitability of companies listed on the NSE (Orayo & Ombaba, 2017; Odiero, 2018; Aluoch, Mwangi, Kaijage, & Ogutu, 2020; Outa & Waweru, 2016; Osedo, Mwanza, & Ogendo, 2020). According to Oraro and Ombaba (2017), differences in the profitability of listed companies operating under similar market and regulatory conditions can be explained by differences in corporate governance structures. Firms with declining financial performances also make changes to their corporate governance as a strategy for reversing the trend (Nyachae, 2014).

One of the corporate governance components that influence financial performance is auditing. Both internal and external audit functions play a critical role in a firm's financial health. Audit promotes financial accountability and minimizes the occurrence of fraud (Tumwebaze, Mukyala, Ssekiziyivu, Tirisa, & Tumwebonire, 2018; Zager, Malis, & Novak, 2016; Dzikrullah, Harymawan, & Ratri, 2020; Hay, Stewart, & Redmayne, 2017). The influence of auditing on financial performance depends on the audit quality. When focusing on external audit, the audit quality is determined by factors relating to the audit team, the audit plan, the audit company and the audit fees. Specifically, auditor size, audit fees, auditors' expertise, and auditor's independence have a significant impact on financial outcomes of a firm (Ado, Rashid, Mustapha, & Ademola, 2020; AbbasZadeh, 2017; Amahalu, 2020; Iliemena & Okolocha, 2019). Since companies select their external auditors, they have the ability to influence financial performance.

External auditors have vital qualities that are important in enhancing financial performance. External auditors' attributes influence financial performance through their impact on the audit quality. Audit quality is the extent that an independent audit identifies and discloses errors or frauds, detects suspicious accounting practices, and assures that there are no material errors in the financial statements. It is dependent on the auditor's compliance of with existing standards and legal guidelines related to external audit practices (Dalgic & Caliyurt, 2019). Auditor attributes influence the auditor's ability to ensure a high-quality audit. Auditors should assure that the financial report does not contain any material misstatements and any deficiencies identified are addressed and reported. Audit quality is important in generating confidence in the accuracy of financial reporting. High audit quality is associated with increased investor confidence (Cameran, Ditillo, & Pettinicchio, 2017). The effect of auditor's attributes on audit quality implies that it affects a company's financial performance. From this relationship, auditor's attributes are one of the aspects of external audit that determine financial market performance of listed firms.

Despite the effect of external audit on a company's financial performance, research about the association between audit and financial performance of listed companies in Kenya has focused primarily on the quality of internal audit quality (Matoke & Omwenga, 2016; Ndung'u, 2013; Kwabena, 2017; Mburunga, Walubuka, & Gichana, 2019). Although studies report a significant effect of external audit process on financial performance in the Kenyan context (Muchugia, 2018; Kamau, Boiywo, & Kiprop, 2018), there is limited research that assesses this relationship among firms listed on the NSE. The lack of research on the subject implies the lack of evidence to inform listed firms in their selection of external auditors.

1.1.1 External Auditors Attributes

External auditor attributes refer to the academic, professional, and industry qualifications/competences of external auditors. The attributes that will be measured include the level of education, audit experience, audit approach, and auditor independence (Cuong & Dung, 2019). The level of education refers to the educational qualifications of the signing partners for each of the considered financial year. The audit experience measure will be done for both the firm and the signing auditor. At the firm level, audit experience will be measured as the years of operation of the company in Kenya and the number of years operating internationally. At the individual level, audit experience refers to the signing auditor's years of working experience as an auditor

(Kusumawati & Syamsuddin, 2018). The audit approach measure refers to the audit approach prioritized by the company as stipulated in its website. This variable will be measured through an assessment of the key focus areas based on the wording of the audit approach. Auditor's independence refers to the lack of relationship of the auditor with the listed company they are auditing. It is determined by assessing the existence of financial interests between the two parties.

According to Cuong and Dung (2019), one of the main attributes associated with audit quality is professionalism. According to the Institute of Internal Auditors (2015), focused devotion and dedication, professional development and continuous education, unshakable drive, high-road ethics, and straightforward, old-fashioned hard labor are all hallmarks of an auditor's professionalism. Another attribute is professional experience and training which is also a critical determinant influencing audit quality. Experience is characterised by direct feedback and general knowledge, which facilitate the accomplishment of audit tasks (Bedard and Chi, 1993). The evidence-based approach to audit, which refers to the logical technique for obtaining repeatable and trustworthy audit findings in a systematic audit process, is another characteristic used by external auditors. Further, to practice effectively, auditors should have the necessary education qualifications and trainings, which equip them with knowledge of practice, theory and principles of accountancy. Another important attribute that influences audit quality is audit independence. According to Mardijuwono and Subianto (2018), auditor independence refers to the extent that the auditor is free from influence of others. Auditors should produce make objective assessments and findings without undue influence from their client organizations. They should consider all facts to guide their opinions and assessments (Kong, Shyaka, & Risha, 2018).

1.1.2 Financial Performance

Financial performance is a subjective measure of an organization capacity to generate income from their major economic activities. The term is often used as a comprehensive pointer of an organization's all-inclusive economic strength over time (Gaynor, Kelton, Mercer & Yohn, 2016). Besides, Otieno, Tibbs, and Musiega (2020) indicate that financial performance is a wide-ranging valuation of an organization's complete economic standing in areas such as revenue generation., overall profitability, expenditures, equity, assets, and liabilities. It is computed by adopting numerous business-related formulas that empower stakeholders to compute accurate details about a company's effectiveness.

Various measures of financial performance are applied which fall under the numerous financial performance categories of liquidity, profitability, efficiency, solvency, and valuation (Maranga & Jagongo, 2017). These include and return on equity (ROE), gross profit, net profit, current ratio, operating cashflows, return on assets (ROA) among others (Onsongo, Muathe, & Mwangi, 2020). In this study, ROE was used to measure financial performance. ROE is computed by dividing the net income with total equity. The profitability margins are expressed as a percentage.

1.1.3 External Auditor's Attributes and Financial Performance

The external audit function influences a firm's financial performance by facilitating effective risk management. External auditors are responsible for identify and addressing fraud, misstatements, and errors in financial reporting. Besides, they help firms to improve their performance by offering recommendations based on the objective assessment of the available information data (Bunea, Marian, & Turlea, 2015). Apart from proposing ways that organizations can improve their performance, auditors enhance shareholder confidence, thereby boosting their likelihood to invest. Equity financing is a more cost-effective alternative to debt financing, thereby boosting the market performance of firms.

The Institute of Chartered Accountants in Wales and England (ICAEW), 2005, states that external audit serves an essential economic purpose to the public by boosting public confidence and trust in financial reporting and strengthening accountability. Audit also safeguards the interests of a firm's various stakeholders. Audit quality is acknowledged to have an impact on financial reporting and to have a major impact on investor trust in a firm's management (Gaynor, Kelton, Mercer & Yohn, 2016). This gives stakeholders reasonable certainty that their investments are safe, while also discouraging management from falsifying financial reporting. Because the opportunities for financial growth are significant, external audit attributes improves financial performance by attracting new investors as well as maintaining existing ones (Manita, Elommal, Baudier & Hikkerova, 2020).

1.1.4 Financial Performance of Listed Companies in Kenya

The NSE is a critical aspect of Kenya’s capital market. The exchange facilitates trading of debt and equity, ensuring the availability of long-term financing of listed companies. The NSE has undergone significant development over the last few decades and has a significant role in Kenya’s economic development (Kalui & Musya, 2019). In the 2000s, the NSE recorded significant stock returns as indicated by historical market returns measured using the NSE 20 Share Index (NSE 20). Although the returns were lower than those of developed countries (S&P 500), it remained positive until 2007. Following the global financial crisis, the exchange started reporting negative NSE 20 returns (Maranga & Jagongo, 2017).

