RELATIONSHIP BETWEEN AUDITOR ROTATION AND AUDIT QUALITY OF INSURANCE COMPANIES IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

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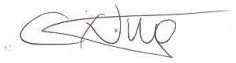
DECLARATION

I declare that this research project is my original work and has not been presented for a degree in any other university for purposes of examination.



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DEDICATION

This project is devoted to my daughter Hazel for being patient with me while undertaking this study.

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LIST OF ABBREVIATIONS

AIBK: Association of Kenya Insurance Brokers

AQ: Audit Quality

AR: Auditor Rotation

CIC: Certified Insurance Counselors

CMA: Capital Market Authority

COMESA: Common Market for Eastern and Southern Africa

GAAP: Generally Accepted Accounting Principles

ICPAK: Institute of Certified Public Accountants of Kenya

IRA: Insurance Regulating Authority

MIPs: Medical Insurance Providers

NGO: Non-Governmental Organization

NSE: Nairobi Securities Exchange

UAP: Union des Assurances de Paris

ABSTRACT

Firms tend to be attached so much to their auditors and this is a major contributor to low quality of audits. Auditors' independence is very key in the firm's quest to attain the best quality audits in the auditing profession. Because it is an essential component of the broader economy's infrastructure and acts as its backbone, the insurance sector has a substantial influence on the rate of economic expansion. This study set out to answer the question, "Is there a correlation between auditor rotation and the quality of audits performed by insurance companies in Kenya?" This research was grounded on the agency theory, the information theory, and the assurance theory. Descriptive research methods were used for this investigation. All 55 insurance companies were selected as the study population so that enough data could be collected to investigate the effects of auditors' rotation on audit quality. Both primary and secondary resources were used in this investigation. Questionnaires were employed for the main data collection. Both open-ended and closed-ended questions were included in these surveys. This investigation used regression analysis to ascertain the effect of AR on AQ. Alternatively, descriptive data such as mean and standard deviation were used to assess the extent to which auditors' rotation is employed by insurance firms. The study's results support the idea that auditor rotation improves the quality of audits conducted by insurance companies. Furthermore, the study's results show that an increase in Additional services does, in fact, contribute in an improvement in the overall audit quality of insurance organizations. It was shown that the audit fees paid by insurance companies improved the quality of audits performed on such companies. Furthermore, the study's results suggest that audit team characteristics positively impacted insurance firms' audit quality..

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The idea of mandatory auditor rotation has been widely explored by both academics and professionals in the wake of the accounting scandals and subsequent bankruptcies of major U.S. multinational businesses like WorldCom and Enron. Concerns concerning auditors' obligations, independence, and the quality of audits have been raised by a number of other groups (Harris, 2012; Lee, 2015; Stakebrand, 2016). The United States Congress revised the Sarbanes-Oxley Act of 2002 (SOX) to enhance the transparency and accuracy of corporate reporting. Modifications were made to various parts of the Act, including Section 203. (General Accounting Office, 2003; Harris, 2012). By requiring auditors to switch clients frequently, policymakers hope to improve audit quality by reducing the average amount of time spent on any given client. As a result, the policymakers' aim would be more likely to be fulfilled (Harris, 2012; Kitiwong, 2014; Lee, 2015).

Buyers of audited financial accounts place a premium on audit integrity. Although audit quality variables are complex and multi-faceted (Francis, 2016; Hay, 2015; Kitiwong, 2014; Löfving & Widenius, 2016), the auditing profession has made great strides in recent years. AQ, a crucial indicator of audit quality, is the probability that auditors will find and report material errors in the financial accounts (DeAngelo, 2018). Due to the fact that context plays a significant role in determining audit quality, both the theory and practice of improving audit quality are works in progress.

Auditing entails systematically and objectively getting information on economic actions for purposes of evaluating evidence to check whether they correspond to the normal well-

set procedures and communicating the results to interested users (Kanter, 2016). Auditor rotation which is seen as the frequency of changing audit teams or firms not only brings forth cost reduction to the auditing markets but also ensures that it brings forth many other benefits which are the backbone to the justification of the need for AR by firms which aids in financial statement re-evaluation and facilitate competitiveness in audit market (Pany, 2017). Mandatory AR helps curb the problem of a lack of auditor independence improving AQ.

Agency theory which asserts that a firm is made up of contracts that exist between owners of economic resources who are also called principals and managers who are termed as agents who both are bestowed with responsibilities of using and monitoring resources, (Adams,1994) will be one of the theories guiding this study. The information theory which focuses on information provided to facilitate decision making by users make economic decisions is also another useful theory. The study will also be guided by the assurance theory which states that an assurance service is one that public accountants express a certain conclusion on how reliable the written report on audits is (Cosserat, 2019).

The insurance industry has a significant impact on economic growth since it serves as a vital infrastructure/backbone to the overall economy (Makaa,2018). In addition to the above, the insurance industry contributes significantly to the global resources market. When property is destroyed by acts of nature, such as fire, floods, storms, and other natural catastrophes, insurance helps to minimize the economic losses. Risk-based supervision, implemented by the Insurance Regulating Authority (IRA) in 2016, requires insurance businesses to have robust mechanisms for managing risk.

One such method for ensuring or eradicating potential challenges to auditor independence is the need for auditor rotation.

In spite of the fact that there is research highlighting the significance of audit rotation to businesses, it appears that there is a dearth of research conducted in this field in Kenya. Therefore, this study is motivated by examining the effect of auditor rotation on audit quality of insurance companies in Kenya focusing on the audit team characteristics, audit fees and additional services provided.

1.1.1 Auditor Rotation

Hoyle, 1978 claims that the idea of Auditor Rotation (AR) was first floated in 1976. In Agunda (2014), audit rotation was divided into two categories: mandated and optional. Companies must replace auditors on a regular basis under the terms of the mandated rotation (Lu, 2017), whereas the voluntary rotation allows them to do so at their discretion (Davidson, 2017). Voluntary change is often associated to audit failures, such as financial hardship and fraud, according to Nashwa (2015).

Generally, AR brings a new look in the books of an organization which is anticipated to increase the probability that misstatements will be easily detected by the auditors as well as contest accounting practices that might be questionable.

Williams identifies further reasons to voluntarily switch auditors (2016). For the sake of clarity, he offers three notions from the client's point of view to illuminate the reasons for auditor replacement which include changes in the client contracting environment thus need for a new auditor for the shareholders. Secondly, a corporation may wish to replace auditors if they aren't effective, so they may recruit a better auditor. The amount of industry expertise has an impact on how successful the

strategy is. The client's reputation is the final notion. When the customer regards the connection as detrimental to its reputation, the auditor will be replaced.

Audit quality and auditor independence have both benefited and suffered as a result of mandatory auditor rotation, which has been hotly disputed. A study of the available research on auditor rotation and its implications on independence, quality, and agency costs was conducted by Cameran, et al. (2015) in their literature review. According to these findings, scholars and regulators throughout the globe are overwhelmingly opposed to mandated rotation due to reasons like increased switching and startup costs. There are several reasons why obligatory rotation should or should not be imposed by both proponents and opponents.

Many people believe that auditors' lack of independence and their laxity in performing audits of companies' financial statements are two major reasons why auditor rotation is advocated (Kim et al., 2017). In addition, a financial connection is established in which the client becomes a source of ongoing (perpetual) annuity income for the auditor. This financial tie is a result of the formation of a financial tie.

Therefore, if the auditor is aware that he will not be supported forever, the present value of expected future gains from the auditor-client link to the auditor diminishes, resulting in a reduction in the incentives for reliance and non-objectivity.

1.1.2 Audit Quality

Audit quality is based on the auditor's ability to identify and disclose breaches (mis-statements) and take the appropriate measures to tell the organization of the breaches (DeAngelo, 2018). Using additional audit language, Lee et al. (2019) defines it as the

chance that auditors will deliver a professional auditor viewpoint when the books of accounts are grossly misrepresented.

Third parties' ability to trust auditors depends on the veracity of the information they offer (Titman and Trueman, 2016). As Davidson and Neu (2016) underlined, information accuracy is intimately linked to earnings management, and so a good great audit should uncover misstatements not only due to mistake but also because of such fraudulent actions on earnings management.

A firm performance can be computed through financials, i.e. sales growth, profitability, competitive advantage in the market, and business performance, while non-financial firm performance measures quality of products and services offered by the firm, level of innovation, meeting customer needs and, customer loyalty due to satisfaction according to Venkatraman & Ramanujum,(2016), and can be quantified through increase in firms client number and value per customer and attainment of workers satisfaction that increases productivity (Gibson & Singhal, 2019). Based on this study, we shall measure firm performance based on AQ.

