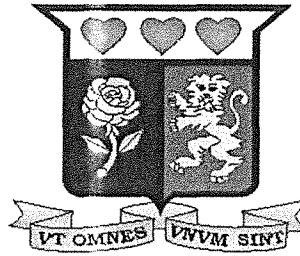


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STRATHMORE UNIVERSITY

FACULTY OF COMMERCE

**FACTORS INFLUENCING THE AUDITOR'S REPORTED
OPINION**

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(FORENSIC ACCOUNTING) DEGREE OF STRATHMORE UNIVERSITY**

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DECLARATION

This thesis is my ORIGINAL work and has not been presented for a degree in any other University.

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This thesis has been submitted for examination with my approval as the University Supervisor.

Signed  DATE 1/9/2014

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CHAPTER 1: INTRODUCTION

1.1: Background of the study

The auditing function as part of the corporate governance structure in many organizations plays an increasingly important role in monitoring the control system of a company and its financial reporting systems (Cattryse, 2005). Auditing was identified as one of the key participants to promote good governance in the corporate sector (Brownbridge, 1998); hence, the management should realize the importance of the internal audit function in their institutions.

Auditors are in the best position to assist administration at all levels of an organization to accomplish the stewardship function objectively (Donaldson, and Davis, 1991). Eisenhardt, (1989) observed that to ensure institutions derive the most benefit from internal auditing, the following are essential: the governing body should formally establish an internal auditing department; an audit committee of the governing body should oversee the coordination of internal and external audit operations; and the internal auditing department should report to an official who will ensure the deficiencies are promptly considered and corrective actions taken. One way to improve efficiency and effectiveness of operations is through the implementation of operational auditing. Azad (1994) found that the institutions that participated in his survey utilized operational auditing to some degree, but the utilization was rather limited in scope.

The role of auditors is to ensure whether Board of Directors and the management are acting responsibly towards the shareholders' investment interests i.e. no leakages are taking place on the investment side; no wastages on the expenditure side and is there propriety of the expenditure or not. By maintaining vigilance and objectivity the auditors can add value to shareholders by ensuring that the company's internal controls are strong and effective. Jensen (2000) describe a framework for understanding the "corporate governance mosaic" in which they discuss the links and the interactions of the principal players involved in financial reporting and they evaluate how the corporate governance mosaic potentially affects the quality of the financial reporting process. It is argued that to be of maximum effectiveness the players in the corporate governance mosaic such as the auditors and the board of directors must work together towards a common objective of promoting high quality financial reporting to the capital markets. The core of every internal

control system is the integrity of its people, processes, and technologies (Zhang, Zhou and Zhou, 2006).

Auditing is defined as obtaining and evaluating evidences regarding assertions about economic actions and events to ascertain the extent to which they correspond with the established criteria, and to communicating the result to the interested users (Jickling, 2002). Thus, it encompasses investigation process, attestation process and the reporting process, pertaining to economic actions and events. Two variant situations emerge when the functions of auditors and the requirements of good governance are placed face to face. The former is confined to 'economic actions and events, while the later is the outcome of a wide range of managerial functions (Zhang, Zhou and Zhou, 2006).

Lately a view has emerged that auditors should play a more vital and direct role in establishing good governance, sound management and auditing practices. By its very characteristics, indeed, the audit environment is just as likely to generate positive affective experiences as negative ones. In addition, the nature of audit work has known some transformations in the past few years as firms face new challenges related to market internationalization, the development of information technologies and closer scrutiny from the public and regulators regarding their role in corporate governance.

The occurrence of a qualified opinion remains a central concern of financial statement users (Sanchez-Ballesta and Garcia-Meca 2005). and a source of client dissatisfaction and client loss (Chow and Rice 1982). Specifically, previous research documents that going-concern audit opinion qualifications have a strong association with stock returns (Dopuch, Holthausen, and Leftwich 1986; Choi and Jeter 1992; Jones 1996) and difficulty in getting debt capital (Firth 1980). The going-concern audit opinion qualifications are also effective at signalling financial distress and bankruptcy events (Hopwood, McKeown, and Mutchler 1989; Kennedy and Shaw 1991; Mutchler, Hopwood, and McKeown 1997). Consequently, corporate management may pressure auditors to forego issuing a qualified audit report (Mutchler 1984; Carcello and Neal 2000).

Watts and Zimmerman (1986) and DeAngelo (1981) argue that auditor quality depends on the relevance of the auditor's report in examining contractual relationships and reporting on breaches. Bartov, Gul and Tsui (2000) suggest that higher quality auditors prefer to report errors

and irregularities, and are unwilling to accept questionable accounting practices. A high quality auditor must be able to both objectively evaluate a firm's financial performance and withstand management pressure to issue either an unqualified or a clean audit opinion (DeFond, Raghunandan, and Subramanyam 2002).

1.1.1 Kenyans companies with problem on the reported auditors' opinion

There are a number of Kenyans companies that have recently had a problem on the reported auditors' opinion. This is so because they have ever collapsed or they are in the verge of collapsing despite unqualified audit opinion. Uchumi Supermarkets Limited (Uchumi) operates a chain of supermarkets and hypermarkets. On 31st May 2006, due to financial and operational problems, the board of directors declared the company insolvent and the Capital Markets Authority (CMA) suspended the Company's listing on the Nairobi Stock Exchange (NSE). From 15th July, 2006, the company commenced its operations under Specialized Receiver Manager (SRM).

CMC Holdings Limited is a Kenya-based company. The company is engaged in the sale and service of motor vehicles, tractors, associated spare parts and accessories, and specialized engineering equipment. The principal activity of the company also includes investment in subsidiaries and property, and hire purchase financing. In the year 2012 the company was in the edge of collapsing. Blue Shield Insurance has been placed under statutory management, putting at risk millions of Kenyan road users and others who hold claims against the company or have insured their vehicles with the company. The insurer was placed under statutory management in the year 2011 due to complaints by clients whose claims had been delayed, despite unqualified opinion from the auditors.

1.2: Problem Statement

Kenyan organizations and other organization worldwide have been facing a number of challenges including and not limited to loss of revenue, market internalization, inability to keep pace with IT development, and inability of the auditors (internal and external) to advice

management on best internal controls to adopt and releasing of misleading annual financial reports that is dangerous to the end users who rely on such information (Keitany, 2000). A question is left unanswered as to whether auditors should be among the ones to blame when organizations are at the point of collapsing due to the significant role the play of auditing and evaluating financial information. In the case of Uchumi, a state owned organization; the external auditors were mostly accused for failure to alert the public on the financial status of the supermarket despite them giving the company a clean audit report on the published accounts. However, according to the IASs the role of the external auditor is not to unearth frauds and irregularities in organizations but to carry out his work with a skepticism mind and report any if they encounter. They rely on information provided by the management of which internal auditors are part of.

Jickling (2002) notes several financial issues that led to the collapse of companies. They include the following; external auditors mistakes, corporate governance issues, accounting issues and derivative issues. However, nothing was mentioned on the operations management under which auditing function falls.

Kimani (2006) observes that many questions were raised by shareholders of Uchumi when it was declared insolvent. These questions included; reasons for the loss, plans to recover assets looted by past management and whether the company was still solvent. Of such importance was the role of the external auditors. The management was required to justify the retention of PriceWaterhouseCoopers as the auditors. Kibet (2008) carried out a survey on the role of auditing in promoting good corporate governance. Kibara (2007) similarly carried out a survey of internal auditors risk management practices in the banking industry in Kenya. Keitany (2000) studied auditing control function and its implication for risk assessment by the external auditor and Mugo (1998) conducted a study on the scope of independence of auditors in publicly quoted companies in Kenya.

Faced with these scenarios and with the current turbulent business environment where the auditor is required to advice the management on the current state of the organization and report the same in their audited financial statements, a study should therefore be carried out to examine the factors that influence the auditor's reported opinion.

1.3 Objectives of the Research

1.3.1 General Objective

The main objective of the study is to establish factors that influence the auditor's reported opinion.

1.3.2 Specific Objectives

The study will be guided by the following specific objectives:

- i. To establish the determinants of the audit opinion.
- ii. To establish the factors that make auditors contradict the audit evidence.
- iii. To investigate challenges the auditor faces in making up their audit opinion.

1.4 Research Questions

The study will seek to answer the following research questions:

- i. What are determinants of the auditor's reported opinion?
- ii. What are the factors that make the auditor contradict the audit evidence?
- iii. What are the challenges that the auditor experience and which influence the auditors to deviate from the true audit opinion?

1.5 Significance of the Study

The study will be of great significance to the Government and other accounting regulatory authorities like the Institute of Certified Public Accountant of Kenya (ICPAK), the Institute of Internal Auditors, and Capital Market Authority. It will enable these organization to formulate policies and laws to govern auditing and adoption of reporting standards. To the academicians, the study will provide a useful basis upon which further studies on auditor's opinion can be conducted.

1.6: Scope of the study

The study will be on factors that influence auditors reported opinions especially where the opinion meant the contrary on members of ICPAK. In this case the researcher intends to collect the required information from auditing firms. The study will also be limited by time in which the data will be collected.

1.7: Limitation of the study

The researcher expects to encounter challenges in securing the auditors precious time considering their busy working schedules. The researcher will make use of proper arrangements with external auditors to avail themselves for the study off-time hours as well as impressing the staff on the value of the study. The researcher will exercise utmost patience and care and in view of this, the researcher will make every effort possible so as to acquire sufficient data from respondents. Alternatively the researcher will face a shortage of literature on the auditors' opinion. This will be mitigated by seeking for the information from the already documented materials and also from the organizations' website.

1.8: Definition of terms

Auditing: is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Auditor's report: is a formal opinion or disclaimer thereof, issued by either an internal auditor or an independent external auditor as a result of an internal or external audit or evaluation performed on a legal entity. The report is subsequently provided to a "user" (such as an individual, a group of persons, a company, a government, or even the general public, among others) as an assurance service in order for the user to make decisions based on the results of the audit.

Auditor's Independence: The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.

Auditor's Objectivity. An unbiased mental attitude that allows auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires auditors not to subordinate their judgment on audit matters to that of others.

CHAPTER 2: LITERATURE REVIEW

2.0: Introduction

This chapter summarized the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are agency and institutional theory; factors that influence auditors opinion and finally the auditors opinion monitoring mechanisms.

2.1: Theoretical review

2.1.1: Agency Theory

Agency theory is part of the positivist group of theories which derives from the financial economics literature. It postulates that the firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources Meckling (1976). Furthermore, agency theory is based on the premise that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor effectively whether their interests are being properly served by agents. It also assumes that principals and agents act rationally and that they will use the contracting process to maximize their wealth. This means that because agents have self-seeking motives they are likely to take the opportunity to act against the interests of the owners of the firm, for example by partaking in high levels of perquisite consumption (that is, perks). Scapens, (2000) refers to this dilemma as the "moral hazard" problem. Another type of agency problem which arises is "adverse selection". This occurs when the principal/owner(s) does not have access to all available information at the time a decision is made by a manager and is thus unable to determine whether managers' actions are in the best interests of the firm. Scapens argues that a state of efficiency, or "pareto-optimality", exists in the contracting relationship between principal/ owners and agent/managers when neither party can enhance their wealth at the expense of the other. To ensure pareto-optimality in the contracting process, both principals and agents will incur contracting costs. For instance, to minimize the risk of shirking by agents, principals will incur monitoring expenditures, for

example the costs of subjecting financial statements to external audit scrutiny. Agents, on the other hand, incur bonding costs, for example the cost of external audit, in order to signal to principal/owners that they are acting responsibly and in a manner consistent with their contract of engagement. Such action also helps managers to secure their positions in the firm and to protect their salary levels. Indeed, Wallace, (2005) argues that the principal's expenditures for monitoring agents' actions are reflected in the salary paid to the agent. Therefore, it is in the agents' interest to demand monitoring services in order to reduce the risk of principals making adverse adjustments to executive compensation.

The essential concern of corporate governance arises from the separation of ownership and control in modern public corporations. This is the essence of the agency problem, as articulated by early scholars like Berle and Means (1932) and Jensen and Meckling (1976). Pursuant to this concept, the responsibility for control is vested in the board and management, the shareholders' agents. The board, which only meets a few times each year, in turn, appoints management (as their agents), headed by the chief executive officer, to manage the organization. While the independent external auditors provide assurance to the shareholders on the quality of the financial statements, it is the independent internal audit function that provides assurance to the board, via the audit committee. Agency theory, in this context, provides the basis for explaining the independent role and responsibilities assigned to the internal audit function (Adams, 1994).

2.1.2: Institutional Theory

The interests of shareholders have been strengthened over time, especially through efforts by the government and professional bodies. More specifically, there is increased pressure on management to ensure that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals. This study draws on institutional theory, which essentially posits that organizational management and control structures tend to conform to social expectations (Di Maggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 1987). Based on this reasoning, this study takes the stand that management control structures are put in place to respond to a range of control and compliance requirements. An important component of the

management control structure is the internal audit function, which is used by the board (through the audit committee) and management to fulfill responsibilities in line with social expectations.