Over the last five years, listed firms in Kenya have recorded mixed fortunes. The majority of firms are reporting stunted or negative growth rates. The coronavirus pandemic has also contributed to a recession that affects the financial performance of listed companies adversely. The ongoing trends are likely to contribute to a further dip in the overall market performance of the NSE (Onsongo, Muathe, & Mwangi, 2020). The poor financial performance of firms within the NSE affects even firms within the most critical sectors of the economy. For instance, the agricultural and commercial & services sectors have some of the worst performing firms in the NSE despite their significant roles in the Kenyan economy. Although agriculture is the largest industry in terms of GDP and employment creation in Kenya, listed agricultural firms perform poorly in the industry. This sector is considered highly unstable and highly risky. The financial results of companies within the sector are influenced by highly unpredictable factors, such as climate fluctuations. However, the consistency of poor performance in the sector points to challenges beyond climate change. For instance, three (50%) of the listed firms in the sector recorded poor performance from 2014 to 2018 (Otieno, Tibbs, & Musiega, 2020).

Similarly, the commercial & services sector plays a significant role in Kenya's economic development. The industry's contribution to the economy, especially their role in the financial intermediation process, is also noted in developed countries. The sector accounts for the majority (20.6%) of all listed firms in Kenya. However, it also hosts some of the worst performers in the industry. Kenya Airways, Uchumi Supermarkets, Express Kenya, and Longonot Publishers are among the companies in this sector with poor financial performance despite their large size. These firms have even resulted to selling assets to remain operational amid huge losses. At one point, Uchumi Supermarkets was put under receivership and even delisted from the NSE due to poor financial performance (Orayo & Ombaba, 2017). Kenya Airways has also been bailed severally by the government to prevent its bankruptcy.

1.2 Research Problem

External audit quality is a critical corporate governance component that influences the financial performance of an organization. To ensure external audit quality, the CMA's *Code of Corporate Governance Practices for Issuers of Securities to the Public 2015* recommends that each firm listed on the NSE to ensure competence and independence of external auditors. This recommendation is aimed at ensuring high-quality external audit reports. It is critical to understand how different aspects of auditor independence and competence influence financial outcomes. Empirical evidence in this area would be important for listed firms in Kenya seeking to improve their profitability.

The large variations in the financial performance of firms listed at the NSE might be explained by their corporate governance practices, including the external audit function. At the moment, the criteria used by these firms to select their external auditors is unclear. A look at the annual financial reports reveals the use of multiple firms for external audit purposes. Although the 'big 4' audit companies – Deloitte, PwC, Ernst & Young and KPMG – are the primary independent auditors, smaller firms are also used by listed companies. The audit fees paid for services offered by these firms also vary considerably. However, there is no clear justification for paying higher audit fees.

Various studies have assessed the influence of attributes of external auditors and various outcomes of the auditee firms. Kolsi et al. (2021) investigated the association between voluntary corporate social responsibility (CSR) disclosures of organizations and their external auditor's attributes. The study determined that external auditor's portfolio diversity, sector specialization, and size have a significant effect on the amount of CSR disclosures made by auditees. This study however, failed to include external auditor independence and professional competence, and thus left some conceptual gaps. Moreover, the study used CSR disclosure as the dependent variable and not financial performance, thus leaving some methodological gaps.

Sakka and Jarboui (2015) assessed the effect of the attributes of external auditors on audit reporting quality and financial performance. The findings showed that external auditor experience, reputation and independence were positively associated with financial performance of the studied companies. This study, however, left some conceptual gaps as it does not include external auditors audit approach and professional competence. In Nairobi County, Kenya, Nyabiosi (2016) investigated the effect of external auditor characteristics on the success of NGO-funded projects. The findings from the study determined that work experience, professionalism and education level of the external auditors had a positive association with NGO project success. This study however, left some contextual gaps as it was conducted in NGOs and not in the firms listed in the NSE, Besides, Gathigia (2018) examined the influence of external auditor's attributes on profitability of commercial banks in Kenya. Auditor independence, auditing standards compliance, auditor professional competence and experience had a significant influence on financial performance, according to the study. The study left some contextual gaps as it was conducted on commercial banks. The current study, therefore sought to fill these gaps by answering the question; What is the influence of external auditor attributes on the financial performance of listed companies at the NSE?

1.3 Research Objectives

1.3.1 General Objective

The research sought to assess the influence of external auditor attributes on the financial performance of listed companies at the NSE.

1.3.2 Specific Objectives

The study sought to accomplish the following objectives:

i) To assess the influence of external auditor's professional competence on financial performance of listed firms in Kenya

ii) To assess the influence of external auditor's years of experience in Kenya and internationally on a firm's financial market performance

iii) To evaluate the impact of external auditor's audit approach on financial market performance

iv) To assess the influence of external auditor's independence on financial performance of listed firms in Kenya

1.4 Value of the Study

Security exchanges are vital for financial deepening, economic growth and development. Effective exchanges are credited with facilitating financial resource mobilization by providing an efficient platform where corporates and investors meet (Njiraini, 2006). The NSE helps companies access cost-effective funding by selling shares to investors (NSE, 2021). The regulation of this exchange allows for the protection of the interests of both corporates and investors. Securities market performance has a major impact on macroeconomic factors and business performance. Savings and investments are functions of stock market performance. This link translates to a direct association between economic growth and stock market performance (Masoud, 2013; Cleary, Alderighi, Fenner, Miller, & Somerville, 2017). When the stock market underperforms, investors are unlikely to invest in companies, which are responsible for innovation and employment. Losses by companies listed on a securities exchange means that shareholders get a negative return for their investments. Consequently, a poorly performing exchange means a larger risk to investors. Instead of buying shares, they opt to save their money in the banks (Blackburn, 2020). A reduced investment propensity leads to increased costs of capital for firms, reduced funding for innovation, and stunted economic growth.

This study aims to understand a potential cause of the poor financial performance for companies listed at the NSE. Knowledge about the role of the audit function in determining a firm's financial performance can guide appropriate corporate governance practices towards a well-functioning securities exchange market. NSE-listed firms can then boost their performance by selecting audit firms with attributes associated with positive financial market outcomes. Improving the performance of these firms would restore investors' confidence in the stocks market, helping listed firms access low-cost capital to fund innovation and development projects. This move would have a positive multiplier effect on the economy by boosting corporate productivity and employment.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The extant literature on auditor attributes and financial performance is provided in this chapter. The literature review provides summarizes the existing knowledge on the topic, provides a theoretical rationale for the problem under study, and highlights the existing knowledge gaps. This chapter highlights what had been studied on the topic and how it relates to the proposed research. The chapter is divided into subsections that are all relevant to the topic of the study.

2.2 Theoretical Review

2.2.1 Stakeholder Salience Theory

The stakeholder salience theory (Mitchell, Agle, & Wood, 1997) posits that a firm's management should identify and prioritize certain stakeholders based on their ability to influence the firm's success. It is founded on the stakeholder theory (Freeman, 1984) and considers how managers should identify the key stakeholders within their organizations. The theory is founded on three key assumptions. First, firms should prioritize certain stakeholder to achieve their set goals. Second, stakeholder salience – the extent that a manager prioritizes a stakeholder's claims over others – is influenced on the manager's perception. Lastly, the identification of different stakeholders is based on their possession of the three primary attributes of salience: urgency, legitimacy, and power (Khurram, Pestre, & Charreire-Petit, 2019). In the theory, power is defined as the capacity of the stakeholder to obtain means and resources to impose their will on others. Legitimacy is the perception that the relationship between a stakeholder and the firm is valid. Lastly, Pedrosa-Ortega et al. (2019) indicate that urgency is the extent that claims from a stakeholder require urgent attention.

The stakeholder salience theory is pertinent to the current study since it focuses on the prioritization of stakeholders based on their salience, while focusing on an organization's financial performance. For the NSE-listed firms, shareholder are the definitive stakeholders because the possess power, legitimacy, and urgency (Khurram, Pestre, & Charreire-Petit, 2019). Shareholders' power is derived from their ability to sell their shares should the firm continue performing poorly. They also have legitimacy because they have a financial risk by investing in the firm. Lastly, their claim is urgent because should they sell their shares, the firm's value might decline, leading to failure. Creditors and suppliers are expectant stakeholders, with moderate influence on the firm's success (Khurram, Pestre, & Charreire-Petit, 2019). If listed firms continue to perform poorly, lenders may fail to advance loans to these companies while suppliers may decline to offer favourable credit terms. The stakeholder salience theory can be applied to show the importance of prioritizing financial performance for listed firms. Positive financial performance is a major claim for major stakeholders that listed companies should prioritize.