Audit Quality Indicators are numerical measurements that pertain to the overall quality of the external auditing process. When evaluated in conjunction with the relevant qualitative information, they give insights on aspects that might potentially impact the quality of an audit.

1.1.3 Auditor Rotation and Audit quality

Improved AQ is achieved by implementation of AR. Based on a study by Beyanga (2016), reduced levels of overheads, identification of ways to reduce overheads are achieved through AR which in the long run helps improve levels of financial

performance. For management to achieve improved performance, there is a need for adoption of AR. According to Fadzil et al (2017), auditing is key to achieving improved shareholders' value. An effective AR helps gain superior organizational performance at all times.

The adoption of AR facilitates provision fresh insights in the financial statements of their clients (Davis, 2019). Long working periods for same client facilitates reduction in the sharpness in an auditor judgment based on the fact that auditing as a practice has its background on adopting professional skepticism and long-term relationships with the clients can reduces this (Nagy, 2017). Competitiveness in the audit market by various firms is achieved through adoption of mandatory rotation. This facilitates the ability of medium-sized companies (non-Big Four) to get optimistic and develop based on the fact that rotation not only lay wholly audit firms to a matching degree but also offers equal openings (Raiborn et al, 2016). Audit failures result in losses which are suffered by both clients and auditor which results to lower cost of AR (Cameran et al., 2017; making it beneficial.

Despite this, AR has disadvantages whereby opponents of AR assert that the change of auditor is not beneficial based on the fact that auditors are forced to struggle and build their reputation due to litigations in case of an audit failure which they would strive to avoid (Davis *et al.*, 2019).AR increases switching together with startup costs involved not only to the auditors but also to the clients as compared to those that were in-existence based on the development of a learning curve (Davis *et al.*, 2019). Due to this fact there will be an increase in the auditor fees charged by the auditor in order to cut on cost of an audit, resulting to an increase in the cost to the client too (Wolf *et al.*, 2019; Johnson *et al.*, 2017).

Various stakeholders in support of AR assert that audit tenure in audit rotation can have an inverse impact on the AQ in instances that the auditor tenure results in an increase in the auditor inability to be independent which results to poor auditing, (Kim et al., 2017; Lu, 2017). Critics of the rotation, on the other hand, said that the quality of audits would be worse for new customers since the auditors would have less knowledge about them. As a result, the theory goes, auditor independence and audit quality will improve as auditor experience increases and the auditor becomes more familiar with the client's system throughout the course of his career (Ghosh and Moon, 2017).

1.1.4 Insurance Companies in Kenya

An insurance company is defined by Kenya's Insurance Act, Chapter (487) as an organization whose primary purpose is to assume financial risk, including the potential for loss of life or injury, as well as the potential for financial loss or damage, including the potential obligation to pay damages or compensation. Chapter (487) of the Laws of Kenya's Insurance Act, introduced in 1984, has been an efficient tool for regulating the insurance business.

Over the last several years, Kenya's insurance sector has undergone significant reforms. As a matter of fact, there are no longer eight groups that offer protection. Kenya's government responded to this trend by establishing the Insurance Regulatory Authority (IRA). Kenya's Insurance Act 2006, CAP 487, created the IRA as a legally recognized government organization. Regulating, monitoring, and expanding the insurance business are some of its most important responsibilities (IRA,2016). It is the responsibility of AKI and the Association of Kenya Insurance Brokers (AIBK) and

the industry as a whole to ensure businesses and brokers comply to the industry's business practices.

Based on the Industrial report (IRA 2017), there are 55 total number of insurers, 16 composite insurers, 3 re-insurance companies, 21 general business insurers, 21 loss adjusters, intermediaries were: 24 Medical Insurance Providers (MIPs), 2 claims settling agents 3931 insurance agents, 161 licensed insurance brokers 193 service providers i.e. adjusters and assessors, and 26 loss investigators. Over the last several years, insurance firms in Kenya have seen an extraordinary spike in fraud. APA has the greatest portion of the general insurance market, with a percentage of 8.3 percent. Jubilee is at (7.9 percent), followed by Kenindia (at 7.7 percent), followed by UAP (6.8 percent), and AIG is at (5.7 percent). Some of the most well-known brands in Kenya's microinsurance sector are APA, Kenya Orient, AAR, Jubilee, CIC, UAP and Britam. There are around ten microinsurance underwriters in the country. Allianz, Bupa International and Aetna are some of the international health insurance providers in the sector that provide coverage.

Kenya's insurance business is a major participant in the COMESA region and the East African Community with more than 10,000 people employed by the industry. Africa's insurance and reinsurance market, as predicted by (Ndung'u, 2018), would be distributed across countries with free development and the opportunity for a complete cross-fringe development. As one of the risk management measures to protect this key industry, the Insurance Regulatory Authority requires mandatory rotation for both the audit firm and audit partners or teams (IRA 2018 Regulation -IRA/PG/14) i.e. Maximum of seven years for audit firm and three years for audit partner, manager or staff.

The following criteria is used to determine the length of service an insurance company auditor have: There are three (3) consecutive years in which an audit partner is allowed to audit a single insurance company. For a maximum of three (3) consecutive years, audit managers may assist a partner in the audit of a certain insurer; After three years of working on an audit of a particular insurer using personnel other than the audit manager, at least half of the audit staff working on that audit must be changed. For a maximum of seven (7) years in a row, an audit company may do the audit for a certain insurer; Any time an auditor is replaced by an insurer, the insurer is free to do so. There must be an exclusion period of at least three (3) years before a new auditor may be hired by the insurance (IRA 2018).

1.2 Research Problem

Firms tend to be attached so much to their auditors and this is a major contributor to low quality of audits. Auditor independence is very key in the firm's quest to attain the best quality audits in the auditing profession (Nichols and Price, 2016). It occurs due to the inability of the auditors to report any misstatements detected in the process of auditing financial records. This becomes a major contributor to a likely increase in the misinformation among the various stakeholders involved (Kim, 2017). This has a long-term effect of an increase in the levels of poor communications between management and the shareholders. When this occurs, the auditors are likely to adopt non GAAP practices and thus are less inspired to issue true opinions on key matters like going concern (Kim et al., 2017).

Additionally, the Kenyan economy is now battling fierce competition from both local and foreign-owned businesses for a sluggish market share (Kenya Insurance Report, 2015). Companies must thus take significant and regulated risks in order to optimize

their profits, as well as guarantee that auditors rotate in order to successfully improve their audit quality. The Insurance Regulatory Authority has been campaigning for mandatory rotation for both the audit firm and audit partners in line with Regulation IRA/PG/14 of 2018 which requires engagement for a maximum of seven years for audit firm and three years for audit partner, manager or staff. Firms tend to experience weakening AQ due to auditor independence unavailability which is highly attributed to the long term attachment to the auditors which acts as a hindrance to them from detecting and reporting misstatements that may occur in the client's financial records (Kim, 2017).

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

Regionally, Mohamed (2018) studied the applicability of the mandatory AR concept in the Egyptian environment. The study findings indicated that an extended nature of relationship between clients and auditors helps improve AQ highly contributed by

good practice with an entity's operations. The study, however, failed to focus on extent of implementation of AR in insurance companies in Kenya. Besides, it was based in Egypt and not Kenya. Sarath (2015) researched on the AQ within adverse selection markets. The purpose of the study was to bring out in-depth knowledge of both audit institutions and audit regulation. The study was solely based on adverse markets and hence the results would not be applicable in the local markets.

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

From the above studies, there exists a research gap in that there is no study that serves to address the benefits that would accrue to Insurance companies in Kenya from AQ

as a result of auditor rotation. Therefore, this study sought to answer the following research questions: What is the relationship between auditor rotation and audit quality of insurance companies in Kenya?

1.3 Research Objective

This study seeks to determine the relationship between auditor rotation and audit quality of insurance companies in Kenya.

1.4 Value of the Study

Future researchers interested in the concept of AR will find this study beneficial to them based on the fact that it would be used as reference material. It will also aid the regulators (ICPAK, IRA and CMA) in assessing upcoming needs and offer guidelines on AR to specifically address upcoming market challenges on the audit assignment as a whole. For example, ICPAK in its overall assurance and monitoring role can be able to adequately articulate the challenges and solutions posed by firms on AQ.

In conclusion, by making the recommendation suggested by the changing auditor roles, it will make clear the necessity for audit rotation and the impact that it has on audit quality, which will, in turn, benefit the shareholders of these institutions. Lastly, by making the recommendation suggested by the changing auditor roles, it will make clear the need for audit rotation.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The foundational principles underlying the research are covered in this chapter. It draws attention to the research that has been done to see if there is a correlation between audit rotation and audit quality (i.e. All of the above: the conceptual framework, literature review, and theoretical framework.