2.2: Factors That Influence Audit Opinion

2.2.1: Management

Cohen et al. (2002) recognise that management has a strong influence in setting the overall tone for governance. Claybrook (2004) argued that upper management has the broadest influence on stakeholders, and that management influences operations, as well as the board of directors and even the auditing function. Nagy and Cenker (2002) confirm this, noting that management, and not auditors, ultimately determines the orientation of the auditing functions. This is supported by Brody and Lowe (2000), who assert that the external audit function sometimes is requested by management to assist it in advisory roles, such as in acquisitions, mergers and system development and implementation. Bou-Raad (2000) further supports this by suggesting that more can be accomplished with the external audit function by reviewing and providing advice to management regarding business objectives. Sarens and De Beelde (2006) also studied the auditing function's relationship with management, and concluded that management requires the auditing function to take on an extended role to compensate for loss of control resulting from increased organizational complexity. In addition, their study results infer that auditors are expected to safeguard corporate culture through personal contacts with people in the field. Drent (2002) adds to this management influence theory, noting that executive and line management, by utilizing the internal audit function for these various extended roles, do not always appreciate the need for independence. Drent (2002) argues that, in the minds of many executives and managers, auditors work for them, and that reporting to the audit committee merely is a formality to satisfy corporate governance requirements. It is in this area that the impairment of the audit function's independence poses a threat. This dilemma is expressed by the argument that the audit function must add value to management, while at the same time not become its servant, and faithfully report on the status to the board or some other equivalent governing body (Van Gansberghe, 2005).

The IIA and other previous research studies have established best practice guidelines for the internal audit function so that they can maintain independence. Attribute Standard 1110 of the International Standards for the Professional Practice of Internal Auditing (IIA, 2004) stipulates that the chief audit executive (CAE) should report to a level within the organization that allows the internal audit function to accomplish its activities. With respect to previous research studies, Chapman (2001) argues that the primary goal of the internal auditor is objectivity, which involves an unbiased attitude and the avoidance of conflicts of interest. This only can be achieved if the internal audit function is appropriately placed in the organizational structure. Chapman (2001) describes organizational independence as the placement of the internal audit function in the reporting structure so that it is free to determine the audit scope and perform audit work without interference. Bariff (2003) underlines the way in which the internal audit function can maintain independence from management by noting the following quote from a PricewaterhouseCoopers report:

Internal audit departments need to ensure an organizational posture which allows them to operate successfully on strategic issues. This means both the independence and mandate to deal with significant strategic business risks and issues. If inappropriately positioned within the company, internal audit deals with tactical issues and is viewed only at that level. Inappropriate positioning can also raise serious concerns about the overall independence of the function (PWC, 2002).

Earnings management reduces the reliability of earnings because the figure reported may be biased, and may potentially misrepresent the true reporting earnings figure. Arthur Levitts, Jr. (1998), the former chairman of the SEC, states that the practice of earnings management has negative effects on the reliability and credibility of financial reporting. Jackson and Pitman (2001), report that the practice of earnings management erodes investor confidence in financial reporting quality and impedes the efficient flow of capital in financial markets. Following Carey and Simnett (2006), we employ earnings management as another proxy for audit quality. Independence permits auditors to remain objective in drawing conclusions about the financial statements that they examine. Independence means 'taking an unbiased viewpoint in the performance of audit tests, the evaluation of the results and the issuance of the audit report' (Arens, 2002). Thus, the quality of audit depends on auditor independence which is the extent an

auditor prefers to report errors and irregularities and is willing to disclose questionable accounting practices (Bartov et al. 2000).

Accrual-based earnings are derived from accounting estimates and accounting method choices that might result in the overstatement of assets, which in turn, leads to greater possibility of asset realisation problems. Thus, Francis and Krishnan (1999) argue that accrual-based earnings increase inherent audit risk (the risk that financial statements contain material misstatements). The material misstatements are one of the underlying reasons for auditors to qualify opinions in audited financial statements (Chen, Chen, and Su 2001). Past studies (e.g., Francis and Krishnan 1999; Bartov et al. 2000; Chen et al. 2001) have documented that earnings management was an explanatory factor of auditor qualification opinions. Empirical findings from a large sample of U.S. listed firms conducted by Francis and Krishnan (1999) revealed that high-accruals firms tend to obtain qualified audit opinion more often than lower-accruals firms. Using data from the Chinese stock market, Chen et al. (2001) reported that earnings management is positively related with receiving modified audit opinion.

2.2.2: Changing role of auditor

Van (2004) conducted a survey of New Zealand auditors to identify functions that auditors perceive to be essential to their role. The survey also sought to understand the nature of the auditor's "role dilemma" which arises from the expectation that auditors will both assist management and independently evaluate management. Comments received from respondents indicated that auditor's role has changed in recent years to one of consultant rather than of "policeman". Most of those who commented on this change did not perceive it as a problem. Van (2005) followed up her survey with a multiple case study involving six senior external auditors. The study was designed to explain how these external auditors deal with the conflict between their audit oversight responsibilities and the provision of support to management. Van found that the tension involved in maintaining this dual role leads to role ambiguity but that this ambiguity is not necessarily undesirable. Three concepts emerged from the interviews which impact on internal auditors' ability to maintain their independence: the position in which they establish their own role and duties; the role of professional status; and the nature of the communications in which they engage.

Schneider (2003) considered the impact on auditing objectivity of an economic interest threat in the form of incentive payments and stock ownership. He suggests that auditors' participation in these reward schemes is a direct result of their involvement in business consultancy, enabling them to add value to overall company performance. Schneider used an experimental design to examine whether the type of compensation would influence US auditors' willingness to report to recognize an inventory loss (a GAAP violation). He found that, when compensation was tied to stock price, a significantly higher percentage of auditors would not report the GAAP violation compared to when the compensation was tied to earnings or was fixed. However, it is unclear why an incentive payment linked to stock price had an impact while one linked to earnings did not. Further, there was no evidence that stock ownership influenced auditors' willingness to report the GAAP violation.

Two other experimental studies conducted in the US have addressed the concern that the dual role of assurance provider and consultant can create bias and hence cause problems for audit objectivity. Both Brody and Lowe (2000) and Ahlawat and Lowe (2004) examined whether auditors can remain objective when consulting to management in a corporate acquisition setting. The two studies involved auditors acting for the buyer or seller in an acquisition. The role that the company was taking in the negotiation process was found to influence participants' judgments, with auditors allocated to the buyer condition providing significantly higher likelihood judgments about inventory obsolescence compared to those allocated to the seller condition. The researchers conclude that this suggests that auditors who act as consultants may not be able to maintain their objectivity.

2.2.3: Organizational status

Auditors are in a unique position in terms of their status as "employees" of an organization with responsibility to act as external assurance providers. This requires external auditors to assess and monitor various governance decisions made by management and also to advise management on the adequacy and effectiveness of internal controls (Sarens and de Beelde, 2006). It is thus no surprise that external auditors can face considerable familiarity and social pressure threats stemming from their relationship with management. In more recent years, audit committees have undertaken an important governance role in coordinating and overseeing the communications

between management, internal auditors, and external auditors. Gramling et al. (2004) highlight that “a quality relationship between the IAF (internal audit function) and the audit committee also works towards providing the IAF with an appropriate environment and support system for carrying out its own governance related activities (e.g. risk assessment, control assurance and compliance work)”. In addition, corporate governance guidelines and listing rules explicitly recognize the governance role played by audit committees in enhancing the relationships between management, external auditors and internal auditors (Blue Ribbon Committee, 1999; Smith Committee, 2003). As such, audit committees can be viewed as a key safeguard mechanism for auditors in managing their professional objectivity.

A small number of prior studies have examined the relationship between the auditing function and the audit committee. Most of these involve surveys or interviews of internal auditors. An exception is Carcello, (2002) who examined audit committee charters and reports of 150 US companies. Part of their study looks at disclosures relating to auditor oversight. They found that disclosures relating to external audit were much more prevalent than those relating to internal audit, with less than 50% of companies in their sample reporting that the audit committee held private meetings with internal audit.

Surveys of internal auditors have generally indicated that the composition of the audit committee is associated with the strength of the relationship between the internal audit function and the audit committee. Raghunandan, Read and Rama (2001), in a survey of US chief internal auditors, assessed the joint effect of audit committee independence and expertise on the committee’s interaction with internal audit. They found that independent committees with at least one member with accounting or finance expertise had longer meetings and more private meetings with the chief internal auditor. Goodwin and Yeo (2001) surveyed chief internal auditors in Singapore and found that audit committees comprised solely of independent directors had more frequent meetings and more private meetings with the chief internal auditor. Goodwin (2003) obtained similar results in a survey of chief internal auditors from Australia and New Zealand. In contrast, however, O’Leary and Stewart (2007), in a study of Australian internal auditors’ ethical decision making, found that the existence of an effective audit committee had little impact on internal auditors’ perceptions of their willingness to act objectively.

The involvement of the audit committee in decisions to dismiss the chief internal auditor is another indicator of internal audit independence. Prior studies have obtained mixed results in this

regard. For example, Goodwin and Yeo (2001) report that 72% of audit committees in their Singapore study were involved in dismissal decisions while Goodwin (2003) found only 52% of Australian and New Zealand audit committees were similarly involved. Only Goodwin (2003) found a relationship between dismissal decisions and the independence of the audit committee.

2.2.4: Auditor independence

Independence is the cornerstone of the auditing profession (Gill, Cosserat, Leung, and Coram 1999). It has been expected that the large proportion of non-audit fees received by auditors from clients might reduce the objectivity of auditors in reporting audit results. Frankel, Johnson, and Nelson (2002) have argued that the provision of more non-audit services to a client increases the economic bond, leading to the impairment of an auditor's independence.

Studies have reported that auditors' independence is more likely to be impaired due to the large provision of non-audit fees received from audit clients. For example, Frankel et al. (2002) find a positive association between non-audit fees and the magnitude of the absolute value of discretionary accruals. Their (Frankel et al. (2002) findings imply that the auditor's independence is compromised due to a large portion of non-audit fees received from audit clients. Gore et al. (2001) document similar results to Frankel et al. (2002) for non-Big firms. Using the same data sets and methodology as Frankel's et al. (2002), Ashbaugh, LaFond and Mayhew (2003) report that earnings management is positively and significantly associated with the purchase of non-audit services. However, after adjusting for firm performance, they (Ashbaugh et al. 2003) fail to find any evidence of a relationship between the provision of non-audit fees and the magnitude of earnings management.

The Institute of Internal Auditors (IIA) has promoted the internal audit function as an independent function that provides value-added assurance and consulting services. Through this extended role, the function has been promoted as the cornerstone upon which effective corporate governance is built (IIA Professional Guidance, 2002). This view has been supported by academic and practitioner research. Ramamoorthi (2003), in his research on the history and

evolution on the internal audit function, indicated that, over time, there has been a massive shift in focus to one that promotes and supports effective organizational governance. This has been supported by Ruud (2003) who noted that, in today's business environment, the internal audit function has become a major support function for management, the audit committee, the board of directors, and other stakeholders.

The increased importance of the audit function in enhancing corporate governance also has been reinforced indirectly through legislation, such as the Sarbanes Oxley Act (2002) in the USA and the CLERP Act (2004) in Australia. Although this legislation does not specifically address the corporate governance role of the audit function, it provides for the expanded accountability requirements of stakeholders, like the board (including the audit committee) and management. This, in turn, would suggest an expanded role for the audit function given that it comprises an integral component of the network of parties having corporate governance responsibilities (Gramling, 2004).

This expanded role essentially would involve the provision of additional services, which are initiated by the board (including the audit committee) and management as a means of ensuring that accountability requirements are met. This raises the issues of credibility and integrity, given the close relationship between these two parties. Mutchler et al. (2001) touched on the importance of independence by suggesting that, as the responsibilities of auditors grow, so does the demand for greater accountability, independence and objectivity. They suggest that the broadened responsibilities of the auditing function within the environment of a changing business world, coupled with increasing economic competition and globalization, are creating pressure on the auditing function, which can jeopardize its independence.

2.2.5: Scope and Expectation

A large, publicly traded corporation receives an unqualified audit report, and shortly thereafter collapses with the news that the financial statements are grossly misstated. How can this occur time and again unless there is something wrong with the way these companies are audited? Such is the question going through the minds of the public and regulatory community. Audit failure occurs when there is a serious distortion of the financial statements that is not reflected in the

audit report, and the auditor has made a serious error in the conduct of the audit (Arens, 2002). Audit failure does not occur if the auditor has followed the International Auditing Standards (IAS), regardless of the fairness and accuracy of the financial statements. A properly done audit does not guarantee that serious distortions of the financial statements have not occurred. However, a properly done audit does make serious distortions unlikely. Thus, audit failure cannot occur unless there is serious auditor error or misjudgment.