2.2.2 Agency Theory

Agency theory focuses on the relationships between principals and agents in the organizational context. It is focused on resolving disputes arising from the different priorities and interests between them. The relationship between shareholders (principals) and mangers (agents) is the primary principle-agent relationship that the theory seeks to address. Shareholders rely on managers to execute day-to-day transactions of an organization. Decision-making is delegated to the agents (managers) but the effect of the decision is largely felt by the principals (shareholders). The agency theory argues that the priorities of the agent do not always align with those of the principals. For instance, managers may prioritize short-term profits to elevate their compensation (salaries and bonuses) at the expense of long-term growth. Their actions may lead to increased risk-taking behaviour because they suffer little loss in the case of failure. The agency theory proposes using strategies that reduce the agency loss (loss incurred by principal because the agent acted contrary to the principal's interests (Adler, 2018).

The agency theory is relevant to the study given its proposition for strategies to resolve disputes in the agent-principal relationship. External audit is one of the corporate governance approaches used to ensure that managers in listed companies act in the best interest of shareholders. External auditors are an independent entity in the agent-principal relationship that can help align the interests of managers and shareholders. Apart from ensuring accurate financial reporting, external auditors offer recommendations to the management. These recommendations are targeted at improving a firm's financial standing and performance, which is aligned to the shareholders' interests. External auditors should possess the necessary attributes to carry out this role effectively.

2.3 Conceptual Framework

The study conceptualized that the external auditor's attributes play a positive role in affecting financial performance. The study hence hypothesized that professional competence, experience, audit approach and independence of external auditors have an influence on financial performance of listed companies in Kenya. The conceptual framework is illustrated in Figure 2.1.

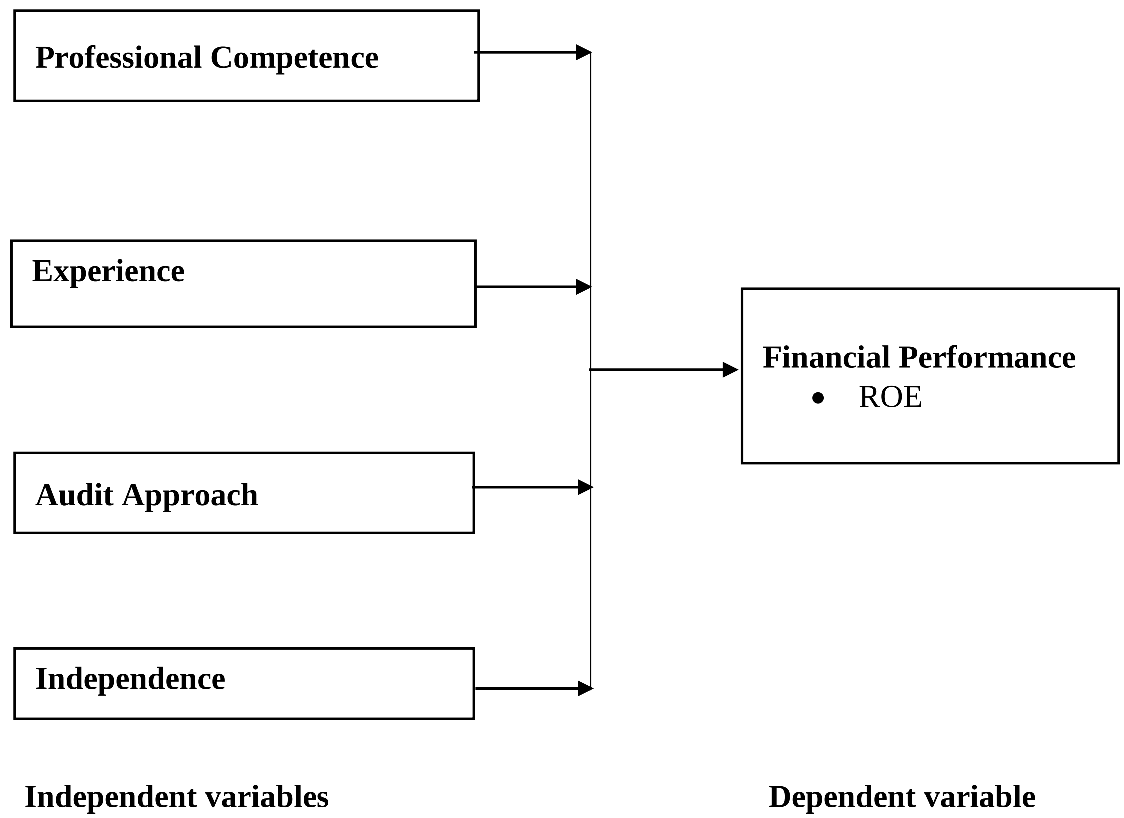

Figure 2.1: Conceptual Framework

2.4 Empirical Literature Review

A study in the United Arab Emirates (UAE) by Kolsi et al. (2021) used a population of Abu Dhabi Securities Exchange (ADX) listed businesses, to investigate the association between voluntary corporate social responsibility (CSR) disclosures of audited organizations and their external auditor's attributes. This research used a population of 410 company-year data from 2010 to 2016, and conducted a regression analysis to assess how external auditor features influenced CSR disclosure scores, as well as client firm characteristics and other control factors. The study findings show that external auditor characteristics have a substantial effect on the CSR disclosures of ADX-listed companies.

Study conclusions were that overall, external auditor's portfolio diversity, sector specialization, and size have a significant effect on the amount of CSR disclosures made by auditees. The study however failed to include external auditor independence and professional competence, and thus leaving some conceptual gaps. Moreover, the study used CSR disclosure as the dependent variable and not financial performance, thus leaving some methodological gaps.

In Indonesia, Ardiana (2019), examined the impact of three external audit features on a company's value. Audit planning, audit firm size, and audit tenure were the audit characteristics included in the study while using a sample of 320 companies for seven years (2007-2013). Analysis of the secondary data was through multiple regression analysis. The study findings established that brand-name audit firms, shorter audit duration, and audit planning were significant in influencing company value. The conclusions were that mandatory rotation could be a good way to ensure that the professional relationship between the client and the auditor is maintained and that brand name auditors appear to provide better audit quality and increase the company's value.

A study in Tunisia by Sakka and Jarboui (2015) had the purpose of assessing the influence of the attributes of external auditors on audit reporting quality and financial performance. The study population was 28 firms listed on the Tunisian Stock Exchange from 2006 to 2013. The study applied multivariate regression panel data to analyze the longitudinal data collected. Results from the study showed that external audit attributes such as external auditor experience, reputation and independence were positively associated with financial performance of the studies companies. The conclusions from the study were that auditor experience, reputation and independence were vital for firm performance.

Nyabiosi (2016) conducted a study in Nairobi, Kenya, with the purpose of determining the effect of attributes of the external auditor on the success of NGO-funded projects. Specifically, the study assessed how the performance of NGO projects was influenced by work experience, level of education and professionalism of external auditors. The study population was five NGOs and study respondents were 57 who included project coordinators, finance managers, internal auditors, project managers, and grant managers of the NGOs. The study utilized correlation and descriptive analysis to analyze the collected data. Findings determined that work experience, professionalism and education level of the external auditors had a positive association with NGO project success. The study conclusion was that work experience, professionalism and education level of the external auditors were instrumental for project performance for NGOs.