2.2 Theoretical Framework

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

2.2.1 Agency Theory

It was instigated by Meckling and Jensen in the year 1976. According to them, there exists a contract whereby one two or more people (principals) engage other people, to carry out various services on their behalf. Here, shareholders appoint professional managers who run their businesses daily. Differences in interests and information asymmetry on the managers side causes low focus on stakeholders' needs because all their focus is on their own interests. In the long run, this creates high agency costs which have to be incurred by the firm (Jensen and Meckling, 2016).

Two of the most important aspects of Eisenhardt's discussion of agency theory are moral hazard and adverse selection. Moral hazard occurs when an agent has more information about the principal's activities and intentions than the principal does (this is known as information asymmetry). Adverse selection takes place when a principal

is unable to fully authenticate an agent's skills and capabilities, either at the time of hiring or while the agent is working. Both of these scenarios can be attributed to information asymmetry (1989). Both of these aspects of the agency theory may be seen in contexts in which knowledge is available. These agency fees are incurred because the shareholders and the auditors have reached a contractual agreement on them (principal). Although auditors are contracted employees, they must maintain their objectivity with respect to the company's management at all times. Auditors here examine financial accounts prepared by an agent on behalf of the principal to see whether the information included therein is correct (Eisenhardt, 1989).

This theory is of relevance to this study because auditor rotation can lessen agency threats portrayed by a battle of fascination between management and shareholders which can help protect the client’s interests in the organization and to improve the risk-sharing arrangement by management and owners of the company.

2.2.2 Information Theory

This theory was originally used in communications as a generalization of the uncertainty reduction theory originally instigated by Charles bergers and Richard Calabrese (Hartley,1928). Information theory focuses on providing information that enables users to make economic decisions. Before any investor makes a decision on whether to invest or not in a firm, there is need for audited financial information for them to carry out evaluations on the expected returns and risks (Sijpesteijn, 2016). The levels of decision making are improved by accurate data in auditing (Sijpesteijn, 2016). The audit is highly regarded by investors since it helps to raise the standard of financial reporting. Additionally, an audit is appreciated since it improves financial information utilized

for internal decision-making. The internal decision-making process will benefit from more reliable data (Sijpesteijn, 2011).

This theory is relevant to this topic by the fact that the adoption of AR facilitates provision of fresh insights in the financial statements of their clients (Davis, 2019) thus increased data accuracy which facilitates improved quality of audits. AR improved trust by investors in the firm and other stakeholders. Besides the firm is in a position to improve its performance generally based on the adequate information provided by objective and independent auditors.

2.2.3 The Assurance Theory

Graham Cosserat introduced the idea of audits and assurance in 1999. Assurance services are provided by accountants who provide their opinion on the credibility of a claim made by another party, such as a financial statement or legal document (Cosserat, 2019). When a third-party expert service improves the data used to make decisions, Elder (2019) calls it an assurance service (emphasis in original) Third-party assurance services, such as those provided by auditors, are sought to enhance the information's trustworthiness and relevance to the many stakeholders.

Risk analysis, audits of historical books of account, reviews of internal controls over financial reporting, IT assurance services, and other forms of verification may fall under the umbrella of assurance services (Elder, 2019). Those in management are supposed to deliver a statement of fact per case (an assertion) before the auditors can offer his or her evidence.

This theory is married to this study since the adoption of independent professional services by firms helps in enlightening the worth of information. This is highly related

to firms changing the auditors that they use after a specific period to gain assurance on the audit reports presented.

2.3 Determinants of Audit Quality

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

2.3.1 Audit Team Characteristics

A firm's auditors are able to clearly demonstrate these characteristics. It is a major factor in AQ's overall performance. Quality audit teams may be assembled by a business that does an excellent job of recruiting, implementing effective controls, and bringing industry expertise to the table (Wooten, 2017). Detecting substantial misstatements relies heavily on the integrity of the people assigned to the project.

According to professional committees, there is need for a very close evaluation of the individuals' integrity as well those assigned to carry out the engagements as a way to assist the detection of material misstatements. An audit team made up of people with superior level of professionalism has a more likelihood of performing auditing tasks properly and rather not sign off on uncompleted audit steps. Additionally, staff who uphold great levels of professional skeptism are less likely to accept insufficient evidence. (Agunda, 2014). This directly affects the audit quality.

An auditor needs to have achieved sufficient knowledge and supervised experience through examination and work experience to conduct an audit. Researchers have found that auditor qualifications and proficiency positively affect audit quality. Also, employers and audit fees rates basically use technical capability to award auditor‟s

fees: the skills an auditor possess, the working experience, certification type of the auditor and the level of education. These suggests that the technical ability of auditor positively impacts auditor remuneration.

2.3.2 Audit Fees

As long as auditors can maintain audit quality with a small reduction in fees, the audit committee of corporations should ensure that they alert the Board of any risks connected with a decrease in audit costs. In other words, as long as auditors can maintain audit quality with a small reduction in fees, this is a good thing. In this situation, the proverb "Pay peanuts and you'll get monkeys" proves to be accurate: "Pay peanuts and you'll get monkeys." In academic circles, both African and non-African, it is general knowledge that audit fee is a factor that influences audit quality; nonetheless, the direction in which it affects audit quality and the level to which it impacts audit quality are highly contested topics of discussion. The impact that unusual audit fees have on the quality of audits in Indonesia was investigated by Fitriany et al. (2016), who came to the conclusion that there is a corrosive relationship between the two factors. They feel that there are two elements that might contribute to a reduced audit fee: mandatory audit firm rotation and a high degree of competition in the Indonesian audit business. Both of these criteria are important to consider.

The cost of the audit depends on a number of aspects, such as the degree of complexity of the task, the level of expertise possessed by the business, the likelihood of the audit being unsuccessful, and other aspects. In addition, the study discovered that the quality of the audit was proportional to the cost of doing it. According to Wati and Subroto (2003, page 61), Supriyono (1988) argues that public accountants'

independence is threatened by a high audit fee because it inhibits their reluctance to dissent from the wishes of their clients. On the other hand, a small fee limits the cost and time required to complete audit procedures.

2.3.3 Additional Services

When an audit company offers its customers non-audit services, this has an effect on pricing. Fee savings are granted to the customer when a business performs both auditing and consulting services. The audit firm's independence might be jeopardized if it receives big payments unrelated to the audit and becomes economically linked to the client. In addition, if the extra services pertain to the installation or maintenance of the accounting function, the auditor may be placed in the position of auditing their own work if they are hired to provide the additional services. On the other hand, some auditors are of the opinion that the quantity of extra services that can be supplied has a positive link with audit quality. They believe that by expanding the range of services they provide, they are able to get a deeper understanding of both their clients and the workings of their business (Wooten, 2017).

2.4 Empirical Review

Mohaisen, Ali, and Tbrahem (2019) carried out a comprehensive research with the objective of gaining a deeper comprehension of the influence that voluntary audit rotation at the two both level (partner/firm) has on audit quality in the Iraq Stock Exchange. According to the findings of the study, transferring companies on one's own was shown to have a negative correlation with audit quality, however moving businesses voluntarily was found to have a positive correlation with the total of discretionary accruals. In addition, there was a positive connection between the length

of the audit and the audit quality, which was shown by an inverse relationship between the length of the audit and the total amount of discretionary accruals.

Martani et al. (2021) conducted research to study the connection between the length of an audit and its frequency as well as its overall quality. This research also investigates whether or not there is a significant difference in the impact of switching between the Big 4 and non-Big 4 audit firms on a regular basis. Indonesia was chosen for this research because it is one of the few nations that requires audit firm rotation in addition to audit partner rotation. As a result of this, Indonesia was deemed a suitable candidate for the study. According to the findings, there is no connection between the length of time an auditor has worked for a company and the level of detail they apply to their audits. According to research, switching auditing firms might potentially increase audit quality; however, the effect would be less significant for the Big Four. Outside of the "Big 4" accounting firms, partner turnover does not affect the overall quality of audits. Changing auditing firms, on the other hand, could result in an improvement in audit quality.

The effects of obligatory AR on audit quality and cost were investigated in a research by Bocconi (2017). The research set out to determine how much mandatory AR will cost and how that would impact overall quality of life (AQ). In order to gather information, questionnaires were sent to all of the Italian publicly traded firms. The findings showed that former external auditors are paid more than their successors. When firms are required to switch auditors on a periodic basis, they treat audits like any other service and go with whomever provides it at the lowest cost. However, the research only considered AR costs as a driver of audit quality, and it ignored other factors that also impact AQ in Kenyan insurance firms.