The nature of this auditor error has only four systematic causes. First, the auditor can blunder by misapplying or misinterpreting IAS. Such a blunder is unintentional and could be caused by fatigue or human error as in the case of *ZZZZ Best Company v. Ernst & Whinney* (Akst, 1990). Second, the auditor can commit fraud by knowingly issuing a more favorable audit report than is warranted. This may occur when the auditor accepts a bribe or bows to client pressure or threats as in the case of *ESM Securities v. Alexander Grant* (Maggin, 1989). Third, the auditor can be unduly influenced by having a direct or indirect financial interest in the client. For example, an auditor who is performing significant consulting engagements for an audit client may be reluctant to insist on accounting adjustments because of the fear of losing the client to another CPA firm as in the case of *Enron v. Arthur Andersen* (Powers, 2002). Another example of this occurs in a weaker form when the auditor is not performing any consulting but is still reluctant to stand up to the client on accounting issues for fear of being fired. Fourth, the auditor can be unduly influenced because of having some personal relationship with the client beyond what is expected in a normal audit between independent parties. For example, it is common for staff members of the CPA firm to leave the firm for employment by a previously audited client. Since this staff member has switched sides, it is possible that personal relationships with their previous employer could have an unfavorable impact on the current audit as in the case of *AMRE v. Price Waterhouse* (SEC, 1992). Another more subtle factor is the auditor's vulnerability to unconscious bias (Bazerman, 2002). Under these theory auditors, as normal human beings, tend to uncritically accept the judgments and interpretations of ambiguous information exercised by others with whom they associate. This is especially the case in a typical auditing environment where the auditor can subconsciously perceive that the client's positions are aligned with their own self-interest.

Research shows that people evaluate evidence in a selective fashion when they have a stake in reaching a particular conclusion. They tend to focus on evidence that supports the conclusion they would like to reach and evaluate that evidence in an uncritical fashion (Holyoak & Simon, 1999). When evidence conflicts with their desired conclusions, people tend to either ignore it or subject it to particularly critical scrutiny (Ditto & Lopez, 1992). This selective information processing effect is so strong that when people on different sides of an issue are exposed to the same information they can all feel that the information supports their position. As a result, they may even hold more strongly disparate opinions after receiving the same information (Lord et al., 1979).

One important influence on how people evaluate information is accountability. When people know that they will be accountable for their decisions, they show more concern for how their decisions will be received. When they do not know the preferences of their audience, this heightened concern leads to more systematic cognitive processing and a more thorough justification of the conclusion (Tetlock, 1983). However, when the preferences of the audience are known, accountability need not lead to more thoughtful processing, but can instead increase the likelihood that the decision-maker's judgment will be consistent with the known preferences of the audience (Tetlock, 1983). In an audit, there can be little doubt regarding the preferences of the management of the client firm: They want to get an unqualified audit report. The effect of accountability cannot be easily explained by simple self-interest, because most of the research on accountability has not included any rewards for agreeing with the individual to whom one is accountable (Tetlock, 1992). But this is not to say that self-interest does not influence judgment. When a particular interpretation of the evidence will benefit them materially, people gravitate toward that interpretation, even when they hold an explicit goal of being impartial. For example, people tend to think that the allocation of resources that benefits themselves is fair, and believe that others will share their perspective (Dickmann, 1997). Moreover, they are typically unaware that they are processing information in a self-serving fashion and, thus, are unaware that they are biased.

Thompson and Loewenstein (1992) found evidence of a self-serving bias in negotiators' reports of fairness. In their experiment, participants played either the role of management or union in a wage negotiation, and both roles were given the same information about the details of the situation. Before they negotiated, both parties were asked what they believed a fair outcome to

be from the vantage point of a neutral third party. Their responses were egocentrically biased; individuals representing the union tended to believe that a higher wage was fairer, whereas those representing management tended to report that a lower wage was fairer. The parties then proceeded to trade bids until they came to settlement, and delay was costly to both parties. The magnitude of the egocentric bias—the difference between the two side's perceptions of a fair wage—predicted the length of time it took parties to come to agreement: The more egocentric the parties' *ex ante* perceptions of fairness were, the longer strikes tended to last. Later research demonstrated the same result in real negotiations between union and school board presidents in Pennsylvania (Babcock, Wang, & Loewenstein, 1996).

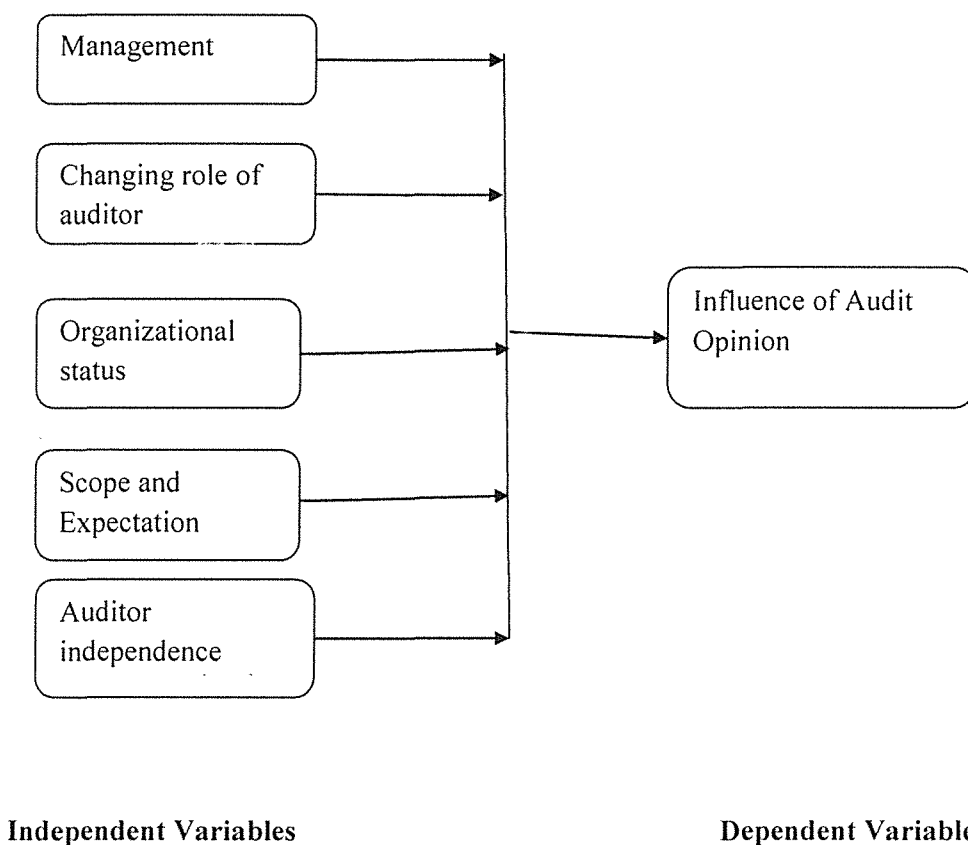
In the studies cited above, the pre-negotiation fairness judgments had no direct consequence for the negotiators, so it is unlikely that the bias resulted from strategic misrepresentation. However, subjects were not given any incentive to report their judgments accurately, so the studies do not reveal whether people are able to provide impartial judgments when they are motivated to do so. Two studies (Babcock, 1995; Loewenstein, 1993), however, offered a clear incentive to participants to be accurate in their private fairness judgments. Participants whose judgments came close to the determinations of an impartial judge were given a cash bonus. This incentive did not eliminate egocentrism in participants' reports, suggesting that their roles influenced their assessments of fairness in ways they could not disregard even when it was in their interest to do so.

Kunda (1990) argued that this motivated reasoning leads to biased conclusions whenever there is sufficient ambiguity in the evidence to allow for a biased interpretation. Thompson and Loewenstein (1992) explicitly manipulated ambiguity and confirmed Kunda's prediction: Greater ambiguity leads to more bias. In general, as Babcock and Loewenstein (1997) concluded on the basis of the aforementioned studies:

The research on motivated information processing has significant implications for auditor bias. Very few auditors begin their work hoping to find a client has breached accounting standards. Rather, auditors typically start with a desire to reach a positive conclusion about their clients and issue an unqualified audit report. Auditors generally want to be rehired by their clients, and it is often the case that an unfavorable audit report is likely to result in a client firm changing auditors (Seabright, 1992). Even if the accounting firm is large enough that one account is a trivial percentage of its revenues, individual auditors' jobs and careers may depend on success with

specific clients. Perhaps more importantly, accounting firms often treat auditing work as a way to build relationships that will allow them to sell other services including management consulting, information technology assistance, or tax accounting. Although some have argued that the contingent rents available through consulting services should not influence audit quality (Antle, 1997; Dopuch 2001)

2.2.6: Conceptual framework



2.3: Auditor Opinion Monitoring Mechanisms

The role of governance in disciplining management has been the topic of an active debate among regulators, corporate governance reformists and academics. Cadbury (1997) suggests strong governance occurs if there is balancing of firm performance with an appropriate level of independent board of directors (Davidson, Goodwin-Stewart, and Kent 2005; Firth et al. 2007), and an effective independent audit committee (Menon and Williams 1994; Davidson et al. 2005).

2.3.1: Audit Committee of the Board

Nam and Nam (2004) argue that board size is an important determinant of board effectiveness. Many empirical studies have tried to find the optimal size of a company's board of director. Huther (1997) suggests that just like any other decision making bodies, governing boards face coordination problems. These problems increase as the size of governing body increase. Lipton and Lorsch (1992) argue that the maximum size of the board of directors is 10. They (Lipton and Lorsch, 1992) further argue that board size of less than 10 is optimal as a smaller board works better and could be less manipulated by the delegated director. Jensen (1993) suggests that board sizes in the U.S. tend to be too large and recommends that boards have no more than eight directors.

More recently, there have been some studies that model theoretical determinants of board structure including board size. Lehn, Patro and Zhao (2004) find that board size is positively related to firm size and growth opportunities. Boone, Field, Karpoff and Raheja (2007) find that board size increases as companies grow and diversify over time. They (Boone et al. 2007) also argue that board size reflects a trade-off between the firm-specific benefit and cost of monitoring. Linck, Netter and Yang (2008) report that board structure across companies is consistent with the cost and benefits of the board monitoring and advising roles. They (Linck et al. 2008) provide evidence that board size fell in the 1990s for large firms and board size was relatively flat for small and medium-sized companies. In addition, the trend of board size for larger companies was reversed by the implementation of the Sarbanes-Oxley Act of 2002. In an audit opinion study, Firth et al. (2007) expect firms that have a large board to receive more

frequently a qualified audit opinion. Firth et al. (2007), however, find the opposite; while Sanchez-Ballesta and Garcia-Meca (2005), fail to detect any relationship between the two variables.

2.3.2: Independent board of directors

Beasley (1996) and Dechow, Sloan and Sweeney (1996) suggest that the ability of the board to act as an effective monitoring mechanism depends on the independence from management. The boards are considered to be independent if there is no relationship with the company beyond the role of director. Lipton and Lorsch (1992) define an independent director as a director who has no connection with the company, either as management, customer or supplier of goods or services. Thus, the independent board member refers to a non-executive director who is not employed by the company and entirely independent from management. Such non-executive directors are more likely to have incentives to guard shareholder interests because of an invested reputational capital in a firm (Fama and Jensen 1983; Vafeas and Theodorou 1998).

Empirical findings regarding an association between board independence and corporate performance are inconclusive. Some studies suggest the presence of the non-executive boards improves company value. Beasley (1996) finds that the existence of independent directors is associated with less financial statement fraud. Using a sample of 692 U.S. firms, Klein (2002) reports a negative relation between board independence and a firm's earnings quality (measured by the magnitude of earnings management). Peasnell, Pope and Young (2000) provide evidence supporting Klein's findings in the U.K. context. In addition, Dechow et al. (1996) reveal that the greater proportion of independent directors, the less likely the firm is subjected to Securities and Exchange Commission (SEC) enforcement actions because of violating U.S. GAAP.

Conversely, Agrawal and Knoeber (1996) indicate that the representation of a higher proportion of independent directors on boards is associated with poor performance, while Hermalin and Weisbach (1991) document no association between the percentage of non-executive directors serving on the board and firm value for a sample of 142 U.S. firms. Again using a U.S. dataset, Chtourou, (2001) find no relation between the presence of the independent directors and the level of earnings management. Finally, Firth et al. (2007) and Sanchez-Ballesta and Garcia-Meca

(2005) find that the proportion of board independence affects the informativeness of earnings, implying that the firm is less likely to receive a modified audit opinion.

2.3.3: Independent audit committee – Internal Audit Function – review literature

The majority of previous studies concerning the relationship between board of directors' composition and firm value have concentrated on the role of the board at large; however, a great deal of board's decision-making occurs at the committee level (Ellstrand, Daily, and Johnson 1999). To oversee the accounting and financial reporting processes of a company as well as the audit of its financial statements, boards of directors delegate their responsibility to an audit committee (Baxter and Gardenne 2008). Thus, it is expected that this committee provides shareholders with the greatest protection in maintaining the credibility of a company's financial statements (Bradbury 1990). In performing its primary function, the audit committee meets regularly with both the company's external and internal auditors for reviewing the firm's financial statement, audit process, and internal accounting controls (Klein 1998, 2002).