On a research on commercial banks in Kenya, Gathigia (2018) examined the effect of external auditor's attributes on financial performance. Specifically, the study sought to examine the influence of auditor professional competence, compliance with auditing standards, auditor independence, and provision of non-audit services on financial performance of commercial banks. Kenya's 41 registered commercial banks formed the study population. To collect primary data, the study applied a questionnaire while secondary data was gathered from the commercial banks' audited annual reports. The collected data was analyzed using multiple linear regression. Findings from the study determined that auditor independence, auditing standards compliance, auditor professional competence and experience had a significant influence on financial performance while provision of non-audit services had a significant negative effect. The study conclusion was that auditor independence, auditing standards compliance, auditor professional competence and experience are essential for performance in commercial banks.

2.5 Knowledge Gaps

The study by Kolsi et al. (2021) in the UAE, for example, investigated the association between voluntary CSR disclosures of firms and the attributes of their external auditors. The study however failed to include external auditor independence and professional competence, and thus leaving some conceptual gaps. Moreover, the study used CSR disclosure as the dependent variable and not financial performance, thus leaving some methodological gaps. Moreover, the study Sakka and Jarboui (2015) in Tunisia assessed the effect of the attributes of external auditors on audit reporting quality and financial performance. The findings showed that external auditor experience, reputation and independence were positively associated with financial performance. This study, however, left some conceptual gaps as it does not include external auditors' audit approach and professional competence. Additionally, Nyabiosi (2016) assessed the effect of external auditor characteristics on the success of NGO projects. The study determined that work experience, professionalism and education level of the external auditors had a positive association with NGO project success. This study however, left some contextual gaps as it was conducted on NGOs and not in the firms listed in the NSE, Furthermore, Gathigia (2018) examined the effect of external auditor's attributes on financial performance of commercial banks. The study left some contextual gaps as it was conducted on commercial banks and not on the firms listed in the NSE.

2.6 Summary

This chapter has provided the literature review which comprises of theoretical review, conceptual framework and empirical review. Empirical evidence has demonstrated that the quality of the external audit is partly dependent on the attributes of the external auditor. On the other hand, the external audit quality has an influence on a company's financial performance. One of the corporate governance components attributed to firm performance is external audit attributes. Though there is some existing evidence showing that external auditor attributes have an influence on a firm's financial performance, the available empirical studies left some knowledge gaps that justified the current study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that this study applied. The chapter comprises of research design, the study population and sample design and the data collection techniques. Besides, the chapter highlights the data analysis methods which includes the empirical model, and the diagnostic tests that were conducted.

3.2 Research Design

The study employed descriptive research design. This is a research design that targets to provide an accurate and systematic description of a situation or phenomenon. It is focused on answering the what, where, how, and when of a situation. This design is preferred in studies that seek to have a clear understanding of a research problem, especially in instances when knowledge about the topic is limited. This research design fitted the research because the topic was poorly investigated. At the time of the study, very little was known about the influence of the external audit characteristics on a company's financial performance within the Kenyan context. This study sought to answer the 'what' question in this relationship.

3.3 Population

The 63 companies listed at the NSE were the study population (NSE, 2020). Only companies that had been listed on the NSE for all five years (2065-2020) were considered for inclusion in the study. Due to the manageability and accessibility of the study population, there was no sampling. This therefore meant that the study was a census of all the 63 companies listed on the NSE. The firms listed in the NSE were the units of analysis whereas the finance directors of the firms were the units of observation.

3.4 Data Collection

Data collection was done using two instruments; a questionnaire and a secondary data collection sheet. A questionnaire was applied in gathering data from the finance directors of the listed firms regarding attributes of the external auditors (independence, audit approach, professional competence and experience of the external auditors). The questionnaire (Appendix I) was structured to collect quantitative data on a five-point Likert scale. This scale was applied to enable the finance directors to rate the attributes of the external auditors. The questionnaires were administered to the finance directors at the headquarters of each of the listed companies.

Secondary data was collected on the value of equity and net profit for each year which captured the ROE of the listed firms for a period of five years (2016 – 2020). To capture the secondary data, the audited financial annual reports of the companies were utilized. Although the financial years of different companies vary, the study considered the end of the reporting year (up to 2020) as the date for each annual report. Where financial performance measures such as ROE are not indicated in the financial statements, raw data on net profit and shareholders' equity was captured which was used to calculate the ROE.

3.5 Data Analysis and Presentation

Collected primary data was checked for completeness and coded into SPSS. The average of the secondary data collected for each firm was computed and then matched to the collected primary data for each firm to enable analysis. Based on this tabulation, the independent variables were correlated to the dependent variables independently. The analysis entailed using SPSS and MS Excel software. Multiple linear regression analysis was applied to establish the influence of the predictor variables on the financial performance (ROE). The findings were presented using multiple visual aids that make it easy for users to follow. Tables and graphs were the primary presentation aids used. A detailed narrative of the data was also included.

The empirical model used in the multiple regression was of the form;

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

In the formula, Y= Financial performance of the NSE listed firms (ROE)

β_0 = Constant

X_1 = Professional Competence (Certification)

X_2 = Experience in different sectors

X_3 = Audit Approach (Audit planning)

X_4 = Independence (Rotation of partners)

β_i = Regression coefficients

ε = Error term

The study conducted the F and t test of significance. F test in the regression analysis was used to assess the model fit and its statistical significance. Besides, the t test was applied to assess the significance of each of the four predictors on financial performance. These tests were conducted on a 5% significance level. Model diagnostic tests for linearity, heteroscedasticity, normality of residuals, and multicollinearity were performed prior to fitting the multiple linear regression model to determine whether there were any regression assumptions that were violated. If any of the regression assumptions were violated, the necessary measures would be undertaken.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter describes the data analysis procedure, the research outcomes, and the discussion of the findings. The chapter begins by presenting the study's response rate, the results of the questionnaire's validity and reliability tests, and descriptive statistics for the research variables. The diagnostic tests to assess the regression assumptions, correlation analysis, multiple regression analysis, and hypothesis testing findings are also presented. Finally, the chapter discusses the results of the study in light of the evaluated empirical and theoretical literature.

4.2 Response Rate

The research focused on a population of 63 firms listed in the NSE. The finance directors of the firms were administered with the questionnaires to fill out in their workplaces. The researcher successfully collected 46 questionnaires after they were filled, resulting in a response rate of 73 percent. Based on Johannesson and Perjons' (2014) recommendation that a response rate of more than 60% for a paper-based questionnaire survey is appropriate, the response rate of 73 attained in this study was deemed adequate for analysis.

4.3 Demographic and General Information

The survey gathered a variety of demographic and general information on the study's listed respondents and the enterprises on the NSE. This included information on the respondents' gender, age in years, greatest level of education, duration of service in the listed firms, and length of service in their present roles. Concerning gender of the respondents, the findings are provided in Figure 4.1.