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

Moldrich (2017) studied on mandatory AR and AQ in the United States. The aim was to review the influence a regime of mandatory AR would cause on the audit quality and found out that quality of the audit was positively linked with firm audit tenure. The study also concluded that there are minimal benefits of auditor switching in the firm. The study, however, was based on impact of AR impact on AQ only and failed to focus on how AR whether voluntary or mandatory would impact insurance companies in Kenya.

Burke and Lee (2015) studied on protection of public interest through mandatory auditor firm rotation in the United states. The study used questionnaires in data collection. The findings established that audit rotation results in auditor independence in various firms. It facilitates protection of stakeholder interests and the public through objective reporting. The study was however based on protection of public interest through mandatory rotation and failed to find out the impact of AR on AQ of insurance companies in Kenya.

Regionally, a study conducted in Egypt by Mohamed (2018) examined whether the AR concept should be made obligatory. Due to the greater knowledge of the client's company and procedures, the AQ was found to improve rather than worsen as a result of the longer auditor-client relationship. Egyptian firms' lack of independence is due

to the fact that investors are still in charge of running the business. The study, however, failed to focus on extent of implementation of AR in insurance companies in Kenya.

Mayer and Borne (2017) studied the impact auditor- client associations have in the first time audit experience. Descriptive research design was implemented whereby data was collected and analyzed by use of discrete-time analysis. The study established that various opinion decisions in a firm are adversely affected by interpersonal and inter-organizational attachments that need higher levels of auditor judgment. However, the study failed to focus on the impact that auditor rotation has on AQ of insurance companies in Kenya.

Specifically for the Kenyan banking sector, Lepeso (2019) used questionnaires and interviews to collect data from 43 commercial banks on their 2018 fiscal year ends, and then examined the data using statistical methods. It was done to create a link between AQ and AR in the banking sector of Kenya. The research paper found that of all the parameters studied, audit fees had the smallest influence on AQ, followed by the provision of advising services, and finally audit rotation. Although his study found a correlation between the two, the author stopped short of determining whether or not auditor rotation had an impact on audit quality in fields such as insurance. However, studies have shown a favorable correlation between the two, this has not been widely adopted.

Moraa (2018) carried a research with the goal of gaining a deeper understanding of the relationship between internal audit and the financial performance of Kenya's commercial banks. The primary data came from twenty separate sample banks, and it was collected via the use of questionnaires. The findings demonstrated that there have

been shifts in the FP of commercial banks as a consequence of alterations in internal audit standards, the standing of the independence of the internal audit, the capability of the experts, and the stringency of internal controls. It stands to reason that there is a connection between the outcome of an audit and the financial health of a bank. The influence of AR on AQ in insurance companies was not investigated in this study; rather, the research concentrated exclusively on the impact that internal audits have on the efficiency of commercial banks.

Risk-based internal auditing at regulatory state enterprises in Kenya was studied by Masika, (2014). In order to get this information, they used questionnaires. Quality risk-based internal auditing and efficiency were shown to have a favorable link based on the results. The study was based on an internal auditing effect in regulatory state corporations in Kenya and not relationship of audit AR and AQ in Insurance companies in Kenya.

2.5 Summary of Literature Review and Knowledge gaps

Table 2.1: Summary of Literature Review and Knowledge gaps

Author(s)	Objective(s)	Research Methodology	Findings	Research gaps
Bocconi (2017).	The purpose of this research was to determine how required audit rotation affected the quality and cost of audits in Italy.	Descriptive statistics were used in this study. Questionnaires were employed to gather information from Italian stock exchange-traded corporations for the research.	According to the findings, mandated auditor rotation helps keep audit costs down by offsetting the higher salaries of outgoing auditors relative to incoming ones. Due to the intense rivalry that arises around audit costs whenever a forced rotation occurs, corporations will pick the auditor who bids the lowest.	However, the research only considered AR costs as a driver of audit quality, and it ignored other factors that also impact AQ in Kenyan insurance firms.

Mohd and Rezae (2017).	The research set out to measure how much of a difference would be made in audit fee lowering if clients in Iran were able to transfer auditors.	Descriptive statistics were used, with a total sample size of 1,022.	The findings revealed that transferring from a state auditor to a private auditor or vice versa increased overall expenditures.	However, the research wasn't conducted in Kenya but rather in Iran.
Lepeso (2019)	The goal of this study is to link AQ and AR in the Kenyan banking sector.	The study used descriptive statistics. Research was conducted using questionnaires and interviews with 43 Kenyan commercial banks.	Consultancy costs and audit duration were shown to have the greatest impact on AQ, followed by audit fees and audit rotation.	The research showed that there was a positive relationship amongst the two however he did not advance further to establish the effect of AR on AQ in other industries like the Insurance sector
Moraa (2018)	The purpose of the study was to review the impact of Internal Audit on the FP of commercial banks in Kenya.	Descriptive statistics was used where questionnaires were used to collect primary data from twenty sample banks	Commercial banks in Kenya benefited from implementing an internal auditing system, and that improvement was corroborated by the banks' overall financial performance.	The study did not examine the effect of AR on AQ in Insurance firms in Kenya, focusing instead on the effect of internal audits on the performance of commercial banks.

2.6 Conceptual Framework

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

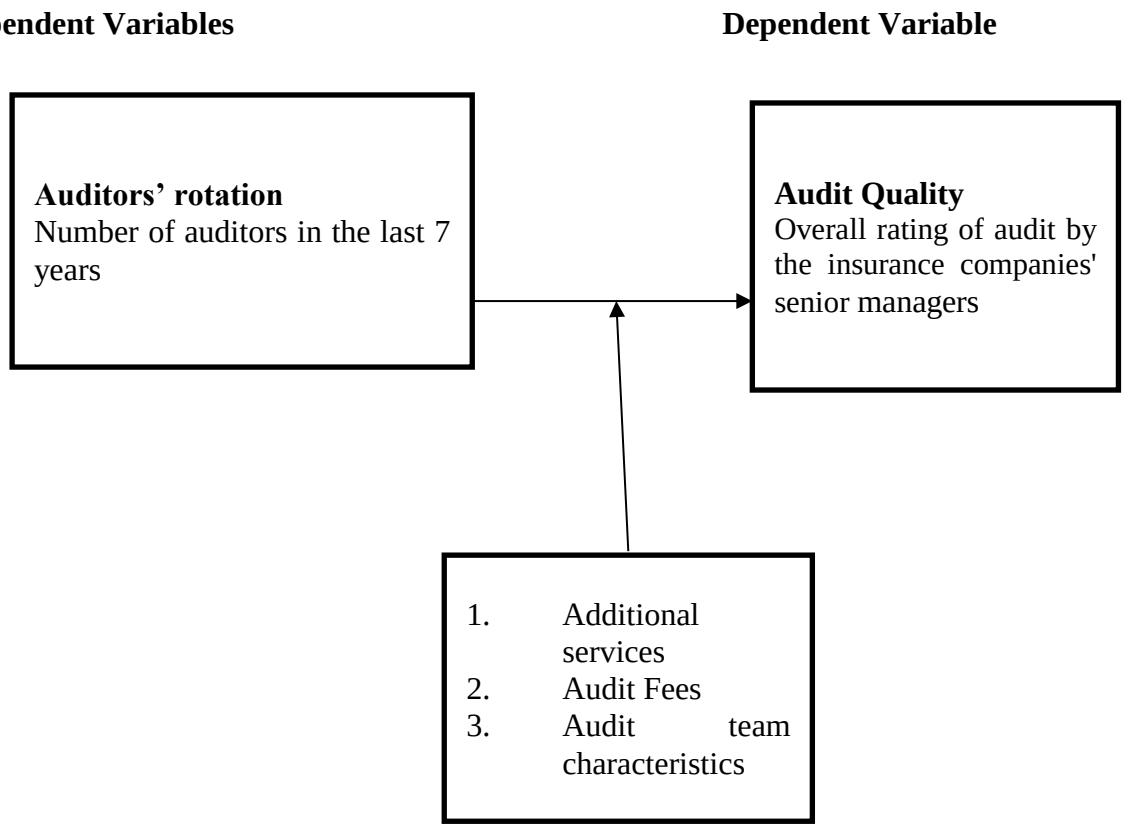


Figure 2.1: Conceptual Model

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In order to achieve the study's goal, the research methods described in this chapter was used. Research design, data collecting, diagnostic testing, and data analysis were all included.