A study of 142 U.K. firms conducted by Collier (1993) suggests that firms establish audit committees to alleviate agency problems and to reduce information asymmetry between insiders and outsiders. Prior literature indicates that the effectiveness of an audit committee is dependent on the committee's objectivity (or independence), diligence and size (Bedard, 2004; Davidson et al. 2005). It is arguably impossible for the audit committee to function effectively if members are also executives of the firm (Lynn 1996). Thus, an audit committee should comprise only non-executive or independent directors (Lipton and Lorsch 1992; Menon and Williams 1994). This argument is supported by Jiambalvo (1996) who finds that audit committee independence is associated with a higher degree of active oversight and a lower incidence of financial statement fraud. Davidson et al. (2005) provide empirical evidence that the existence of an independent audit committee is significantly associated with a lower level of earnings management. However, Klein (2002) fails to find evidence that having a majority of non-executive directors on the audit committee reduces levels of earnings management. She also finds no relationship between earnings management and audit committee consisting exclusively of independent directors. Additionally, Carcello and Neal (2000), who investigate the association between the composition

of financially distressed companies' audit committees and the propensity of receiving going-concern audit reports, find that the greater the proportion of members of the audit committee who are independent directors, the higher the probability that the auditor will issue a going-concern qualified report.

With respect to the audit committee, Drent (2002) asserts that it, in contrast with management, greatly values the internal audit function's independence. Gwilliam and Kilcommins (1998) found that the presence of audit committees creates a perception of enhanced independence of the internal audit function, and more reliable financial reporting among financial statement users. Krishnan (2005) supports this view by asserting that, in essence, the audit committee's status is enhanced because it can rely on the work of the internal audit function.

Goodwin and Yeo (2001) found that an effective audit committee can strengthen the position of the internal audit function by acting as an independent forum in which internal auditors may raise matters affecting management (see also Turley and Zaman, 2004). This view is reiterated by Braiotta (1999), who argued that private meetings between the audit committee and the CAE serve the purpose of enhancing and protecting the independence of the internal audit function. These assertions regarding independence being enhanced through accessibility of the internal auditors to the audit committee supports the findings of earlier studies by Kalbers (1992), McHugh and Raghunandan (1994), and Scarbrough et al. (1998) that the problem of internal auditor reluctance to report problems to the audit committee is exacerbated by restrictions in access to the audit committee.

In addition to the presence of audit committees, and access to them, is a requirement that the internal audit function report directly to the audit committee to maintain independence. Schneider and Wilner (1990) and Hansen (1997) suggest that, in settings wherein the internal audit function is independent, in terms of reporting level, an improved control environment and a reduction in reporting errors results. Gramling (2004) confirms this by identifying that independence through an appropriate reporting relationship typically is viewed as the most important criterion describing objectivity. The importance of the independent status of the internal audit function through an appropriate reporting line was reinforced by the IIA (2004), which strongly insists that the CAE should report functionally to the audit committee. This

reasoning is based on the argument that the functional reporting line for the internal audit function is the ultimate source of independence and authority.

Goodwin (2003) went one step further to indicate that independence is further enhanced if the members of the audit committee, in addition to being independent, have the technical expertise to understand the work of the internal audit function. This supports the earlier study by Raghunandan et al. (2001) who found that committees comprised solely of independent directors, and with at least one member having accounting or finance expertise, were more likely to have longer meetings with the CAE, to provide access to the CAE, and to review internal audit programs and results.

An important responsibility arising out of this reporting relationship, which can have an effect on the independence of the internal audit function, is the responsibility for hiring and firing the CAE. Bariff (2003) argues that the independence of the internal audit function is at risk if an auditee is responsible for hiring and firing the CAE. McHugh and Raghunandan (1994) found that a large majority of internal auditors indicated that vesting hiring/firing authority with the audit committee would enhance the independence of the internal audit function, reduce oversight by the audit committee, and improve the ability of internal auditors to generate action on audit findings. This is now reflected in the IIA's (2004) advisory guidelines 1110-1 and 2060-5, wherein the Board Audit Committee is required to participate in these responsibilities.

2.3.4: Outsourcing and co-sourcing of audit activities

Outsourcing and co-sourcing of audit services have become widespread in recent years (Ernst & Young 2006; Caplan and Kirschenheiter 2000). While it is no longer acceptable for external auditors to provide audit services to their audit clients (Sarbanes-Oxley, 2002), such services are provided by both public accounting and specialist firms to non-audit clients (Ernst & Young 2006). A recent study of Australian publicly listed firms by Carey, Subramaniam and Ching (2006) suggests that 45% of the 99 respondent firms that utilized an auditor's function had outsourced some or all of their audit activities. Further, the type of services outsourced included both traditional financial statement audit-related services such as review of internal controls and testing of account balances, and also compliance and performance audit services including risk management and regulatory compliance evaluations.

It has been argued that an outsourced provider may be more objective than an in-house internal audit function as it is difficult for an employee to be truly independent of management (James, 2003). Selim and Yiannakas (2000) explored the extent of audit outsourcing in the United Kingdom. Respondents from the forty organizations that did engage in either outsourcing or co-sourcing were asked whether the judgment of an outside contractor is more likely to be impartial.

Ahlawat and Lowe (2004) explored this issue in an experimental study where both in-house and outside audit providers assumed the role of the auditor for the buyer or the seller in an acquisition target. They found that advocacy existed in both groups but that it was more extreme amongst the in-house auditors compared to the outside providers. Finally, Gramling and Vandervelde (2006) conducted an experimental study with both internal and external auditors. They found that, while the external auditor respondents assessed internal audit objectivity as higher when the provider was another accounting firm, the internal auditor respondents assessed objectivity to be higher when internal audit was provided in-house. Ahlawat and Lowe (2004), tested a consultancy situation and found that outside providers appeared to be more objective than in-house internal auditors. However, no prior studies have examined objectivity differences in the context of assurance services.

A further issue identified by Carey (2004), based on their survey of 41 Australian public sector entities, is that audit committee involvement in the decision to outsource internal audit activities appears to be stronger in entities that adopt full outsourcing of the internal audit function. However, in situations of co-sourcing, the head of the in-house internal audit function and other management appear to play a more active role. Interestingly, when contractual problems arise with external providers, the audit committee's involvement in the follow-up and evaluation processes appears to be minimal.

Empirical Review

Beattie *et al.* (1999) investigated the factors that determine perception of auditor independence (PAI) using a sample composed of finance directors, audit partners, and financial journalists. Their questionnaire instrument includes 45 economic and regulatory factors that represent either a threat to or an enhancement of PAI. They report that the most threatening factors are the economic dependence of auditors on the auditee and the non-audit services (NAS). The results show that the most important enhancement factors are the existence of an audit committee (AC), the risk of referral to the Financial Reporting Review Panel, and the risk to the audit firm of loss in status as a registered auditor.

IFAC (2001) has identified five threats or risks that can compromise the legitimate independence of auditors: threats resulting from self-interest, self-review, advocacy, familiarity or trust, and intimidation. Specific circumstances in which threats to independence can arise include financial interests, loans and guarantees, business relationships, employment with the audit client, managerial or supervisory role with the audit client, family and personal relationships, the provision of NAS, fees and pricing, gifts and hospitality, actual or threatened litigation, and the absence of a sufficient cooling-off period applicable to audit firm partners before accepting employment with clients.

Teoh and Lim (1996) investigated the varying effects of NAS, rotation of audit firms, large audit fees from a single client, existence of AC, and disclosure of non-audit fees on PAI. Their results show that these five factors critically influence the perception of audit independence by Malaysian-listed officers, with the reliance of an auditor on income from a single client being the most important factor among the five factors investigated.

If managers dislike qualified reports and have some influence over auditor appointment, they may try to use auditor switching to avoid receiving qualified reports. Teoh (1992) usefully identifies two ways in which this could occur. First, a manager may actively use the auditor switch decision to avoid receiving a qualified report. If a new auditor is less likely to give a qualified report compared to the incumbent auditor, the manager may choose to switch. Similarly, if a new auditor is more likely to give a qualified report compared to the incumbent,

the manager may choose not to switch. Second, if auditors earn client-specific rents, a manager may obtain a more favourable report from an incumbent auditor by threatening to switch to a new auditor. However, post-Enron, HIH and the CLERP Act 2004, the top 300 listed companies are required to have an audit committee, which limits the ability for managers to exercise such influence.

Geiger and Raghunandan (2002) find that auditors are more likely to issue an unqualified audit opinion prior to a client filing for bankruptcy in the early years of the auditor-client relationship. Myers *et al.* (2003) on the other hand find that as auditor tenure increases, auditors place greater constraints on the degree of discretionary and current accruals allowed by management. These results suggest that mandatory audit firm rotation may have adverse effects on audit quality, as audit quality is lower in the earlier years of the auditor-client relationship.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. In this section the researcher identified the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research design

The design of this research was a descriptive survey research. A descriptive survey research seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitude, behavior or values (Mugenda and Mugenda 2003).

3.3 Target Population

In this study the population of interest was the registered members of the Institute of Certified Public Accountants of Kenya (ICPAK). By the year 2011 the registered members with ICPAK was around 10,000.

3.4. Sampling Design and Procedure

The study used random sampling technique based on the population of registered members of ICPAK. The researcher selected respondents from the registered members of the Institute of Certified Public Accountants of Kenya (ICPAK). According to Mugenda and Mugenda (2008), random sampling gives all the members of the population equal chance to be selected and sample size should be economically viable.

3.5 Data Collection Method

The Researcher developed the instruments with which to collect the necessary information. The questionnaires contained the questions some of which were closed-ended question and also a few open ended. These types of questions were accompanied by a list of possible alternatives from which respondents were required to select the answer that best describes their situation. An observation checklist was used to augment the questionnaires. The main advantage of close ended questions is that they are easier to analyze since they are in an immediate usable form.

They are also easy to administer because each item is followed by an alternative answers and is economical to use in terms of time saving.

3.6 Data Collection Procedure

Primary data was collected from the field by the researcher. Primary data was collected using semi-structured questionnaires. The questionnaires were administered using drop and pick method. The questionnaires were to allow the respondents to give their responses in a free environment and help the researcher get information that would not have been given out had interviews been used. The questionnaires were self-administered to some respondents.

3.7 Data Analysis and Presentation

The collected data was thoroughly examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution was used to analyze the data. The data was coded and entered into the Statistical Package for Social Sciences (SPSS) for analysis. SPSS was used to perform the analysis as it aids in organizing and summarizing the data by the use of descriptive statistics such as tables. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information was clearly understood and described.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF THE FINDINGS

4.1: Introduction

This chapter presents the analysis and findings with regard to the objective and discussion of the same. The completed questionnaires were edited for completeness and consistency. Of the 100 questionnaires used in the sample, 84 were returned represented a response rate of 84%, which the study considered adequate for analysis. However, 16 questionnaires were not returned making a 16% non-response. The findings are presented in percentages and frequency distributions, mean and standard deviations

4.2: Background Information

4.2.1 Gender of the respondents

The respondents were requested to indicate their gender

Figure 4.1: Gender

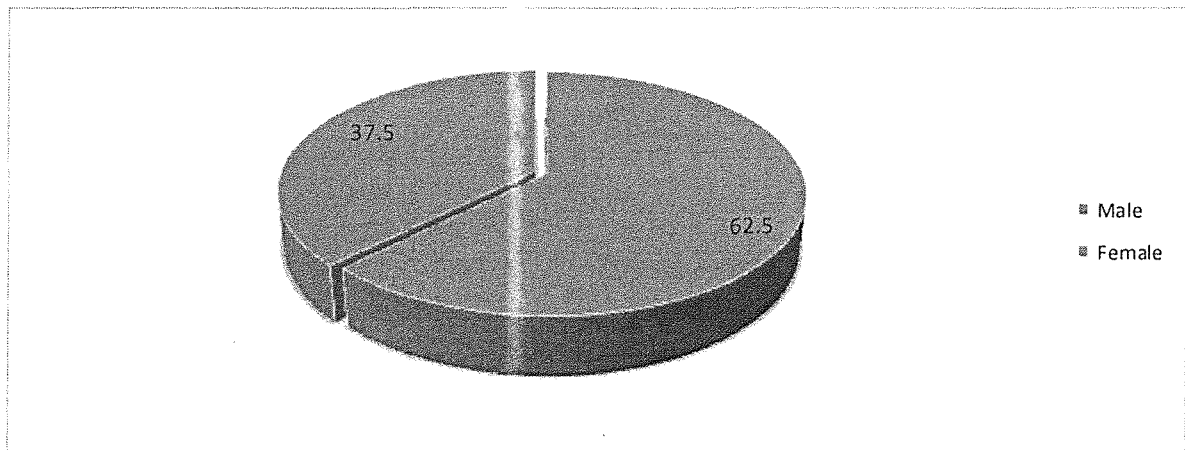
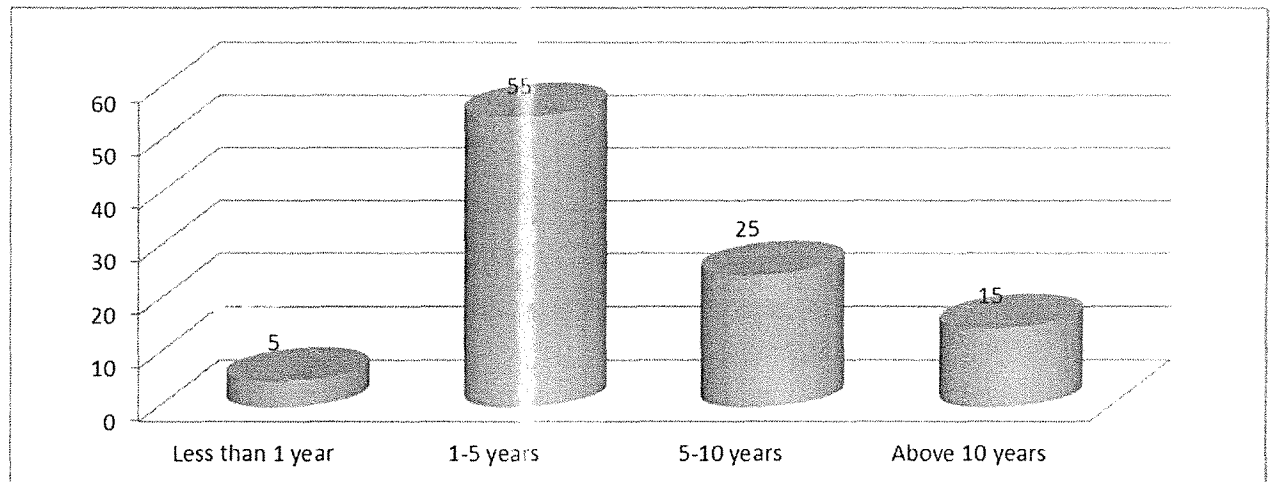


Figure 4.1 shows majority (62.5%) of respondents were male while 37.5% are female.