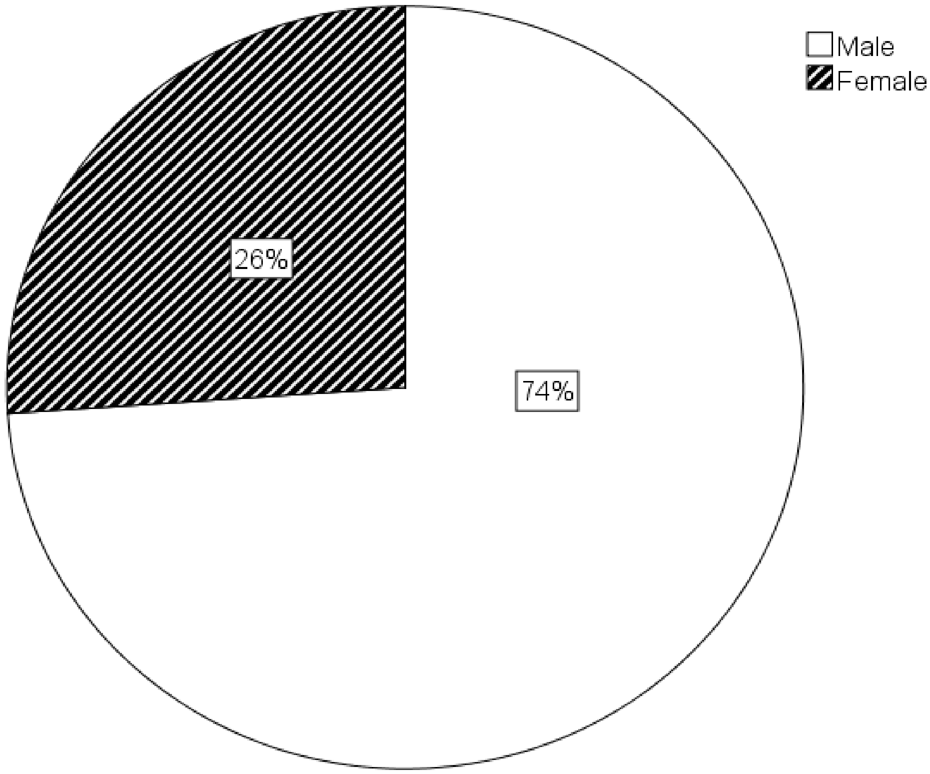

Figure 4.1: Gender of Respondents

The study results provided in Figure 4.1 show that 74% of the respondents were male while only 26% were female indicating a lack of gender balance relating to finance directors or their representatives in the listed firms. Regarding the age of the respondents in years, the findings are provided in Table 4.1.

Table 4.1: Age of the Respondents

Age in years	Frequency	Percent
30-39	19	41.3
40-49	13	28.3
50 and over	14	30.4
Total	**46**	**100.0**

The study results summarized in Table 4.1 show that 41.3% of the study respondents were between the ages of 30 and 39 years while 28.3% were between the ages of 40 and 49 years. These findings indicate that most of the fiancé directors or their representatives in the NSE listed firms were young and middle aged. Concerning the highest level of education attained by the respondents, study results are summarized in Table 4.2.

Table 4.2: Highest Level of Education of Respondents

Education level	Frequency	Percent
Undergraduate degree	27	58.7
Master's degree	19	41.3
Total	**46**	**100.0**

According to the study's findings, 58.7 percent of the respondents had undergraduate degrees while just 41.3 percent held master's degrees (Table 4.2). According to this information, all of the respondents from the NSE listed firms had attained higher education qualifications which was expected based on the position targetted. Table 4.3 shows the results in terms of the number of years the respondents had served in their current positions in the NSE listed firms.

Table 4.3: Number of Years Worked in the Firm

Number of years	Frequency	Percent
Less than 5 years	3	6.5
5 to 10 years	10	21.7
11 to 15 years	14	30.5
Above 15 years	19	41.3
Total	**46**	**100.0**

According to the survey results reported in Table 4.3, 41.3% of the study respondents had worked for the NSE listed firms for over 15 years, while only 6.5% had worked in the firms for less than 5 years. The study also interrogated how long the respondents had been working in their present job. Table 4.4 summarizes the data, which revealed that 50% of the respondents had worked in their present employment for a period of between 5 and 10 years. Those who had been in their present jobs for more than 15 years were 10.9% percent of the total.

Table 4.4: Years Served in Current Position in the Company

Number of years	Frequency	Percent
Less than 5 years	7	15.2
5 to 10 years	23	50.0
11 to 15 years	11	23.9
Above 15 years	5	10.9
Total	**49**	**100.0**

4.4 Data Validity and Reliability

To ascertain that the obtained data was accurate and reliable for the research, the validity and reliability of the questionnaire and data collecting sheet were examined. Expert evaluations were used to assess the questionnaire's face, content, and construct validity, while Cronbach alpha was used to assess the reliability of the questionnaire. Expert reviewers recommended refinements to the questionnaire which were addressed before the final questionnaire that was used to collect data. Table 4.5 shows the results of the reliability test.

Table 4.5: Reliability of Questionnaire

Variable	No. of items	Cronbach alpha
Professional competence	5	0.792
Experience in different sectors	5	0.891
Audit Approach	5	0.904
Independence	5	0.863

The Cronbach alpha values for the independent variables were all above 0.7, suggesting dependability, according to the research results shown in Table 4.5. With a score of 0.904, audit approach variable had the highest reliability, while professional competence had the lowest amongst the study’s independent variables. However, the questionnaire's reliability and validity testing suggested that it was suitable for data collection.

4.5 Descriptive Statistics

The descriptive statistics for the external auditor attributes included in the study and financial performance (ROE) of the listed firms are presented in this section. The skewness, kurtosis, means, and standard deviations for each research variable are included in the descriptive statistics.

4.5.1 Professional Competence

Respondents were provided with statements on the professional competence of external auditors of their firms and asked to determine to what degree of agreement (from strongly disagree to strongly agree) the attribute applied to their external auditors. The responses were analyzed using means (M) and standard deviations (SD), and the results are summarized in Table 4.6.

Table 4.6: Professional Competence of External Auditor

Statements on Professional Competence	Mean	Std. Deviation
The external auditor of this firm has all the requisite professional certifications to practice	4.57	.539
The engagement team members to the assignment have all necessary certifications e.g ICPAK/ISACA	4.61	.771
The external auditor engages in continuous education and professional development and is in good standing with the professional body.	4.25	.660
The external auditor always portrays high professional integrity	4.39	.712
This firm's external auditor has high credibility	4.33	.601

The survey respondents strongly agreed or agreed to all of the offered statements on the professional competence of the external auditors of the NSE listed firms, according to the results summarized in Table 4.6. Respondents strongly agreed that the external audit team members have all necessary certifications such as Institute of Certified Public Accountants of Kenya (ICPAK) and Information Systems Audit and Control Association (ISACA) (M = 4.61, SD = 0.771), and also strongly agreed that the external auditor of the NSE listed firms had all the requisite professional certifications to practice (M = 4.57, SD = 0.539). Furthermore, respondents agreed that the external auditors always portray high professional integrity (M = 4.39, SD = 0.712), and that the NSE listed firms' external auditors had high credibility (M = 4.33, SD = 0.601). Respondents also agreed that the external auditors of the NSE listed firms engaged in continuous education and professional development and had good standing with the professional bodies (M = 4.25, SD = 0.660). These findings indicate that the study respondents had high regard for the professional competence of the external auditors in the NSE listed firms.

4.5.2 Experience in different sectors

To assess experience of the external auditors in different industries, respondents were provided with statements on the external auditors' experience and asked to indicate to the degree of agreement (from strongly disagree to strongly agree) to the attributes relating to experience of the NSE listed firms' external auditors. The responses were analyzed using means (M) and standard deviations (SD), and the results are summarized in Table 4.7.

Table 4.7: Experience in different sectors

Statements on experience in different sectors	Mean	Std. Deviation
The external auditor of this firm has experience in various sectors and fields	4.51	.572
The external auditor has wide experience in auditing in Kenya	4.35	.791
The external auditor has wide experience in auditing internationally	4.17	.815
The external auditor has many years of experience in auditing of listed firms	4.28	.875

The recommendations provided by the external auditor are very relevant to the firm	4.03	.803

The findings provided in Table 4.7 show that the study respondents either strongly agreed or agreed to all the provided statements on experience of the external auditors of the NSE listed firms. The findings further indicated that respondents strongly agreed that the external auditors of the NSE listed firms had experience in various sectors and fields (M = 4.51, SD = 0.572). Besides, respondents agreed that the external auditors had wide experience in auditing in Kenya (M = 4.35, SD = 0.791). Moreover, respondents agreed that the external auditors had many years of experience in auditing of listed firms (M = 4.28, SD = 0.875) and further agreed that the external auditors had wide experience in auditing internationally (M = 4.17, SD = 0.815). Additionally, the findings show that respondents agreed that the recommendations provided by the external auditors were very relevant to the firms (M = 4.03, SD = 0.803). These study findings show that the external auditors of the NSE listed firms had high level of experience in different sectors, locally, and internationally.

4.5.3 Audit Approach (Audit planning) of External Auditor

Respondents were provided with statements on the audit approach (comprising of audit planning) applied by the external auditors and requested to determine to what degree of agreement (from strongly disagree to strongly agree) the attribute applied to their external auditors. The responses were analyzed using means (M) and standard deviations (SD), and the results are summarized in Table 4.8.