3.2 Research Design

To explore the influence that auditors' rotation has on the audit quality of insurance businesses in Kenya, the descriptive research design was applied as the research method of choice. Because it assured that the respondent input is recorded as it is practiced, it is the method that is chosen. When doing research, a company may correctly define the study population when using a descriptive research design (Kothari, 2014). It assists a company in gathering information that is pertinent and accurate depending on the state of an issue at a certain point in time, as well as in drawing conclusions based on the research.

3.3 Population

According to Singh, (2007) a sample is any part of the fully distinct population. This study sampled views from the entire target group of selected respondents from various companies. According to Sekaran and Bougie, (2011) Population can be described as the overall of the unit of which a study concentrates, it’s affected by the factors being investigated and that are better placed to provide required data on the problem for the purpose of the study. A total population of all the Fifty-Five (55) insurance companies was targeted to provide adequate data to investigate the implication of auditor rotation on audit quality.

3.4 Data Collection

This research included both primary and secondary sources. Questionnaires with both open-ended and closed questions will be used to collect primary data. In contrast to closed questions, which drive responders toward succinct answers, open-ended questions encourage thoughtful consideration of the subject at hand. Confidentiality was maintained, time was conserved, and the questionnaire was simple to implement because to these factors. The purpose of secondary sources was to augment the main sources. Number of auditors in the past 7 years was used as a proxy for the auditors' rotation variable in a secondary data set.

3.5 Data Analysis

Collected data was evaluated for completeness and used for analysis. This study made use of regression analysis in ascertaining the effect of AR on AQ while descriptive statistics like mean, standard deviations were used in examining the extent of implementation of auditor rotation in insurance companies.

3.5.1 Diagnostic Tests

For this reason, the inquiry included a number of diagnostic checks. Multiple collinearities and autocorrelations were checked for. The normality test was performed to check for the null hypothesis that the residuals of the response variable were normally distributed around the mean. The Kolmogorov-Smirnov and Shapiro-Wilk tests were used to get this conclusion. A Durbin-Watson autocorrelation test was used to get this conclusion. Autocorrelation was negative for statistics with values more than two and positive for statistics with values less than two. To ensure that the data was not skewed and that the independent variables were not intertwined, a multicollinearity test was performed. A check for multicollinearity was carried by

using the inflation variance. While multicollinearity is impossible when the VIF is between 1 and 10, it is possible when the VIF is either less than 1 or more than 10. If the experiment fails, you may choose a tried-and-true method with the help of a regression dialogue box. The concept of "variable centering" is one such instance.

3.5.2 Analytical Model

The study applied the following regression model:

$$\mathbf{Y= \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where;

Y= Audit Quality was reflected through the going concern opinion given by respondents.

$\boldsymbol{\alpha}$ = Constant Term

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

X_1 = Dummy variable, which equals to 1 for the rotation was in compliance with Kenyan mandatory rotation regulation, and 0 the otherwise.

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

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

X_4 = Audit team characteristics.

ε =Error term

3.5.3. Test of Significance

Critical p-values and t-tests was used to assess the data's significance. The crucial p-value from the table was used to compare the p-values and t-test results. To be deemed statistically significant, results must fall under a 5-percent significance threshold.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

The purpose of this research was to determine the effect that auditor rotation has on the quality of audits performed by insurance firms in Kenya. The information gathered from the respondents was summed up and presented in the research via the use of Figures and Tables. In addition, the regression model that demonstrates the connection between auditor rotation and the quality of audits performed by insurance firms in Kenya is shown in this chapter.

4.2 Response Rate

This survey sought responses from 155 individuals working in senior management positions at various insurance businesses in Kenya. It was determined from the replies received in the field that there were a total of just 48 responders who answered the predetermined question. According to Table 4.1, this accounts for 87.28 percent of the total number of responses. Researchers, such as Mugenda and Mugenda (1999), explain that a response rate of 50% is appropriate, while a response rate of 60% is excellent. And a score of 70% or more is considered great. In this instance, a response rate of 87.28 percent is considered to be very good and is thus sufficient for analysis and data interpretation.

Table 4.1: Response Rate

No. of questionnaires Returned	Target No. of respondents	Response Rate (%)
48	55	87.28%

Source: (Researcher, 2022)

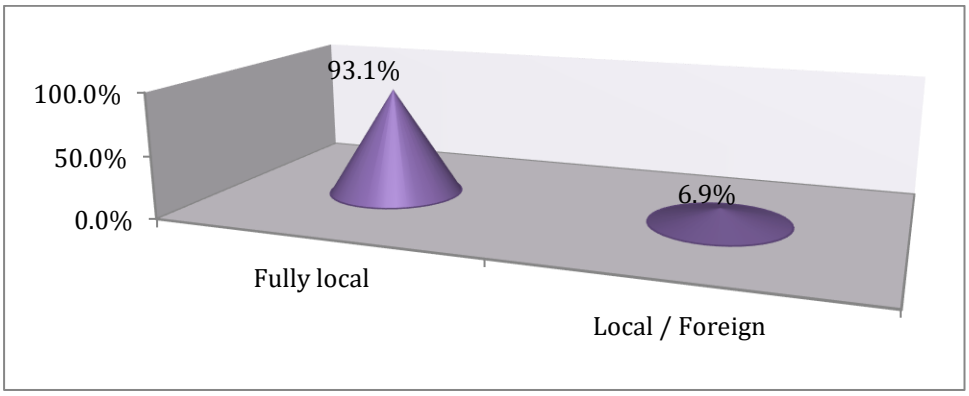
4.3. General Information

The research investigated the respondent's background information to ensure that the sampling was carried out accurately. This was accomplished by conducting an analysis of variables such as the ownership of insurance companies, the number of years that an insurance company has been in business, and the legal nature of their business.

4.3.1 Insurance Companies Ownership

For the purpose of determining the composition of the insurance market, the researcher sought information on insurance company ownership. How Kenyan insurance firms are owned, and how that affects their audit quality. Figure 4.1 shows the study findings

Figure 4.1: Insurance Companies Ownership



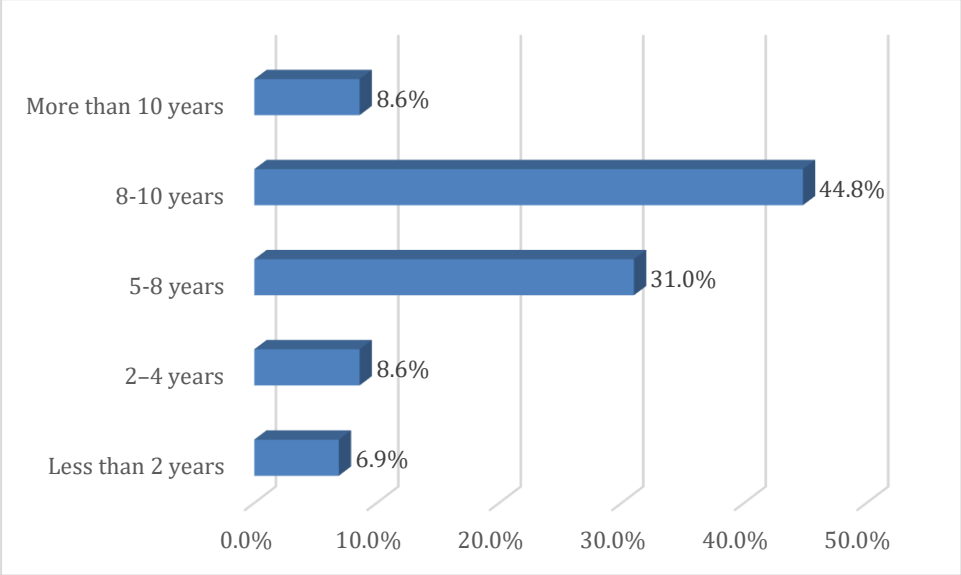
Source: (Researcher, 2022)

The results show that 93.1% of the companies were locally owned while 6.9% were locally/foreign owned. This implies that bulk of insurance companies in Kenya are locally owned.

4.3.2 Years Insurance company have been in operation

The researcher had an interest in determining the number of years that an insurance firm had been in business. The results of the investigation are shown in Figure 4.2, which may be seen below;

Figure 4.2: Years Insurance Company have been in operation



Source: (Researcher, 2022)

Figure 4.2 shows that over half of respondents (44.8%) said their company has been for 8-10 years, while another 31% said it has been around for 5-9 years, 8.6% said it has been around for 2-4 years, and 6.9% said it has been around for more than 10 years. This suggests that most Kenyan insurance firms have been operating for at least

eight years, giving researchers a better shot at collecting accurate information on the factors that influence audit quality.