4.2.2 Duration registered with ICPAK

The study sought to establish the duration the respondent had registered with ICPAK

Figure 4.2: Duration



On seeking to establish the duration registered with ICPAK, the study found out that most(55%) of the auditors had, registered between 1-5 years followed by 25% who registered between 5-10 years and those who registered above 10 years comprised 15% while less than 1 year were 5%.

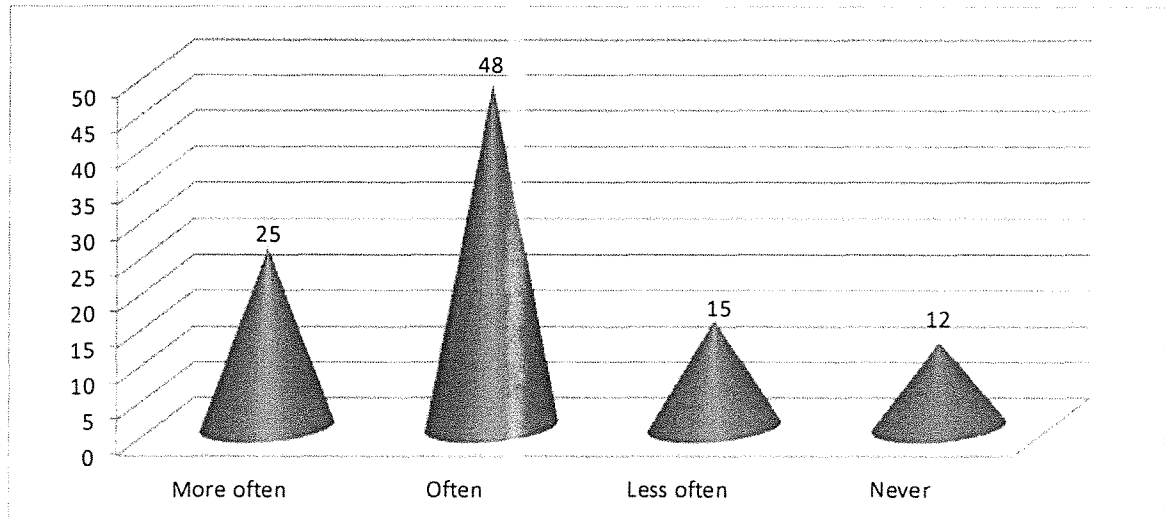
This is an indication majority (55%) of the respondents registered between 1-5 years. This depicts that they will be at least in a position to give information as sought by the study.

4.3 Factors that influence auditor's opinion

4.3.1 Frequency on contradiction audit evidence

The respondents were requested to indicate on frequency they contradict the audit evidence and reported otherwise.

Figure 4.3: Frequency

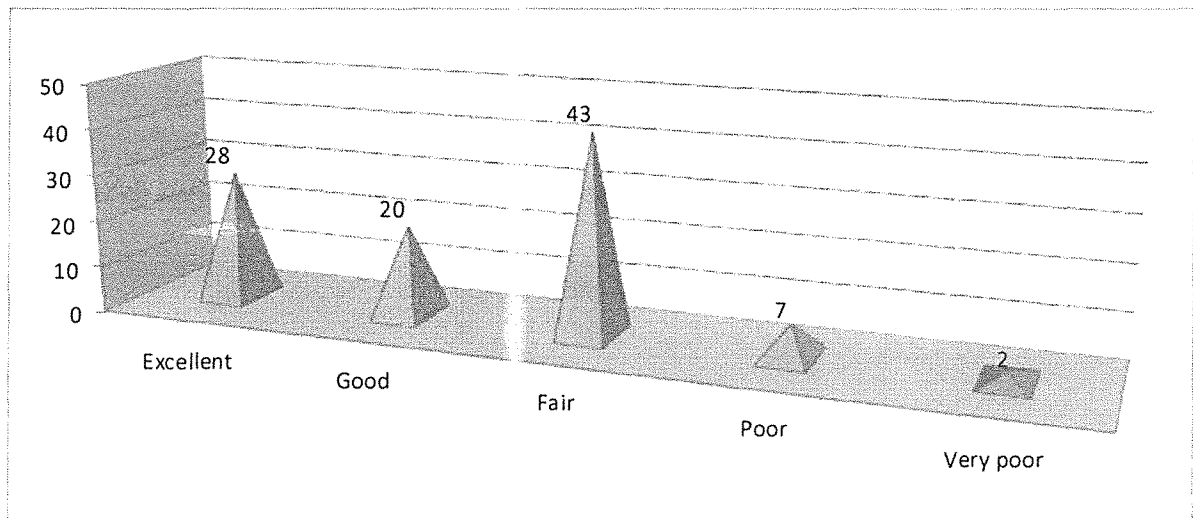


The study was to establish on the frequency auditors contradict their audit evidence and instead reported otherwise, where majority (48%) of respondent's often contradicted the evidence followed by 25%.

4.3.2 Rating the genuineness of work

Respondents were requested to indicate on how genuine they are in their work.

Figure 4.4: Genuineness

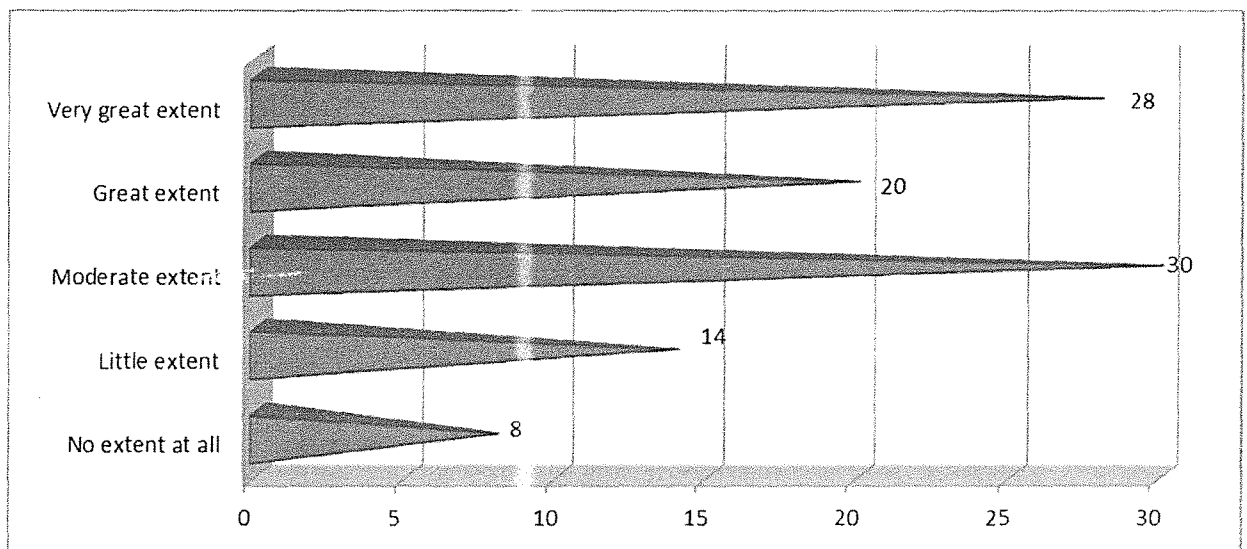


Majority (43%) of the respondents are fair while 20% were good and 28% excellent. The study also revealed that 7% were poor and 2 % very poor.

4.4 Inherent Risk Assessments

4.4.1 The study was to determine the inherent risk assessments

Figure 4.5: Assessments



On seeking to establish the inherent risk assessments, the study found out that most of the representing 30% were moderate followed closely 28% who were very great extent on risk assessment while 20% were great extent.

4.4.2 Level of agreement on inherent risk assessments on work

The respondents were asked to which level of agreement on inherent risk assessments on work by the auditors on a five point Likert scale. The range was 'to a strongly agree (5)' to 'strongly disagree used' (1). The scores of 'strongly disagree and disagree' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq S.E < 2.4$).

The scores of 'average' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of 'agree and strongly agree have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.1: Risk assessment

	Mean	Std. Deviation
The Auditors considers the role of risk assessment in the detection of errors.	3.4	.75962
The Auditors having a good understanding of their auditor's business and therefore can accomplish risk assessment with relative ease	2.6	.98211
Non-systematic transactions and organization characteristics are associated with the incidence of errors.	3.3	.84524
Inherent risk at the Auditors is difficult and costly to assess	2.9	.68793
The Auditors begin the inherent risk evaluation process by generating expectations of accounts balances.	3.2	.72341
There is a preference for qualitative risk assessment	2.8	.87562
Auditors do not consider it appropriate to generate numerical estimates of risk on an account by account basis, but reason about the Auditors' financial statements using knowledge about changes in the policies and/or management's motivations and prior track record.	3.0	.78142

On respondents' level of agreement about inherent risk assessments on works performance in The auditors, the result presentation above shows that majority of the respondents were in moderate agreement that indeed the auditors considers the role of risk assessment in detection of errors ($X=3.4, S.D=0.75962$). The auditor ascertains that risk assessment in detection of errors is very crucial. It is in this line that the researcher establishes that, the auditors is firstly, an emotional response to risk assessment.

This can only be inferred. Secondly, risk assessment is determined by how well the auditors has a good understanding of their auditor's outcomes to meet expectations. For instance, if the salary is commensurate to work done and is also equitable, the auditors are likely to develop job satisfaction. Finally, job satisfaction should be viewed as representing a combination of related attitudes. Job satisfaction can take place through intrinsic motivation that is self-generated factors that influence people to behave in a certain way such as responsibility, freedom act, scope to use and develop skills and abilities among others. It could also be through extrinsic motivation i.e. what is done to or for people to motivate them including rewards such as increased pay, praise or promotion. The later have an immediate and powerful effect though not long lasting as

the intrinsic motivators which have a deeper and longer term effect because they are inherent in individuals. According to the results above, it can be deduced that auditors have enabled to streamline risk assessment activities with the clients' expectation and therefore enhances their satisfaction. For instance, the clients' pay consummates with job done.

4.4.3 Significance of factors influencing judgments of inherent risk

The respondents were asked on their level of agreement on judgments of inherent risk in a five point Likert scale. The range was 'very significant (5)' to 'insignificant (1)'. The scores of 'insignificant' and 'slightly insignificant' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq S.E < 2.4$).