Table 4.8: Audit Approach (Audit planning) of External Auditor

Statements on Audit Approach	Mean	Std. Deviation
The external auditor communicates their audit plan detailing their audit approach through presentation of a planning memo to the management.	4.11	.911
The audit plan adopted by the external auditor is always relevant to the firm's context	4.42	.806
The audit plan adopted by the external auditor enables timely completion of audit	4.16	.712
The work of the external auditor is always guided by international auditing standards	4.46	.822
The audit approach applied by the external auditor identifies and covers all relevant risks	4.18	.664

The study results provided in Table 4.8 indicate that the study respondents agreed to all the provided statements regarding audit approach applied by the external auditors of the NSE listed firms. Specifically, respondents agreed that the work of the external auditors is always guided by international auditing standards (M = 4.46, SD = 0.822) and also agreed that the audit plan adopted by the external auditors is always relevant to the firms' context (M = 4.425, SD = 0.806). Besides, respondents also agreed that the audit approach applied by the external auditors identifies and covers all relevant risks (M = 4.18, SD = 0.664) and also agreed that the audit plan adopted by the external auditors enables timely completion of audit (M = 4.16, SD = 0.712). Further, the findings show that respondents agreed that the external auditors communicate their audit plans detailing their audit approach through presentation of planning memos to the management (M = 4.11, SD = 0.911). These findings imply that most of the external auditors of the NSE listed firms engaged in effective audit planning, communicated the plans to management and adopted audit plans that were relevant to the context of the NSE listed firms.

4.5.4 Independence of External Auditor

The study assessed the independence of the external auditors by providing respondents with statements on this attribute of the external auditors of their firms. The respondents were then asked to indicate their degree of agreement (from strongly disagree to strongly agree) on how the attributes applied to their external auditors. The responses were analyzed using means (M) and standard deviations (SD), and the results are provided in Table 4.9.

Table 4.9: Independence of External Auditor

Statements on Independence of External Auditor	Mean	Std. Deviation
The external auditor rotates the engagement partners assigned to this firm in accordance to the pertinent auditing standards	4.36	.744
The organization has adequate safeguards to control the relations between management and the external auditors	4.33	.817
The audit committee provides adequate support to the external auditor	3.97	.855
The external auditor of this firm is does not provide any other services that may influence the audit	4.26	.863
The external auditor does not engage in any inappropriate dealings with senior management employees	4.43	.769

The study results provided in Table 4.9 indicate that the study respondents agreed to all the provided statements regarding independence of their external auditors. Specifically, respondents agreed that the external auditors do not engage in any inappropriate dealings with senior management employees (M = 4.43, SD = 0.769) and also agreed that the external auditors rotate the engagement partners assigned to the NSE listed firms in accordance to the pertinent auditing standards (M = 4.36, SD = 0.744). Besides, respondents also agreed that the organizations had adequate safeguards to control the relations between management and the external auditors (M = 4.33, SD = 0.817) and also agreed that the external auditors of the NSE listed firms do not provide any other services to the firms that may influence the audit (M = 4.26, SD = 0.863). Further, the findings show that respondents agreed that the audit committees of the NSE listed firms provided adequate support to the external auditors (M = 3.97, SD = 0.855). These findings show that the external auditors of the NSE listed firms demonstrated high independence.

4.5.5 Descriptive Statistics for all Study Variables

All of the research variables were subjected to a descriptive analysis in preparation for correlation and regression analysis. A mean of the independent variable components (items) was calculated to provide a single measure for the independent variables. Table 4.10 shows the descriptive statistics for all the study variables.

Table 4.10: Descriptive Statistics for all Study Variables

	Mean	Std. Deviation	Skewness	Kurtosis
Variable	Statistic	Statistic	Statistic	Statistic
Professional Competence	4.43	.824	-.375	-.973
Experience in different sectors	4.28	.956	.339	-.768
Audit Approach	4.26	.712	.576	.141
Independence	4.27	.864	.071	-1.024
ROE	18.14	8.895	-1.889	6.589

The study results provided Table 4.10 indicate that mean of professional competence was 4.43 with a standard deviation of 0.824. Besides, experience in different sectors had a mean of 4.28 and a standard deviation of 0.956 whereas, audit approach had a mean of 4.26 and a standard deviation of 0.712. Additionally, the mean of external auditor independence was 4.27 with a standard deviation of 0.864. The financial performance of the NSE listed firms (ROE) had a mean of 18.14 and a standard deviation of 8.895. The kurtosis and skewness statistics implied normal distribution for all the study variables since skewness statistics were within the absolute value of 2 while kurtosis statistics were within the absolute value of 7.

4.6 Diagnostic Tests

To address the research objectives and test hypotheses, the researchers employed correlation and multiple regression analysis. Before fitting the linear regression and correlation models, the researchers checked to determine whether there was any violation of the linear regression assumptions. The assumptions of no multicollinearity, linearity, homoscedasticity, and normal distribution of the regression residuals were all examined. The linearity test was the first to be performed. This was done to see whether there was a linear relationship between the dependent and each of the predictor variables. This test was carried out using the analysis of variance's deviation from linearity test. Table 4.11 summarizes the findings.

Table 4.11: Test of Deviation from Linearity

Variables	Sum of Squares	df	Mean Square	F	Sig.
Professional Competence * ROE	2.647	2	1.324	1.599	.217
Experience in different sectors * ROE	3.002	2	1.501	2.002	.164
Audit Approach * ROE	1.645	2	0.823	.898	.412
Independence * ROE	2.811	2	1.405	1.594	.210

The null hypothesis of the test is that the predictor and dependent variables are connected linearly. As a result, if the p value is less than 0.05, the null hypothesis is rejected, but if the p value is more than 0.05, the null hypothesis is accepted (Suresh & Sharma, 2013).

Because the p values were over 0.05 as indicated in the findings in Table 4.11, this suggests that there was linearity between all of the predictor and dependent variables.

The multicollinearity test was performed as the second test. This assesses if there is a strong linear connection between any two predictor variables. The variance inflation factor (VIF) was employed to quantify multicollinearity in this research. Table 4.12 summarizes the findings.

Table 4.12: Test of Multicollinearity between Independent Variables

	Collinearity Statistics	
Independent Variables	Tolerance	VIF
Professional Competence	.381	2.621
Experience in different sectors	.395	2.530
Audit Approach	.921	1.086
Independence	.983	1.017

The VIF multicollinearity test's critical value is 5. VIF values less than 5 indicate no multicollinearity, whereas VIF values more than 5 indicate multicollinearity (Lincoln & Guba, 2018). Table 4.12shows that all of the VIFs were less than 5. There was no multicollinearity between any two predictor variables, indicating that they were not highly related linearly.

The researcher tested the residuals for heteroscedasticity after fitting the model. The heteroscedasticity test evaluates the variance homogeneity of the regression residuals. The Breusch Pagan test was used to perform this investigation. Table 4.13 summarizes the study results.

Table 4.13: Test of Heteroscedasticity

Test statistic	**Chi square**	**Prob > Chi square**
Breusch Pagan	1.764	.146

When the p value of the Breusch pagan test is less than 0.05, heteroscedasticity is evident. When the p value of the test is more than 0.05, the test indicates homoscedasticity (Suresh & Sharma, 2013). Because the p value was above 0.05 (Chi square = 1.764, p = 0.146), the results in Table 4.13 show that the variances of the regression errors were homoscedastic.

The normality of residuals test was the final test to be performed. Shapiro-Wilk was utilized to assess the normality of the regression residuals in this research. The unstandardized errors were preserved and their normality was checked after the regression model was fitted. Table 4.14 summarizes the results of the study.

Table 4.14: Tests of Normality of Regression Residuals

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residuals	.047	46	.200	.993	46	.211

The regression residuals were found to be normally distributed (Shapiro wilk statistic = 0.993, p = 0.211) according to the results (Table 4.14). The test's null hypothesis is that the residuals are normally distributed, whereas the alternative hypothesis is that they are not. When the p value is more than 0.05, the null hypothesis is accepted, and when the p value is less than 0.05, it is rejected (Colomb et al., 2016). The null hypothesis that the regression residuals were normally distributed was accepted.