4.3.4 Insurance company Legal Formation

The respondents attempted to have their insurance firm incorporated. Results from the research are shown in Table 4.2.

Table 4.2: Insurance company Legal Formation

	Frequency	**Percent**
Sole proprietorship	6	12.2
Partnership	13	26.5
Limited company	30	61.2
Total	**49**	**100.0**

Source: (Researcher, 2022)

Based on the study findings, majority of the insurance companies in Kenya were limited company 30 (61.2%) and partnership were 13 (26.5%). The insurance companies which were sole proprietorship were only 6 (12.2%). This is an indication that most of insurance companies in Kenya, had limited company kind of legal formation.

4.4 Audit Quality

The purpose of the research was to determine how many people in Kenya agree with different claims about the audit quality of insurance firms. This variable's status was

assessed using a five-point Likert scale, which ran from; 5-StronglyAgree 4- Agree, 3-Neutral 2- Disagree 1- Strongly disagree. Table 4.3 shows the study findings.

Table 4.3: Audit Quality

	N	Mean	Std. Deviation
Standard auditing practices and principles were followed	49	4.306	0.871
Professionalism and objectivity characterize the auditor	49	4.388	0.533
The Auditing Firm Has Vast Industry Experience	49	4.102	1.159
There is investment in infrastructure supporting quality auditing i.e. technology and methodology with benefits.	49	4.204	1.08
A good planning process determines the audit work, which is subject to review before completion, i.e. engagement control quality reviews.	49	4.163	0.688
The audit opinions, financial statements and annual reports are accurate and free from errors and restatement	49	4.143	0.979

There is timely reporting of internal control and going concern weaknesses	49	3.922	0.781
There is adequate and timely communication between the audit team and those charged with governance	49	4.571	0.646

Based on the study findings, majority of the respondents strongly agreed that there is adequate and timely communication between the audit team and those charged with governance (Mean=4.571 SD=0.646), Professionalism and objectivity characterize the auditor (Mean=4.388 SD=0.533), Standard auditing practices and principles were followed (Mean=4.306 SD=0.871), there is investment in infrastructure supporting quality auditing i.e. technology and methodology with benefits (Mean=4.204 SD=1.08), , A good planning process determines the audit work, which is subject to review before completion, i.e. engagement control quality reviews. (Mean=4.163 SD=0.688), the audit opinions, financial statements and annual reports are accurate and free from errors and restatement (Mean=4.143 SD=0.979) and that The Auditing Firm Has Vast Industry Experience (Mean=4.102 SD=1.159). In addition, respondents agreed that there is timely reporting of internal control and going concern weaknesses (Mean=3.922 SD=0.781). This implies that among insurance companies in Kenya, there is adequate and timely communication between the audit team and those charged with governance, Professionalism and objectivity characterize the auditor, Standard auditing practices and principles were followed, there is investment in infrastructure supporting quality auditing i.e. technology and methodology with benefits, A good planning process determines the audit work, which is subject to review before completion, i.e. engagement control quality reviews., the audit

opinions, and that financial statements and annual reports are accurate and free from errors and restatement and that The Auditing Firm Has Vast Industry Experience

4.5 Auditor Rotation

The study sought to establish how many external auditors' respondents company have engaged in the last 7 Years. The study findings are as shown in Table 4.4 below

Table 4.4: Average Number of External Auditors Engaged

	external auditors
N	49
Min	1
Max	5
Mean	2.94
Std deviation	.954

Based on the study findings in Table 4.3, the average number of external auditors' engaged by insurance companies in Kenya in the last 7 Years was 2.94 with a minimum of 1 external auditor and a maximum of 5 external auditors.

In addition, the respondents were asked to indicate their opinion on auditor rotation for firms whether mandatory or voluntary rotation. Respondents indicated that auditor rotation brings a new look in the books of an organization which is anticipated to increase the probability that misstatements will be easily detected by the auditors as well as contest accounting practices that might be questionable

4.6 Additional Services

The research attempted to determine the degree of agreement with different assertions about the additional services provided by auditors to Kenyan insurance firms. This variable's status was graded on a 5-point Likert scale ranging from; 5-StronglyAgree 4- Agree, 3-Neutral 2- Disagree 1- Strongly disagree. Table 4.3 shows the study findings.

Table 4.5: Additional Services

	N	Mean	Std. Deviation
Tax advisory/compliance and planning services	49	3.898	0.685
Business/management consulting services	49	3.694	1.14
Information system design and implementation services i.e data migration tips	49	3.898	1.262
Book keeping advisory services	49	4.02	0.878
Human resource consulting services	49	4.204	0.979

As per the study findings, majority of the respondents strongly agreed that the additional services offered by auditors to their company are; Book keeping advisory services (Mean=4.02 SD=0.878), human resource consulting services (Mean=4.204 SD=0.979), tax advisory/compliance and planning services (Mean=3.898 SD=0.685) and that there is information system design and implementation services i.e data migration tips (Mean=3.898 SD=1.262). In addition, respondents agreed that there are business/management consulting services (Mean=3.694 SD=1.14). This implies that the additional services offered by auditors to insurance companies in Kenya are; Book keeping advisory services (Mean=4.02 SD=0.878), human resource consulting services (Mean=4.204 SD=0.979), tax advisory/compliance and planning services (Mean=3.898 SD=0.685) and that there is information system design and implementation services i.e data migration tips

4.8 Audit Fees

Respondents were asked to rate the audit fees charged by their external auditors. The study findings are as shown in table 4.6 below

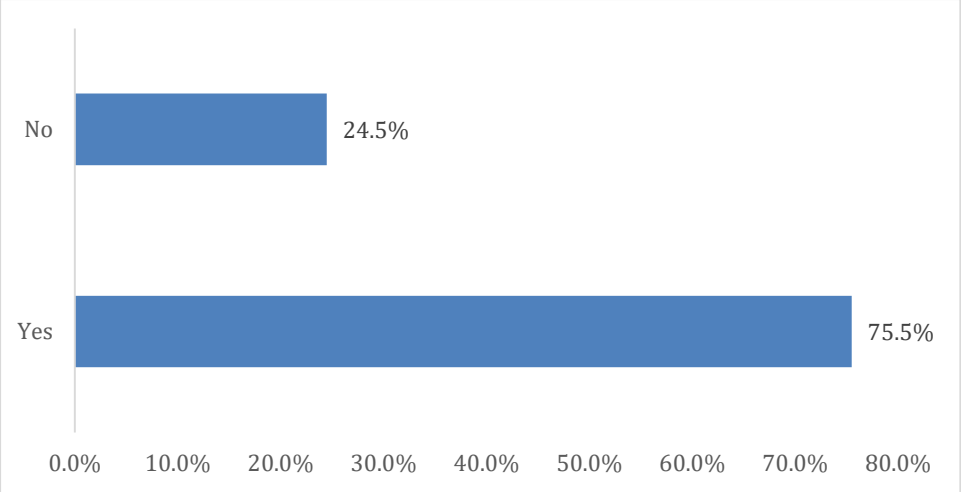
Table 4.6: Rating of Audit Fees

	Frequency	**Percent**
Very low	1	2
Low	1	2
Medium	13	26.5
High	8	16.3
Very high	26	53.1
Total	**49**	**100**

According to the survey results, the majority of respondents (53.1%) claimed that their external auditors' audit fees are very expensive, 26.5% indicated medium, 16.3% indicated high, and 2% indicated low and very cheap. This suggests that the audit costs charged by external auditors to Kenyan insurance firms are very exorbitant.

In addition, respondents were asked to determine if the auditors' fees are reasonable for the services provided. Figure 4.3 depicts the study's results.

Figure 4.3: Fees charged by the auditors are commensurate to the services offered



According to the survey results, the majority of respondents (75.5%) agreed that the fees charged by auditors are reasonable for the services provided, while 24.5% disagreed. This suggests that the costs paid by auditors to Kenyan insurance firms are proportionate to the services provided.

4.8 Audit Team Characteristics

The research attempted to determine the degree of agreement with different assertions about the audit quality of Kenyan insurance firms. This variable's status was scored on a 5-point Likert scale ranging from 5-StronglyAgree 4-Agree, 3-Neutral 2-Disagree, and 1-Strongly disagree. Table 4.7 summarizes the study's results.