The scores of 'moderately significant' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of 'significant and very significant' have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of > 1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.2: Judgment of Inherent Risk

	Mean	Std. Deviation
Turnover of controllers	3.112	.6457
Financing pressure in reporting	3.400	.8411
The complexity of transactions and organizations systems	3.241	.6471
The quality and caliber of personnel responsible for reporting	2.311	.7481

On the respondents' level of significance on judgment on inherent risks, result presentation above shows that majority of the respondents were in moderate where by financing pressure($X=3.400$, $S.D=.8411$) the complexity of transactions and organizations' systems($X=3.241$,

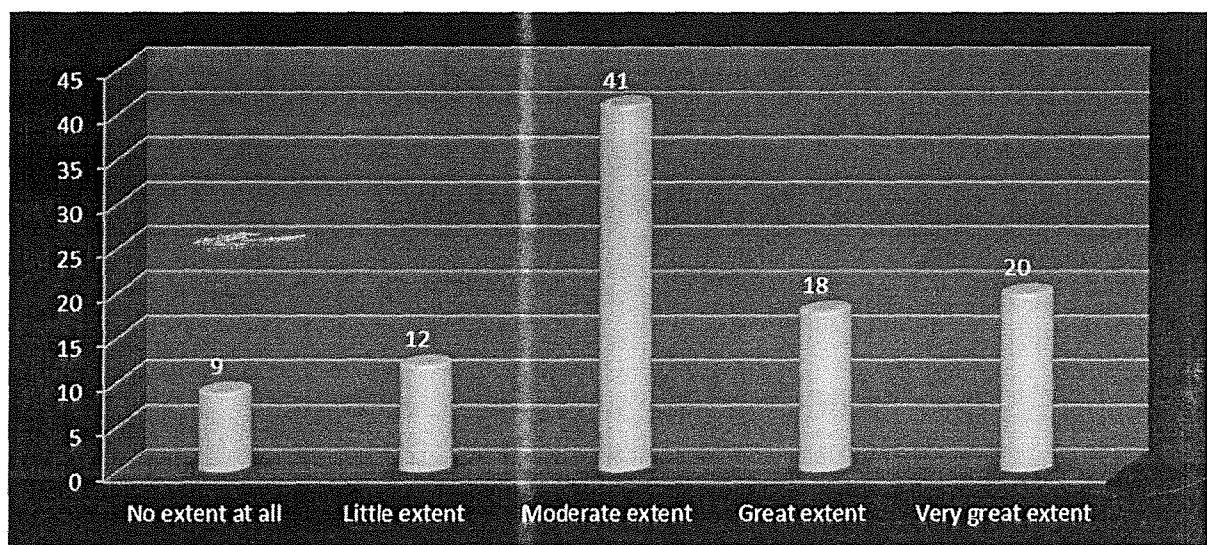
S.D=.6471), turnover of controllers($X=3.112$, S.D=.6457).However, on the quality of personnel and caliber of personnel responsible for reporting is slightly insignificant($X=2.311$, S.D=.7481).

4.5 AUDIT COMPLEXITY

4.5.1 The extent to which audit complexity affect work

Audit complexity is one of the major factors that affect your work

Figure 4.6: Audit Complexity



4.5.3 Level of agreement on audit complexity

The respondents were asked on their level of agreement on audit complexity in a five point Likert scale. The range was 'to strongly agree (5)' to 'strongly disagree (1). The scores of 'strongly disagree' and 'disagree' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq S.E < 2.4$).

The scores of 'moderate' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of 'agree and 'strongly agree' have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a

continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.3: Level of agreement

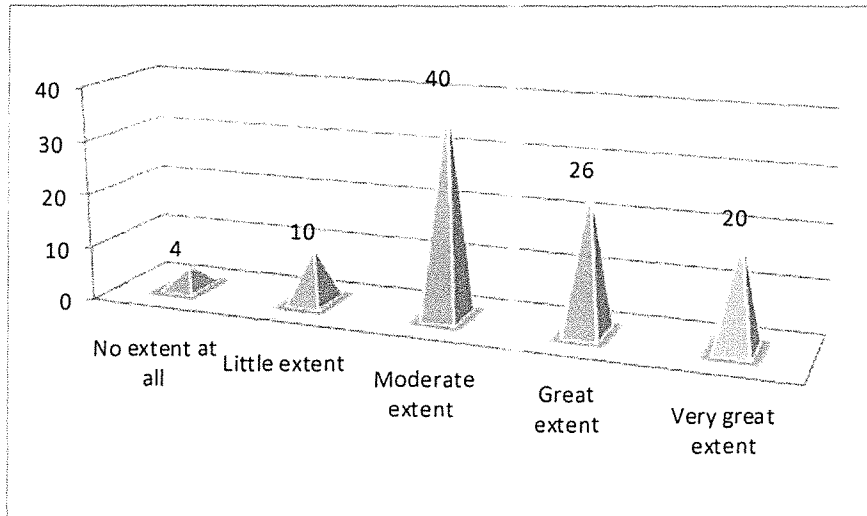
	Mean	Std. Deviation
As audit complexity increases, the auditor would need to spend more audit hours and allocate higher level of expertise to the engagement, thus resulting in higher audit fees.	3.6043	1.35414
Audit fees increase in the number of organization's subsidiaries because of increased complexity that negatively affect the governance	2.8913	1.52682
There is a positive relationship between risk based audit and the proportion of transactions.	3.9130	1.4014
The number of segments is a proxy for audit complexity at the auditors that greatly impact on the governance	3.1522	1.4251

From the findings the respondents on audit complexity, identified the following; the auditor would need to spend more audit hours and allocate higher level of expertise to the engagement, thus resulting in higher audit fees (mean of 3.6043), there is a positive relationship between risks based audit and the proportion of foreign revenue (Mean of, 3.9130).

On a moderate extent the following were the complex; the number of segments is a proxy for audit complexity at the auditors that greatly impact on the governance (mean of 3.1522), Audit fees increase in the number of organization's subsidiaries because of increased complexity that negatively affect the governance (mean of 2.8913).

4.5.4 The extent audit complexity affects governance

Figure 4.7: Audit complexity



On seeking to establish on the effects of audit complexity on governance, the study found out that most of the respondents were moderate extent while 26% were to a great extent on the audit complex, 20 % very great extent and 10% little extent, 4% to no extent at all. This depicts that audit's complexity affects the governance in auditors.

4.5.5 Aspects on audit complexity

The respondents were asked to rate the extent to which the following aspects bring audit complex in a five point Likert scale. The range was 'to a very extent (5)' to 'no extent at all' (1). The scores of 'no extent at all' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ; ($0 \leq S.E < 2.4$)).

The scores of 'moderate' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of 'great extent and very great extent' have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on

a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.4: Aspects on audit complexity

	Mean	Std. Deviation
Number of organization subsidiaries	3.6304	.67231
Proportion of transactions and levels of reporting within the organization.	2.8913	.76541
Number of organization segments	2.6561	.78457

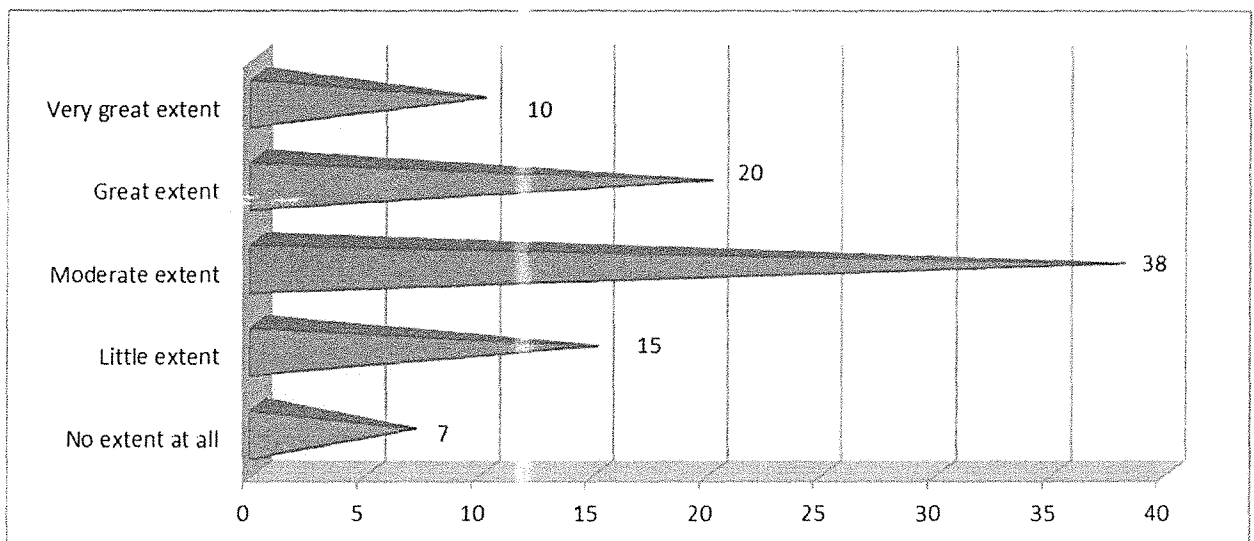
Source: Research data

From the findings to a great extent; Number of organization subsidiaries (mean of 3.6304) .On the other hand to moderate extent; Proportion of foreign revenue (mean of 2.8913), Number of organization segments (mean of 2.6561).

4.6 AUDIT TRANSPARENCY

4.6.1 Extent risk based audit transparency on work

Figure 4.8: Audit transparency



On seeking to establish the audit transparency, the study establishes that majority 38% of respondents are moderate. From the results, it implies that transparency was not practiced fully in the auditing process. This may be a pitfall for balanced auditing process for success of financial reporting.

4.6.2 Level of agreement on risk based audit transparency

The respondents were asked on their level of agreement on audit transparency in a five point Likert scale. The range was 'to a very great extent (5)' to 'no extent at all (1). The scores of 'no extent at all and' little extent' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq S.E < 2.4$).

The scores of 'moderate extent' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of 'great extent and 'very great extent have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.5: Audit transparency

	Mean	Std. Deviation
Risk based audit transparency is one element of good corporate governance	3.5	1.26
Openness of organisations' functions essential for the success of various aspects of corporate governance and financial reporting.	3.4	0.89
One aspect of transparency is timeliness.	2.7	1.21
It is better to disclose information sooner rather than later, although there are some tradeoffs.	2.6	0.78
There is an inverse relationship between the quality of financial information and the timeliness with which it is reported	2.9	0.85
Accounting information becomes less relevant with the passage of time	3.4	0.69
Timely reporting of economic losses increases the contractual value of financial reporting and as a second order effect the informational value of the report is augmented.	3.3	0.84
When there is higher outside investor protection, more of the asymmetric information problem can be resolved by the auditors.	3.1	1.22

On the respondents' level of agreement on audit transparency, result presentation above shows that majority of the respondents were in moderate. It is in this line that the researcher establishes that risk based audit transparency has firstly, an emotional response to audit job situation. This can only be inferred. Secondly, job satisfaction is determined by how well outcomes meet expectations.

For instance, if the clients fees commensurate to work done and is also equitable, the organizational members are likely to develop job satisfaction. Finally, audit job satisfaction should be viewed as representing a combination of related attitudes. Job satisfaction can take place through intrinsic motivation that is self-generated factors that influence people to behave in a certain way such as responsibility, freedom act, scope to use and develop skills and abilities among others. It could also be through extrinsic motivation i.e. what is done to or for people to motivate them including rewards such as increased pay, praise or promotion. The latter have an

immediate and powerful effect though not long lasting as the intrinsic motivators which have a deeper and longer term effect because they are inherent in individuals.

4.6.3 Effects of transparency in audit work

The respondents were asked on their level of agreement on audit transparency in a five point Likert scale. The range was 'to a very great extent (5)' to 'no extent at all (1). The scores of 'no extent at all and' little extent' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq S.E < 2.4$). The scores of 'moderate extent' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of 'great extent and 'very great extent have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of > 1.5 implies a

4.6.4 Significant difference on the impact of variable among respondents.

Table 4.6: Impact on variable

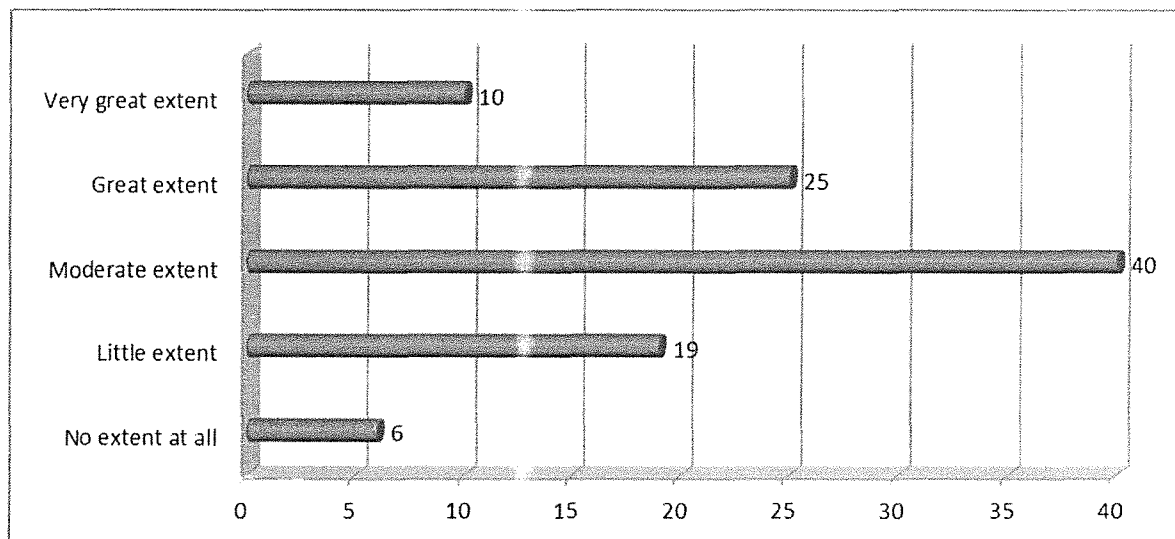
	Mean	Std. Deviation
Accuracy	3.1	.733
Consistency	3.4	.891
Appropriateness	2.9	.699
Completeness	2.6	.918
Clarity	3.3	.718
Timeliness	3.0	.814
Convenience	2.7	.618

From the study findings in table, majority of the respondents were moderate extent on accuracy ($x=3.1$, $S.D=0.733$), consistency, ($x=3.4$, $S.D= .891$), appropriateness ($x=2.9$, $S.D=.699$).