4.7 Correlation Analysis

A correlation analysis was used in the research to assess the relationship between the external auditor attributes and financial performance (ROE) of the NSE listed firms. Table 4.15 summarizes the findings.

Table 4.15: Correlation Analysis

			1	2	3	4	5
1.	Professional Competence	Pearson Correlation	1				
		Sig. (2-tailed)					
		N	46				
2.	Experience	Pearson Correlation	.693**	1			
		Sig. (2-tailed)	.000				
		N	46	46			
3.	Audit Approach	Pearson Correlation	.389**	.071	1		
		Sig. (2-tailed)	.008	.641			
		N	46	46	46		
4.	Independence	Pearson Correlation	.088	.500**	.103	1	
		Sig. (2-tailed)	.563	.000	.498		
		N	46	46	46	46	
5.	ROE	Pearson Correlation	.444**	.218	476**	.588**	1
		Sig. (2-tailed)	.002	.146	001	.000	
		N	46	46	46	46	46

**. Correlation is significant at the 0.01 level (2-tailed).

The results in Table 4.15 reveal that professional competence of external auditors was moderately, positively and significantly associated with financial performance of the NSE listed firms (r = 0.444, p = 0.002). However, experience of the external auditors had a positive but insignificant linear relationship with financial performance of the firms listed in the NSE (r = 0.218, p = 0.146). Moreover, audit approach adopted by their external auditors had a moderate and statistically significant positive relationship with financial performance of the NSE listed firms (r = 0.476, p = 0.001). Furthermore, independence of the external auditors had a moderate and statistically significant positive relationship with financial performance of the NSE listed firms (r = 0.588, p = 0.001).

4.8 Regression Analysis and Hypotheses Testing

The analysis and results of the fitted regression model are presented in this section. Professional competence, experience, audit approach adopted by their external auditors and independence of the external auditors were the predictor variables while the financial performance as assessed by ROE was the dependent variable. Table 4.13 shows the summary of the regression model findings.

Table 4.16: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724	.524	.477	.76863

a. Predictors: (Constant), Independence, Professional Competence, Audit Approach, Experience

Table 4.16 summarizes the results, which reveal that the linear relationship (r = 0.724) between the dependent variable and the predictor variables was 0.724, indicating a strong linear relationship. Furthermore, the findings show that the four independent variables (professional competence, experience, audit approach adopted by their external auditors and independence of the external auditors) can explain 52.4 percent of the variation in financial performance of the NSE listed firms (r squared = 0.524). This means that additional variables not included in the model and the error term might account for 47.6 percent of the variance in the financial performance of NSE listed firms. Table 4.17 summarizes the findings of the regression model's analysis of variance.

Table 4.17: Analysis of Variance of the Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.647	4	6.662	11.276	.000
	Residual	24.223	41	.591		
	Total	50.870	45			

a. Dependent Variable: ROE

b. Predictors: (Constant), Independence, Professional Competence, Audit Approach, Experience

Table 4.17 shows that the model ($F = 11.276$, $p < 0.05$) was statistically significant and fitted the data well. This indicates that the model has some predictive potential, with at least one of the predictor variables having a significant coefficient. The t test was used to assess the significance of the different predictor variables in the model, and the results are shown in Table 4.18.

Table 4.18: Significance of Regression Model Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.260	1.188		2.744	.009
Professional Competence	.916	.301	.649	3.048	.004
Experience	.143	.303	.106	.471	.640
Audit Approach	.639	.207	.434	3.091	.004
Independence	.539	.178	.427	3.031	.004

Study findings provided in Table 4.18 demonstrate that professional competence of the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.916$, $p = 0.004$). These study results show that a one-unit improvement in the professional competence of the external auditors leads to a 0.916% rise in the financial performance of the NSE listed firms, and vice versa. This implies that firms with external auditors with higher professional competence were projected to outperform those whose external auditors had inferior professional competence.

The study's findings, as reported in Table 4.18, showed that the experience of the external auditors had no significant effect on financial performance of NSE listed firms ($\beta = 0.143$, $p = 0.640$). According to these findings, change in experience of the external auditors is not expected to have any significant effect on financial performance of the NSE listed firms.

In terms of the audit approach applied by the external auditors, the research results (Table 4.18) revealed that audit approach adopted by the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.639$, $p = 0.004$). These study results indicate that a one-unit improvement in audit approach adopted by ther external auditors would result in a 0.639% rise in the financial performance of the NSE listed firms, and vice versa. The findings further imply that firms with external auditors who applied superior audit approaches were projected to outperform their competitors with external auditors that adopted weaker audit approaches.

In terms of the impact of external auditor independence, the research results (Table 4.18) revealed that independence of the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.539$, $p = 0.004$). These study results show that a one-unit improvement in the independence of the external auditors would result in a 0.539% rise in the financial performance of the NSE listed firms and vice versa. The findings, further indicate that firms who had external auditors that demonstrated high independence were predicted to outperform their peers who had external auditors with low independence.

4.9 Discussion of Research Findings

The study determined that professional competence of the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.916$, $p = 0.004$). These findings support the stakeholder salience theory by Mitchell et al. (1997) which posits that a firm's management should identify and prioritize certain stakeholders based on their ability to influence the firm's success. The findings indicate that the NSE listed firms had prioritized shareholders by engaging the services of external auditors with professional competence which in turn enabled the firms to enhance their return on shareholder's equity. The findings form this study also agree with the findings by Nyabiosi (2016) professionalism of external auditors have a positive effect on financial performance and success.

Regarding experience, the study's findings showed that the experience of the external auditors had no significant effect on financial performance of NSE listed firms ($\beta = 0.143$, $p = 0.640$). These findings contradict the findings from a study by Kolsi et al. (2021) which had established that auditor experience had a significant influence on financial performance of ADX-listed companies. The findings from this study also disagree with the findings by Sakka and Jarboui (2015) and Nyabiosi (2016) which had established that external auditor experience had a significant influence on financial performance.

In terms of the audit approach, the research results revealed that audit approach adopted by the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.639$, $p = 0.004$). These findings support the agency theory that proposes using strategies that reduce the agency loss (loss incurred by principal because the agent acted contrary to the principal's interests (Adler, 2018). The findings from this study also concur with the findings by Ardiana (2019) audit planning has a significant influence on company value. The study findings also collaborate the findings by Gathigia (2018) audit planning and approach is essential for financial performance.

Regarding independence, the research results revealed that independence of the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.539$, $p = 0.004$). These study results support the stakeholder salience theory that indicates that firms put emphasis on some key stakeholders (shareholders in this case) and thus seeks services of independent external auditors who ensure that management create value in form of ROE on behalf of the shareholders as predicted by Pedrosa-Ortega et al. (2019). The findings from this study also agree with the findings by Sakka and Jarboui (2015) that external auditor independence was positively associated with financial performance

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains the study's summary, conclusion, and recommendations. In addition, the chapter discusses the study's weaknesses as well as future research directions.

5.2 Summary of Findings

The study findings showed that professional competence of the internal auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.916$, $p = 0.004$). These study results also showed that the external audit team members had all necessary certifications such as ICPAK/ISACA and that the external auditors of the NSE listed firms had all the requisite professional certifications to practice. Furthermore, the study found that the external auditors always portrayed high professional integrity and that the NSE listed firms' external auditors had high credibility. Findings from the study also determined that the external auditors of the NSE listed firms engaged in continuous education and professional development and had good standing with the professional bodies.

The study's findings showed that the experience of the external auditors had no significant effect on financial performance of NSE listed firms ($\beta = 0.143$, $p = 0.640$). However, despite the insignificant effect, the study findings indicated that the external auditors of the NSE listed firms had experience in various sectors and fields and had wide experience in auditing in Kenya. Moreover, findings showed that the external auditors had many years of experience in audit of listed firms and also had wide experience in auditing internationally. Additionally, the findings show that the recommendations provided by the external auditors were very relevant to the NSE listed firms.