Table 4.7: Audit Team Characteristics

	N	Mean	Std. Deviation
The auditors understand the business needs and insurance companies operations including operational challenges.	49	4.367	0.727

They are able to make independent decisions and able to meet stakeholders expectations.	49	4.388	0.759
The auditors have the required experience and have effective communication skills	49	4.286	0.736

Based on the study findings, majority of the respondents strongly agreed that insurance companies are able to make independent decisions and able to meet stakeholders expectations (Mean= 4.388 SD=0.759), the auditors understand the business needs and insurance companies operations including operational challenges (Mean= 4.367 SD=0.727), the auditors have the required experience and have effective communication skills (Mean= 4.286 SD=0.736) and that insurance company strictly observe ethical codes (Mean= 4.265 SD=0.908). This implies that insurance companies in Kenya are able to make independent decisions and able to meet stakeholders' expectations, the auditors understand the business needs and insurance companies operations including operational challenges, the auditors have the required experience and have effective communication skills and that insurance company strictly observe ethical codes

4.9 Diagnostic Tests

The study applied the diagnostic tests to assess the presumptions made. This test assumes a relevant part in deciding if any suppositions of the regression have been abused in any capacity. Any such infringement of the presumptions may prompt insufficiency of the model being used.

4.9.1 Test for Multi-Collinearity

If the correlation between the two independent variables is moderate or strong in the multiple regression model, multicollinearity occurs. The degree of multicollinearity was calculated using the Variance Inflation Factor (VIF). The variance inflation factor is used to assess the degree of scatter in the estimated coefficients when the independent variables are correlated with the dependent variable (VIF).

Table 4.8: Coefficients[a]

	Collinearity Statistics	**VIF**
	Tolerance	
Audit quality	.642	1.558
Auditor rotation	.412	2.427
Additional services	.376	2.659
Audit fees	.687	1.456
Audit team characteristics	.492	2.033

Source; Researcher (2022)

In the results above, all the VIFs are between 1 and 10, therefore, there is no multicollinearity. The p-values for the estimated coefficients are low enough here to warrant confidence in the results.

4.9.2 Tests for Autocorrelation

Autocorrelation tests were executed to check for connection of blunder terms across time-frames. Autocorrelation was tried by utilization of the Durbin Watson test. A durbin-watson measurement of 1.967 which is approximately 2, thus, it can be concluded that there was no autocorrelation in the data set.

Table 4.9: Autocorrelation Test

Model	Durbin-Watson
1	1.967

Source; Researcher (2022)

a. Predictors: (Constant), Auditor rotation, additional services, audit fees and audit team characteristics

b. Dependent Variable: Audit quality

4.9.3 Normality Tests

The researcher utilized the Shapiro-Wilk test to check for normalcy. We provide both the null and alternative hypotheses in the following table.

H0: the secondary data was not normal.

H1 the secondary data is normal

A p-value greater than 0.05 would result in the null hypothesis being rejected, and vice versa. The results are summarized in table 4.10

Table 4.10: Shapiro-Wilk Test of Normality

Variables	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Audit quality	.243	49	.216	.647	49	.297
Auditor rotation	.365	49	.216	.598	49	.297
Additional services	.325	49	.216	.657	49	.297
Audit fees	.279	49	.216	.712	49	.297
Audit team characteristics	.456	49	.216	.657	49	.297

Source; Researcher (2022)

In accordance to the results, the Shapiro-Walk values were 0.297 for audit quality, Auditor rotation, additional services, audit fees and audit team characteristics each. Kolmogorov-Smirnov tested significant values were at 0.216 for audit quality, Auditor rotation, additional services, audit fees and audit team characteristics each. The normality test findings showed that the data had a normal distribution (p-value > 0.05), indicating that the null hypothesis was rejected and the alternative hypothesis was accepted. As a result, parametric tests such as ANOVA, Pearson's correlation, and regression analysis may make use of this data.

4.10 Regression Analysis

A multiple regression analysis was used to examine the impact of auditor rotation on audit quality in Kenyan insurance businesses.

Table 4.11: Model Summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	0.889[a]	0.790	0.753	0.896

Source: (Researcher, 2022)

According to the findings of the model summary, the R square value was 0.79.

Therefore, it can be concluded that the independent factors (added services, audit fees, and audit team characteristics) explain 79%.

Table 4.12: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.84	4	19.460	21.015	0.00000
	Residual	39.818	43	0.926		
	Total	117.658	47			

a. Predictors: Auditor rotation, additional services, audit fees and audit team characteristics

b. Dependent Variable: Audit quality of insurance companies

Source: (Researcher, 2022)

According to table 4.8, the F statistic for the ANOVA was 21.015, and the p-value was 0.00<0.05. Since the P-value is statistically significant, this suggests that the model is significant.

Table 4.13: Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.936	0.765		5.145	0.0000
Auditor rotation	0.741	0.236	0.646	3.140	0.0032
Additional services	0.667	0.215	0.526	3.102	0.0035
Audit fees	0.737	0.123	0.645	5.992	0.0000
Audit team characteristics	0.634	0.301	0.172	2.106	0.0421

Source: (Researcher, 2022)

The overall regression model was:

$Y = 3.936 + 0.741X_1 + 0.667X_2 + 0.737X_3 + 0.634X_4$

Changes in Auditor rotation improve the quality of audits performed by insurance companies in Kenya. It shows that an improvement in audit quality for Kenyan insurance firms of 0.741% may be expected for every unit increase in the auditor rotation. There was a proven 0.667-point positive impact on audit quality for insurance firms owing to an increase in additional services. Audit fees were shown to have a beneficial effect on insurance firms' audit quality in Kenya, with an improvement in audit quality of 0.737 per unit in audit fees. In conclusion, the audit team characteristics had a beneficial effect on the audit quality of insurance businesses in Kenya, with an increase of 0.634 per unit increase in audit quality. All

the independent variables had significance levels of less than 0.05, as shown by the significance values. The insurance industry's audit fees were the most influential factor, followed by auditor rotation and then additional services.

4.11 Discussion of Research findings

Auditor rotation has a positive influence on audit quality of insurance companies in Kenya . It indicates that any unit increase in the auditor rotation will cause audit quality of insurance companies in Kenya to increase. In line with the study findings, Improved AQ is achieved by implementation of AR. Based on a study by Beyanga (2016), reduced levels of overheads, identification of ways to reduce overheads are achieved through AR which in the long run helps improve levels of financial performance. For management to achieve improved performance, there is a need for adoption of AR. According to Fadzil et al (2017), auditing is key to achieving improved shareholders' value. An effective AR helps gain superior organizational performance at all times. The adoption of AR facilitates provision fresh insights in the financial statements of their clients (Davis, 2019). Long working periods for same client facilitates reduction in the sharpness in an auditors' judgment based on the fact that auditing as a practice has its background on adopting professional skepticism and long-term relationships with the clients can reduces this (Nagy, 2017).

Increase in Additional services was confirmed to cause an increase in the audit quality of insurance companies in Kenya due to the positive effect. In tandem with the study findings, Wooten (2017) opined that when an audit company offers its customers non-audit services, this has an effect on pricing. Fee savings are granted to the customer when a business performs both auditing and consulting services. The audit firm's independence might be jeopardized if it receives big payments unrelated to the audit

and becomes economically linked to the client. If the extra services include the auditor in auditing its own work, as may be the case if they pertain to the installation or maintenance of the accounting function, then this is a serious conflict of interest. Some auditors, on the other hand, think that the number of optional extra services given has a favorable link with audit quality. They say that by expanding their service offerings, they can better understand their consumers and internal processes. This has a negative impact on the quality of audits.

Audit fees of the insurance companies showed a positive impact on audit quality of insurance companies in Kenya which means that it increases audit quality of insurance companies in Kenya. An examination of the impact of nonstandard audit fees on audit quality in Indonesia by Fitriany et al. (2016), however, found the opposite. They think that the mandatory rotation of audit firms and intense competition in the Indonesian auditing market might reduce audit fees.

Increase in audit team characteristics was confirmed to cause an increase in the audit quality of insurance companies in Kenya due to the positive effect. In tandem with the study findings, Wooten (2017) opined that a firm's auditors are able to clearly demonstrate these characteristics. It is a major factor in AQ's overall performance. Quality audit teams may be assembled by a business that does an excellent job of recruiting, implementing effective controls, and bringing industry expertise to the table. Detecting substantial misstatements relies heavily on the integrity of the people assigned to the project. According to professional committees, there is need for a very close evaluation of the individuals' integrity as well those assigned to carry out the engagements as a way to assist the detection of material misstatements. An audit team made up of people with superior level of professionalism has a more likelihood of

performing auditing tasks properly and rather not sign off on uncompleted audit steps. Additionally, staff who uphold great levels of professional skeptism are less likely to accept insufficient evidence. (Agunda, 2014). This directly affects the audit quality.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study was set to establish the influence of Auditor rotation on audit quality of insurance companies in Kenya. A summary, a conclusion, and some ideas for policy implications are provided in this chapter. In addition to this, the section discusses the restrictions and makes recommendations for more research.