4.7 Auditing standards

4.7.1 Respondents' on auditing standards

Figure 4.9: Auditing standards



On seeking to establish the audit standards, the study establishes that 40% of respondents were moderate extent. From the results, it implies that auditing standards was not practiced fully by the auditors. The auditor acted more to fulfill their clients basic needs of giving impressive financial statements which satisfy the interests of shareholders and financiers.

4.7.2 Level of agreement on the auditing standards

The respondents were asked on their level of agreement on auditing standards in a five point Likert scale. The range was 'to strongly agree (5)' to 'strongly disagree (1)'. The scores of 'strongly disagree and' disagree 'have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq S.E < 2.4$). The scores of 'moderate' have been taken to represent a variable that had an impact to a moderate (M.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$).

The score of 'strongly agree and 'agree 'have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq \text{L.E.} < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.7: Auditing standards

	Mean	Std. Deviation
The importance of auditing standards and audit is aggravated even more after accounting firms are being sued by shareholders for their inability to detect fraud	2.9	.7891
Compliance with Standardization can be used to reduce risks thus enhancing good governance	3.3	.9562
Standardization can be substituted be other quality framework, such as National Quality Award that is better in enhancing good governance	3.0	.8745

Study findings on audit standards, the respondents' level of agreement result presentation above shows that majority of the respondents were in moderate ($X=3.3$, $S.D=0.9562$). It is in this line that the researcher establishes that risk based audit standard has firstly, an emotional response to audit job situation. Finally, audit job satisfaction should be viewed as representing a combination of related attitudes.

4.7.3 Auditor independence

Level of agreement on auditor's independence on auditors reported opinion

The respondents were asked on their level of agreement on audit's independence in a five point Likert scale. The range was 'to strongly agree (5)' to 'strongly disagree (1). The scores of 'strongly disagree and' disagree have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq \text{S.E} < 2.4$).

The scores of 'undecided have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq \text{M.E.} < 3.4$). The score of 'strongly agree and 'agree have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq \text{L.E.} < 5.0$). A standard deviation of >1.5 implies a

Table 4.8: Auditor independence

	Mean	Std. Deviation
Independence is the cornerstone of the auditing profession	2.4	.564
Large proportion of non-audit fees received by auditors from clients might reduce the objectivity of auditors in reporting audit results	2.1	.654
Provision of more non-audit services to a client increases the economic bond, leading to the impairment of an auditor's independence	1.6	.874
Auditors' independence is more likely to be impaired due to the large provision of non-audit fees received from audit clients	1.9	.976
As the responsibilities of internal auditors grow, so does the demand for greater accountability, independence and objectivity	2.3	.748

The study findings on the respondents' level of agreement on audit independence result presentation above shows that majority of the respondents disagreed on independence being the cornerstone of the auditing profession ($X=2.4, S.D=.564$), Large proportion of non-audit fees received by auditors from clients might reduce the objectivity of auditors in reporting audit results ($X=2.1, S.D=.654$), Provision of more non-audit services to a client increases the economic bond, leading to the impairment of an auditor's independence, ($X=1.6, S.D=.874$).

4.8 Organizational status

4.8.1 Respondents level of agreement on organizational status

Level of agreement on influence of statements on organizational status on auditors reported opinion in condition where the opinion meant the contrary

Table 4.8: Organizational Status

	Mean	Std. Deviation
Auditors can face considerable familiarity and social pressure threats stemming from their relationship with management	2.8	.87912
Audit committees can be viewed as a key safeguard mechanism for auditors in managing their professional objectivity	3.3	.78412
Composition of the audit committee is associated with the strength of the relationship between the audit function and the audit committee	2.9	.59981

Audit committees comprised solely of independent directors had more frequent meetings and more private meetings with the external auditors	3.4	.67145
Existence of an effective audit committee had little impact on auditors' perceptions of their willingness to act objectively.	3.0	.89451
Involvement of the audit committee in decisions to dismiss the auditors influence the auditor's independence.	2.7	.91423

On the respondents' level of agreement on influence of statements on organizational status on auditors reported opinion in condition where the opinion meant the contrary, result presentation above shows that majority of the respondents were in moderate. Auditors can face considerable familiarity and social pressure threats stemming from their relationship with management ($X=2.8$, $S.D=.87912$), audit committees can be viewed as a key safeguard mechanism for auditors in managing their professional objectivity($X=3.3$, $S.D=.78412$), Composition of the audit committee is associated with the strength of the relationship between the audit function and the audit committee($X=2.9$, $S.D=.59981$).

4.9 Effects of transparency in audit work

4.9.1 Changing role of auditor

The respondents were asked to which level of agreement on changing role of auditors in their work on a five point Likert scale. The range was 'to a strongly agree (5)' to 'strongly disagree used' (1). The scores of 'strongly disagree and disagree' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.5 on the continuous Likert scale ;($0 \leq S.E < 2.4$). The scores of 'average' have been taken to represent a variable that had an impact to a moderate extent (M.E.) (equivalent to a mean score of 2.5 to 3.4 on the continuous Likert scale: $2.5 \leq M.E. < 3.4$). The score of 'agree and strongly agree have been taken to represent a variable which had an impact to a large extent (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; $3.5 \leq L.E. < 5.0$). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

Table 4.9: Changing role

	Mean	Std. Deviation
Auditor's "role dilemma" which arises from the expectation that the auditors will both assist management and independently evaluate management	2.91	.8791
The auditor will independently establish their own role and duties in line with established regulatory framework governing the profession	3.12	.7291
The auditor is able to equip themselves with current global trends involving the professional	2.59	.8121
The auditor is familiar with the current communications involvement	2.71	.5671
Compensation influence the auditors' willingness to report to financial objectively	3.64	.7154
The dual role of assurance provider and consultant can create bias and hence cause problems for audit objectivity	3.31	.9108
Auditors who act as consultants may not be able to maintain their objectivity.	4.01	.8671

The study findings on the respondents' level of agreement on changing level of auditors table shows that majority of the respondents were moderate on the position in which they establish their own role and duties($X=3.12, S.D=.7291$), the dual role of assurance provider and consultant can create bias and hence cause problems for audit objectivity($X=3.31, S.D=.9108$).

However some of the respondents agreed on auditors who act as consultants may not be able to maintain their objectivity ($X=4.01, S.D=.8671$), independence being the cornerstone of the auditing profession ($X=2.4, S.D=.564$), Large proportion of non-audit fees received by auditors from clients might reduce the objectivity of auditors in reporting audit results ($X=2.1, S.D=.654$), Provision of more non-audit services to a client increases the economic bond, leading to the impairment of an auditor's independence ,($X=1.6, S.D=.874$) ,The type of compensation influence auditors' willingness to report to short coming in the audited financial statements ($X=3.64, S.D=.7154$).

4.10 Labour policies

4.10.1 Respondents on labour policies

The respondents were asked to rate their level of on labour policies .The response was rated on a four point Likert scale on which 1=strongly disagree, 2=disagree, 3=moderate,

4=agree,5=strongly agree. Mean and standard deviation were then computed as shown.

Table 4.10: labour policies

	Mean	Std. Deviation
Management influences operations, as well as the board of directors on the auditing function	4.01	.87412
Management, and not the auditors, ultimately determines the orientation of the audit functions	3.21	.79841
Executive and line management, by utilizing the audit function for these various extended roles, do not always appreciate the need for independence	3.41	.68976
Dilemma is expressed by the argument that the audit function must add value to management, while at the same time not become its servant, and faithfully report on the status to the board or some other equivalent governing body	3.11	.98456
The practice of earnings management has negative effects on the reliability and credibility of financial reporting	2.81	.85731

On the level of agreement on labour policies application majority of respondents were moderate on executive and line management, by utilizing the auditors for these various extended roles, do not always appreciate the need for independence ($X=3.41$, $S.D=.68976$) management, and not auditors, ultimately determines the orientation of the audit functions($X=3.21$, $S.D=.79841$),on addition of value of internal audit($X=3.11$, $S.D=.98456$),while on negativity on the reliability and credibility of financial reporting($X=2.81$, $S.D=.85731$).

4.11 Scope and Expectation

4.11.1 Labour policies

Table 4.10: Scope and Expectation

	Mean	Std. Deviation
Audit failure does not occur if the auditor has followed International Auditing Standards and International Financial Reporting Standards, regardless of the fairness and accuracy of the financial statements	3.4	1.26
A properly done audit does not guarantee that serious distortions of the financial statements have not occurred	3.5	1.12
Auditors can commit fraud by knowingly issuing a more favorable audit report than is warranted due to auditor accepts a bribe or bows to client pressure or threats	3.2	1.20
Auditors can be unduly influenced by having a direct or indirect financial interest in the client	2.6	1.22
Auditor evaluate evidence in a selective fashion when they have a stake in reaching a particular conclusion	2.9	1.26
Motivated reasoning leads to biased conclusions whenever there is sufficient ambiguity in the evidence to allow for a biased interpretation	2.6	1.26

On the labour policies most of the respondents were moderate as shown on, audit failure does not occur if the auditor has followed accepted auditing and financial reporting standards, regardless of the fairness and accuracy of the financial statements($X=3.4, S.D= 1.26$), a properly done audit does not guarantee that serious distortions of the financial statements have not occurred($X=3.5, S.D=1.12$), auditor evaluate evidence in a selective fashion when they have a stake in reaching a particular conclusion ($X=2.9, S.D=1.22$). It is in this line that the researcher establishes that labour policies are applied in a selective fashion and by having direct or indirect financial interest in the client.

Finally, auditing process at level of satisfaction should be viewed as representing a combination of related attitudes.

Auditing satisfaction can take place through intrinsic motivation that is self-generated factors that influence people to behave in a certain way such as responsibility, freedom act, scope to use

and develop skills and abilities among others. It could also be through extrinsic motivation i.e. what is done to or for people to motivate them including rewards such as increased pay, praise or promotion. The later have an immediate and powerful effect though not long lasting as the intrinsic motivators which have a deeper and longer term effect because they are inherent in individuals.

4.4.2 Inferential Statistics

The researcher used inferential statistics to establish the relationship between the relationship between factors influencing and auditors reported opinion. The inferential statistics used in the study include Pearson product-moment correlation and regression analysis. The Pearson product-moment correlation coefficient was used to analyze the association between the independent (factors influencing) and the dependent variables (auditor's reported opinion).

Two variable are said to be correlated if their coefficient of correlations is greater than 0.5. If two independent variables are correlated one of the variables must be dropped from the analysis. As shown in Table 4.7 below none of the independent variables had coefficient of correlation between themselves less than 0.5 hence all of them were included in the model. The Pearson correlation coefficients above 0.5 in the matrix indicated great correlation between the dependent variable and the independent variables.

Table 4.1: Pearson Correlation Correlations

	Auditor's reported opinion	Inherent risk assessments	Organizational status	Changing role of auditor	Labour policies	Scope and expectation
Auditor's reported opinion	1.000					
Inherent risk assessments	0.812					
Organizational status	0.812	1.000				
Changing role of auditor	0.654	0.168	1.000			
Labour policies	0.621	0.124	0.135	1.000		
Scope and expectation	0.513	0.116	0.154	0.142	1.000	1.000

The researcher performed a regression analysis to establish the association between the independent variables (factors influencing) with the dependent variable of the study (auditor's reported opinion).

The following regression model was adopted for the study:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

y = Auditor's reported opinion

β_0 = Constant Term

β_1 = Beta coefficients

X_1 = Scope and expectation

X_2 = Inherent risk assessments

X_3 = Organizational status

X_4 = Changing role of auditor

X_5 = Labour policies

e = the standard error

Table 4.8: Shows the Summary of the Regression Model.

Table 4.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.9978	.9957	.9956	.4428

a. Predictors (independent) variables: Labour policies, Inherent risk assessments, Organizational status and a Changing role of auditor & Scope and expectation

b. Dependent Variable: Auditor's reported opinion

The coefficient of determination (R Square) is used to test the goodness-of-fit of the model. That is, R Square measures the proportion or percentage of the total variation in the dependent variable explained by the independent variable. The value of R Square lie between 0 and 1 and if R Square value is 1 the there is a perfect fit while R Square value 0 indicates that there is no relationship between dependent and independent variables. From the study findings in Table 8, the R Square value was 0.9957 indicating that there was a variation of 99.57% in auditor's reported opinion as a result of the factors influencing.

Table 4.3: Coefficients of Regression Equation

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1 (Constant)	.923	.118		7.835	.035
Scope and expectation	.374	.074	.063	5.021	.016
Inherent risk assessments	-.358	.086	.074	4.115	.032
Organizational status	.355	.085	.071	4.157	.036
Labour policies	.353	.088	.078	3.994	.038

a. Dependent Variable: Auditor's reported opinion

The level of confidence for the analysis was set at 95% (0.05). Therefore, the P- value less than 0.05 imply that the independent variables significantly influence the dependent variable. The regression results show that auditor's reported opinion is influenced by factors influencing because all had P values less than 0.05 (Table 4.9).