In terms of the audit approach applied by the external auditors, the research results revealed that audit approach adopted by the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.639$, $p = 0.004$). Further findings indicated that the work of the external auditors is always guided by international auditing standards and that the audit plans adopted by the external auditors are always relevant to the firms' context. Besides, findings revealed that the audit approach applied by the external auditors identified and covered all relevant risks and also enabled timely completion of audit. Further, the findings showed that the external auditors communicated their audit plans detailing their audit approach through presentation of planning memos to the management.

Regarding external auditor independence, the research results revealed that independence of the external auditors had a positive and significant effect on the financial performance of NSE listed firms ($\beta = 0.539$, $p = 0.004$). The study results also showed that the external auditors do not engage in any inappropriate dealings with senior management employees and that the external auditors rotate the engagement partners assigned to the NSE listed firms in accordance to the pertinent auditing standards. Besides, findings indicated that NSE listed firms had adequate safeguards to control the relations between management and the external auditors and that the external auditors of the NSE listed firms do not provide any other services to the firms that may influence the audit. Further, the findings showed that the audit committees of the NSE listed firms provided adequate support to the external auditors.

5.3 Conclusion

Considering the findings derived from this study, the study makes the following conclusions. To begin with, the study concludes that professional competence of the external auditors is essential for the financial performance of NSE listed firms. The study also concludes that the experience of the external auditors is not instrumental towards financial performance of NSE listed firms. Further, the study concludes that audit approach adopted by the external auditors is instrumental towards financial performance of NSE listed firms. Lastly, the study concludes that external auditor independence in indispensable in regard to its contribution to the financial performance of NSE listed firms.

5.4 Recommendations

The conclusions made in the study leads to the following recommendations. First, since the study determined that professional competence is vital for financial performance of NSE listed firms, it is recommended to professional auditing bodies such as ICPAK and ISACA to always ensure that external auditors always have required certifications. These bodies should also ensure that auditors are continually trained and developed to be effective in external audit in the context of the information age. Besides, the study recommends to management and board of directors of firms to always contract external auditors who have requisite competence and certification to evidence the competence.

Regarding experience of external auditors, since the study determined that experience does not significantly affect financial performance, management and board of directors should consider relaxing the experience requirement when contracting external auditors.

This however, should be on condition that the external auditor has attained other significant competencies and attributes.

Since the study determined that audit approach adopted by the external auditor has significant influence on the financial performance of the NSE listed firms, the study recommends to audit firms to ensure that auditors always have a formal audit approach and plan which is formally communicated to management and the board. Besides, it is recommended to the board and the management to ensure that the audit plans and approaches adopted by the external auditors are fit for the firm's context and is capable of determining significant risks and their mitigations.

Lastly, since the study determined that independence is vital for financial performance of firms listed at the NSE, it is recommended to boards of the NSE listed firms to always ensure that relationships between the management and the external auditors are always professional. Besides, it is recommended to external auditors to always ensure that they do not engage in associations that can jeopardize their independence. Further, audit firms should always ensure that their audit partners are rotated regularly as per regulations and guidelines.

5.5 Limitations of the Study

This study assessed the influence of external auditor attributes on financial performance of listed companies in the NSE and provided valuable evidence that can be useful to policy, theory and practice. However, the study has a few limitations which should be considered when applying or generalizing the findings to other firms. First, the study only considered NSE listed firms and hence the findings may not be readily generalizable to other non-listed firms such as medium and small enterprises. The study also assessed the influence of external auditor attributes on financial performance which was measured using ROE. The findings may therefore fail to inform how external auditor attributes would influence other measures of financial performance such as ROA, PE ratio and and EPS.

The study is also limited because it only considered four attributes of external auditors which are professional competence, experience, audit approach and independence. Due to the study's subject scope limitations, the study did not include other essential attributes such as integrity, technology competence, capacity to build collaborative relationships, innovativeness and capacity to leverage data analytics. The study therefore, did not provide evidence on how these external auditor attributes could influence financial performance of NSE listed firms.

5.6 Suggestions for Further Research

Considering the few limitations inherent in this study, the following suggestions for further research are made. First, since the research only looked at NSE-listed companies, the results may not be easily applied to other non-listed companies, such as medium and small businesses. The study hence suggests a further study to determine how external auditor attributes affects financial performance of other non-listed firms such as SMEs, and SACCOs and other medium financial and non-financial firms. This research also looked at the impact of external auditor characteristics on financial success as evaluated by ROE. As a result, the results may be unable to provide insight into how external auditor characteristics impact other financial performance indicators such as ROA, PE ratio, and EPS. Therefore, another study is recommended to assess how external auditor attributes affects these other financial performance measures.

This research was also constrained in that it only looked at four attributes of external audits: professional competence, experience, audit approach, and independence. Other critical auditor attributes like integrity, technical competence, ability to develop collaborative partnerships, innovativeness, and capacity to exploit data analytics were not included in the research due to subject scope constraints. As a result, another study is suggested to assess how these other external auditor attributes could affect the financial performance of NSE-listed companies.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

1. Gender

Male [ ]

Female [ ]

2. Please indicate your age in years

Below 30 [ ]

30 – 39 [ ]

40 – 49 [ ]

50 and over [ ]

3. Indicate your highest education level

Diploma/Higher Diploma [ ]

Bachelor's degree [ ]

Masters Degree [ ]

PhD [ ]

5. How long have worked in this organization?

Below 5 years [ ]

5 – 9 years [ ]

10 – 14 years [ ]

15 and above [ ]

5. How long have you served in your current position?

Below 5 years [ ]

5 – 9 years [ ]

10 – 14 years [ ]

15 and above [ ]

SECTION B: PROFESSIONAL COMPETENCE OF EXTERNAL AUDITOR

For the statements provided in the table below on the professional competence of the external auditor of this firm, indicate the extent to which you agree with the statements.

Statement	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
The external auditor of this firm has all the requisite professional certifications to practice					
The engagement team members to the assignment have all necessary certifications e.g ICPAK/ISACA					
The external auditor engages in continuous education and professional development and is in good standing with the professional body.					
The external auditor always portrays high professional integrity					
This firm's external auditor has high credibility					

SECTION C: EXTERNAL AUDITOR INDEPENDENCE

For the statements provided in the table below on the independence of the external auditor of this firm, indicate the extent to which you agree with the statements.

Statement	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
The external auditor rotates the engagement partners assigned to this firm in accordance to the pertinent auditing standards					
The organization has adequate safeguards to control the relations between management and the external auditors					
The audit committee provides adequate support to the external auditor					
The external auditor of this firm is does not provide any other services that may influence the audit.					

The external auditor does not engage in any inappropriate dealings with senior management employees					

SECTION D: AUDIT APPROACH BY THE EXTERNAL AUDITOR

For the statements provided in the table below on the audit approach applied by the external auditor of this firm, indicate the extent to which you agree with the statements.

Statement	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
The external auditor communicates their audit plan detailing their audit approach through presentation of a planning memo to the management.					
The audit plan adopted by the external auditor is always relevant to the firm's context					
The audit plan adopted by the external auditor enables timely completion of audit					
The work of the external auditor is always guided by international auditing standards					
The audit approach applied by the external audit identifies and covers all relevant risks					

SECTION E: EXPERIENCE OF EXTERNAL AUDITOR

For the statements provided in the table below on the experience of the external auditor of this firm, indicate the extent to which you agree with the statements.

Statement	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly Agree
The external auditor of this firm has experience in various sectors and fields					

The external auditor has wide experience in auditing in Kenya					
The external auditor has wide experience in auditing internationally					
The external auditor has many years of experience in auditing of listed firms					
The recommendations provided by the external auditor are very relevant to the firm					

Thank you for your input

APPENDIX II: SECONDARY DATA COLLECTION SHEET

Company:			
Yr	**Book value of assets**	**Equity**	**Net profit**
2016			
2017			
2018			
2019			
2020			