5.2 Summary of Findings

The services of auditors are crucial to the success of every organization, including insurance agencies. The board of directors is accountable for overseeing the company's operations to guarantee that they are being run to the advantage of shareholders. The study's goal became clear after analyzing the research gap; the researchers wanted to learn how often switching audit firms affects audit quality. The study of the data and the results provided showed that audit rotation has a substantial impact on audit quality.

Further, the study's results suggested that the inclusion of additional services significantly improved the audit's quality as a whole. Results that were both encouraging and statistically significant demonstrated this. Increases in audit fees were seen as a sign of a more thorough audit, at least in the minds of many. However, audit rotation was shown to have a major impact on audit quality. This demonstrates that most insurance businesses in Kenya with audit experience demand high charges, and that this is reflected in the audit work, since the respondents reported being pleased with the audit job despite the amounts that were paid. That most insurance companies in Kenya with audit skills charge exorbitant premiums is seen here.

The additional services, which include tax compliance, human resource, accounting, and others, had an influence on audit quality that had a considerable value, which means that auditors who offered more services helped achieve the quality of audits performed in Insurance Companies. In conclusion, aspects of audit team characteristics such as the auditors' independence and efficiency had a favorable but significant impact on the audit's overall quality.

5.3 Conclusion

Results showed an R-squared value of 0.79, indicating that differences in Auditor rotation, Additional services, audit fees, and audit team characteristics accounted for 79% of the variance in audit quality among Kenyan insurance firms within a 95% confidence range. Indicating the aforementioned parameters account for 79% of the audit quality of insurance firms in Kenya.

Research results show a high degree of positive correlation (R = 0.889) between the various factors investigated. The study's results support the idea that auditor rotation improves the quality of audits conducted by insurance companies. It implies that the audit quality of insurance firms would improve if the number of units making up the auditor rotation was increased. Findings also show that an increase in Additional services has a positive effect on the quality of audits performed by insurance companies.

It has been shown that the audit fees paid by insurance companies have a beneficial effect on the audit quality of insurance companies; this indicates that the audit quality of insurance businesses improves as a direct consequence of an increase in audit fees paid by insurance companies. In addition, the audit team characteristics of the insurance companies had a favorable influence on the audit quality of the insurance

companies, which indicates that it raises the audit quality of the insurance companies as a consequence of a growth in unit size. Due to the fact that all of the significance levels were lower than 0.05, the significance values show that all of the independent factors had a meaningful impact on the final outcome. According to the findings of the research, the variable with the highest level of significance was audit fees of insurance firms, followed by auditor rotation.

5.4 Recommendations

According to the findings of the research, in order to improve audit quality, additional stakeholders in addition to financial managers should be included. This would assist auditors in improving the quality of the audits they provide for their clients. In the long term, making audit rotation obligatory would assist enhance audit quality while also contributing to an improvement in efficiency. Instead of asking a staff member what they believe the quality is, you might contact a centralized audit rating agency for their opinion, which would offer more objective information. This would assist enhance the overall quality of audits.

Based on the results of the research, the study makes the further recommendation that audit companies should give various additional services in order to enhance the quality of audits. These services not only enhance the quality of the audits but also bring to a rise in the amount of profit that the banks make. Auditors are in a position to assist in the development of a business since they are aware of the aspects of performance and auditing that are essential. The research also suggests raising awareness about the auditors' right to independence and their capacity to carry out their job with the appropriate level of care and attention to detail.

In spite of the fact that most insurance companies believe that the fees charged for audits are excessively high, auditors should ensure that the quality of the work they perform is commensurate with the fees they charge. This will allow banks to find a happy medium and price audit work based on the quality of the work performed. It is vitally important for auditors to be independent, and since employing only one auditor would send a message of complacency about the quality of work being done, auditors need to be rotated as often as is practically practicable. It encourages the use of new perspectives inside the insurance business, making it less likely that someone would be prejudiced.

5.5 Limitations of the Study

This study has certain restrictions, such as its exclusive emphasis on Kenyan insurance companies. As a corollary, we limited our sample size to 55 insurance providers for the purpose of this study. To get the most accurate results, a large sample size representing all of Kenya's regions would have been ideal. The findings' generalizability and credibility would have been enhanced if this had been done. All of the factors that affect the quality of insurance company audits were not given equal weight in this study.

Considerations include management and other factors like operating expenses and expenditures. These factors may have altered the outcome. Some respondents, overwhelmed by the magnitude of the work at hand, failed to provide the necessary details, hence prolonging the response time. Because of these worries, the researcher set appointments in advance and promised to adhere to a strict policy of protecting the anonymity of respondents' responses.

5.6 Suggestion for Further Studies

It is going to be essential to carry out another research that covers a larger geographical region and sample size overall. In addition to this, the research need to take the form of a comparison investigation on the part of insurance firms operating in all 47 counties.

This study has been limited to investigating the effects of auditor rotation, Additional services, audit fees and audit team characteristics towards the audit quality of insurance companies hence, a researcher may select a specific business audit quality factor such as timing of audit execution and investigate how it may be affected by Auditor rotation.

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

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

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Our Ref: **D61/28160/2019** November 08, 2022

National Commission for Science, Technology and Innovation
NACOSTI Headquarters
Upper Kabete, Off Waiyaki Way
P. O. Box 30623- 00100
NAIROBI

RE: INTRODUCTION LETTER: CONCEPTOR NYANGI BAGENI

The above named is a registered Masters in Business Administration candidate at the University of Nairobi, Faculty of Business and Management Sciences. She is conducting research on ***"Relationship Between Auditor Rotation And Audit Quality Of Insurance Companies In Kenya".***

The purpose of this letter is to kindly request you to assist and facilitate the student with necessary data which forms an integral part of the Project.

The information and data required is needed for academic purposes only and will be treated in **Strict-Confidence**.

Your co-operation will be highly appreciated.

Dean's Office
University of Nairobi
Faculty of Business
and Management Science
P. O. Box 30197-00100, Nairobi

PROF. JAMES NJIHIA
DEAN, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES

APPENDIX II: RESEARCH QUESTIONNAIRE

These responses will be used only for academic research. Confidentiality is guaranteed for all information provided. Please respond to all of the questions in the space provided.

SECTION A: BACKGROUND INFORMATION

1. Name of the organization (optional)

……

2. Please indicate the insurance's Ownership

Fully local [ ]

Local / Foreign [ ]

3. How long has your insurance been in operation?

Less than 2 years [ ]

2–4 years [ ]

5-8 years [ ]

8-10 years [ ]

More than 10 years [ ]

4. Please indicate your insurance legal formation

Sole proprietorship [ ]

Partnership [ ]

Limited company [ ]

Section B: Audit Quality

5. To what extent do you agree with the following statements: 5-Strongly Agree 4- Agree, 3-Neutral 2- Disagree 1- Strongly disagree.

Statements	**1**	**2**	**3**	**4**	**5**
Standard auditing practices and principles were followed					
Professionalism and objectivity characterize the auditor					
The Audit firm is experienced in the industry					
There is investment in infrastructure supporting quality auditing i.e. technology and methodology with benefits.					
A good planning process determines the audit work, which is subject to review before completion, i.e. engagement control quality reviews.					
The audit opinions, financial statements and annual reports are accurate and free from errors and restatement					
There is timely reporting of internal control and going concern weaknesses					
There is adequate and timely communication between the audit team and those charged with governance					

Section C: Auditor Rotation

6. In the last 7 years, how many external auditors has your company engaged?

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

Part D: Additional Services

8. To what extent do you agree with the following statements with regards to additional services offered by the audit firms: 5-StronglyAgree 4- Agree, 3-Neutral 2-Disagree 1- Strongly disagree.

Statements	**1**	**2**	**3**	**4**	**5**
Tax advisory/compliance and planning services					
Business/management consulting services					
Information system design and implementation services i.e data migration tips					
Book keeping advisory services					
Human resource consulting services					

Part E: Audit Fees

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

Very high ( )

High ( )

Medium ( )

Low ( )

Very low ( )

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

Yes ( )

No ( )

Part F: Audit Team Characteristics

To what exten t do you agree with the following statements: 5-Strongly Agree 4- Agree, 3- Neutral 2- Disagree 1- Strongly disagree.

Statements	**1**	**2**	**3**	**4**	**5**
The auditors understand the business needs and insurance companies operations including operational challenges.					
They are able to make independent decisions and able to meet stakeholders expectations.					
The auditors have the required experience and have effective communication skills					