The established multiple linear regression equation becomes:

$$Y = 0.923 + 0.374X_1 - 0.358X_2 + 0.355X_3 + 0.353X_4 + 0.118$$

Constant = 0.923, shows that if all the independent variables (Labour policies, Inherent risk assessments, Organizational status and a Changing role of auditor & Inherent risk assessments factors influencing) all rated as zero, auditor's reported opinion would be 0.923.

$0.374X_1$ denotes that if all other independent variables are rated as zero, a change of magnitude 0.374 in X_1 (Labour policies) lead to a unit change in Y (auditor's reported opinion). Similarly, the corresponding magnitudes of the coefficients of regression for the independent variables ($0.358X_2$, $0.355X_3$ and $0.353X_4$) leads to a unit change in the dependent variable Y (auditor's reported opinion).

The magnitudes of the coefficients of regression also show the strength of the influence that the independent variables have on the dependent variable. Therefore, auditor's reported opinion was strongly influenced by Labour policies (0.374) followed by Inherent risk assessments (0.358), Organizational status (0.355) and a Changing role of auditor and Inherent risk assessments factors influencing (0.353).

The sign of the coefficients of regression indicate the nature of relationship that is, the positive coefficient denotes a direct relationship in which an increase in Labour policies, Organizational status and a Changing role of auditor & Inherent risk assessments factors influencing (all had positive coefficients) leads to improved auditor's reported opinion. The negative coefficients of regression indicate an inverse relationship in which an increase in the independent variable leads to a decrease in the dependent variable. From the study findings in table 9, increase in the adoption of Inherent risk assessments leadership style (negative coefficient) lead to decrease (deterioration) of auditor's reported opinion.

4.12 Determinants of the Auditor's Reported Opinion

The respondents were requested to indicate on what determines reporting process. They various opinions regarding on they report on particular matter. The following are the opinions:

Social pressure, threats and the relationship they have with management determines the reporting process. On-existence of effective committees which can influence on the outcome of the auditing process and the way these committees are composed and structured to be having strong relationship with internal auditors, who in most cases cooperate to pursue individual objectives not based on honest and sincere on the entire process of auditing.

4.13 Challenges That the Auditor Experiences on Influencing the Auditors Opinion

The respondents were requested to indicate the challenges which influence the auditor's opinion. The challenges like audit complex which requires spend more on audit hours, report according to the wants and needs of an organization in question that is there is that form of manipulation, bribery and corruption, noncooperation from the stake holders on the auditing exercise, which make the auditing process be complex, lack of incentives to motivate auditors and biasness which creates problems on audit objectivity.

4.14 Overcoming challenges.

The respondents indicated independence to avoid negative interventions from individuals who have selfish interests, lay down clear structures to address bribery and corruption cases like increment of auditors' salaries, motivational activities like housing retreats, sponsorship of further studies, simplify the entire auditing process like the involvement of every individual in question in the auditing process.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The objective of the study was to determine the factors that influence the auditor's reported opinion. From the study findings, auditors reported opinion contributes largely to performance and management of organizations and ministries. Impartial and unbiased auditor opinion brings to measuring of performance of organizations. The use of a well-balanced audit report in measuring performance, it indicates that employees view the measure depending on how well they understand the report. Those who have a better understanding seem more satisfied with the report compared to those who had a lesser understanding of the well- balanced audit report.

The study found that on contradiction of the audit evidence, the respondents said it is fair on the audit evidence while on risk assessment is moderate, audit complex moderate extent. The study found that statements describing the factors that influence the auditor's reported to a moderate extent were; risk assessment, auditor complexity, auditor transparency, auditors' independence on their work labor policies.

5.2 Conclusion

From the findings of the study, it can be concluded that auditors' opinions are fully influenced from various stakeholders and organization in question. Performance measurement system is moderate, despite the fact that it has effects in auditing opinions and job satisfaction. This is supported by the respondent's significant rating on factors that influence the auditor's reported opinion. The study also found that audit transparency, audit complex and auditors' independence were the most highly influences the auditors reporting opinion. There is needed to look at other aspects such as labor policies, relationship between the quality of financial information and the timelines with which it is reported.

5.3 Recommendations

Based on the study findings, it is recommended that auditors and stakeholders in question should be involved in the whole evaluation and reporting balanced audit process. Training should be organized for staff so that they learn more about the concept auditing in achieving the full benefits of the balanced report process. Effective and open communication with employees on the purpose and use of balanced report process as performance management system should be incorporated. Communicating with the employees in the right way will help them understand balanced audit report process and how they can use it to improve their performance and more so boost their job satisfaction.

5.3.2: Recommendation for Further Research

This study focused on the assessment of the factors that influence the auditor's reported balanced scorecard on employee job satisfaction at Co-operative Bank, it is therefore recommended that similar research should be replicated in other financial institutions who have implemented balanced audit process and the results be compared so as to establish whether there is consistency on the effects of balanced auditing process on organization and job satisfaction. The researches will greatly contribute to balanced scorecard, job satisfaction and performance management literature.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Section A: Background information *(please put an X in relevant box)*

1. What is your gender bracket?

Male ☐

Female ☐

2. How long have you being registered with ICPAK?

Less than 1 year ☐

1-5 years ☐

5-10 years ☐

Above 10 years ☐

Section B: Factors that influence auditor's opinion

3: How frequently do you contradict the audit evidence and reported otherwise

More often ☐

Often ☐

Less often ☐

Never ☐

4. How would you rate the genuineness of your work?

Excellent ☐

Good ☐

Fair ☐

Poor ☐

Very poor ☐

INHERENT RISK ASSESSMENTS

1) To what extent does an inherent risk assessment affect your work?

No extent at all []

Little extent []

Moderate extent []

Great extent []

Very great extent []

2) What is your level of agreement with the following statements that relate to the effect of inherent risk assessments on work?

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
The Auditors considers the role of risk assessment in the detection of errors.					
The Auditors have a good understanding of their auditee's business and therefore can accomplish risk assessment with relative ease					
Non-systematic transactions and organization characteristics are associated with the incidence of errors.					
Inherent risk at the auditors is difficult and costly to assess					
The Auditors begin the inherent risk evaluation process by generating expectations of accounts balances.					
There is a preference for qualitative risk assessment at the government ministries					
Auditors do not consider it appropriate to generate numerical estimates of risk on an account by account basis, but reason about The Auditors' financial statements using knowledge about changes in the government and/or The Auditors', management's motivations and prior track record.					

3) How significant are the following factors in influencing judgments of inherent risk?

	Very significant	Significant	Moderately significant	Slightly significant	Insignificant
Turnover of controllers					
Financing pressure in reporting					
The complexity of transactions and organizations system					
The quality and caliber of personnel responsible for reporting					

AUDIT COMPLEXITY

4) Audit complexity is one of the major factor that affect your work? To what extent do you agree with the statement?

No extent at all []

Little extent []

Moderate extent []

Great extent []

Very great extent []

5) What is your level of agreement with the following statements that relate to Audit complexity and its effect on your work? Use a scale of 1-5 where 5= strongly agree and 1 = strongly disagree

	5	4	3	2	1
As audit complexity increases, the auditor would need to spend more audit hours and allocate higher level of expertise to the engagement, thus resulting in higher audit fees.					
Audit fees increase in the number of organization's subsidiaries because of increased complexity that negatively affect the governance					
There is a positive relationship between risk based audit and the					

proportion of transactions.					
The number of segments is a proxy for audit complexity at the auditors that greatly impact on governance					

6) To what extent do the following aspects of risk based audit complexity affect governance at your organization?

No extent at all []

Little extent []

Moderate extent []

Great extent []

Very great extent []

7) To what extent do the following aspects of audit complexity affect your work?

	No extent at all	Little extent	Moderate extent	Great extent	Very great extent
Number of organization subsidiaries					
Proportion of transactions and levels of reporting within the organization					
Number of organization segments					

AUDIT TRANSPARENCY

8) To what extent does risk based audit transparency affect your work?

No extent at all []

Little extent []

Moderate extent []

Great extent []

Very great extent []



- 9) What is your extent of agreement with the following statements that relate to the influence of risk based audit transparency on your work? Use a scale of 1 to 5 where: 1 = No extent at all; 2 = little extent; 3 — Moderate extent; 4 = Great extent; 5 - A very great extent

	5	4	3	2	1
Risk based audit transparency is one element of good corporate governance					
Openness of governmental functions, to a country's economy is essential for the success of various aspects of corporate governance and financial reporting.					
One aspect of transparency is timeliness.					
It is better to disclose information sooner rather than later, although there are some tradeoffs.					
There is an inverse relationship between the quality of financial information and the timeliness with which it is reported					
Accounting information becomes less relevant with the passage of time					
Timely reporting of economic losses increases the contractual value of financial reporting and as a second order effect the informational value of the report is augmented.					
When there is higher outside investor protection, more of the asymmetric information problem can be resolved in The Auditors.					

- 10) To what extent do the following concepts of transparency affect your work?

	No extent at all	Little extent	Moderate extent	Great extent	Very great extent
Accuracy					
Consistency					
Appropriateness					
Completeness					
Clarity					
Timeliness					
Convenience					

AUDITING STANDARDS

11) To what extent does auditing standards affect your work?

No extent at all []

Little extent []

Moderate extent []

Great extent []

Very great extent []

12) What is your level of agreement with the following statement that relate to auditing standards and their effect on your opinion? Use a scale of 1-5 where 5= strongly agree and 1 = strongly disagree

	5	4	3	2	1
The importance of internal control and audit is aggravated even more after accounting firms are being sued by shareholders for their inability to detect fraud					
Compliance with Standardization can be used to reduce risks thus enhancing good governance					
Standardization can be substituted by other quality framework, such as National Quality Award that is better in enhancing good governance					

13) In your own opinion, how does auditing standards affect your work?

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Auditor independence

6: To what extent do you agree with the following statements on the influence of Auditor independence on auditor's reported opinion in condition where the opinion meant the contrary?

Key: 5 strongly agrees, 4 agree, 3 undecided, 2 disagree, 1 strongly disagree (please put an X as appropriate)

	1	2	3	4	5
Independence is the cornerstone of the auditing profession					
Large proportion of non-audit fees received by auditors from clients might reduce the objectivity of auditors in reporting audit results					
Provision of more non-audit services to a client increases the economic bond, leading to the impairment of an auditor's independence					
Auditors' independence is more likely to be impaired due to the large provision of non-audit fees received from audit clients					
As the responsibilities of internal auditors grow, so does the demand for greater accountability, independence and objectivity					

Organizational status

7: To what extent do you agree with the following statements on the influence of organizational status on auditor's reported opinion in condition where the opinion meant the contrary?

Key: 5 strongly agrees, 4 agree, 3 undecided, 2 disagree, 1 strongly disagree (please put an X as appropriate)

	1	2	3	4	5
Auditors can face considerable familiarity and social pressure threats stemming from their relationship with management					
Audit committees can be viewed as a key safeguard mechanism for auditors in managing their professional objectivity					
Composition of the audit committee is associated with the strength of the relationship between the audit function and the audit committee					
Audit committees comprised solely of independent directors had more frequent meetings and more private meetings with the chief internal auditor					

Existence of an effective audit committee had little impact on internal auditors' perceptions of their willingness to act objectively.					
Involvement of the audit committee in decisions to dismiss the chief internal auditor influence internal audit independence.					

Changing role of auditor

8: To what extent do you agree with the following statements on the influence of changing role of auditor on auditor's reported opinion in condition where the opinion meant the contrary?

Key: 5 strongly agrees, 4 agree, 3 undecided, 2 disagree, 1 strongly disagree (please put an X as appropriate)

Auditor's "role dilemma" which arises from the expectation that auditors will both assist management and independently evaluate management	1	2	3	4	5
The auditor will independently establish their own role and duties in line with established regulatory framework governing the profession					
The auditor is able to equip themselves with current global trends involving the profession					
The auditor is familiar with current communications involvement					
Compensation influence internal auditors' willingness to report to financial objectively					
The dual role of assurance provider and consultant can create bias and hence cause problems for audit objectivity					
Auditors who act as consultants may not be able to maintain their objectivity.					

Labour policies

9: To what extent do you agree with the following statements on the influence of management on auditor's reported opinion in condition where the opinion meant the contrary?

Key: 5 strongly agrees, 4 agree, 3 undecided, 2 disagree, 1 strongly disagree (please put an X as appropriate)

	1	2	3	4	5
Management influences operations, as well as the board of directors and even the auditing function					
Management, and not internal auditors, ultimately determines the orientation of the audit functions					
Executive and line management, by utilizing the audit function for these various extended roles, do not always appreciate the need for independence					
Dilemma is expressed by the argument that the audit function must add value to management, while at the same time not become its servant, and faithfully report on the status to the board or some other equivalent governing body					
The practice of earnings management has negative effects on the reliability and credibility of financial reporting					

Scope and Expectation

10: To what extent do you agree with the following statement on the effect of various trade policies on growth and development of Small & Medium Enterprises in Kenya?

Key: 5 strongly agrees, 4 agree, 3 undecided, 2 disagree, 1 strongly disagree (please put an X as appropriate)

	1	2	3	4	5
Audit failure does not occur if the auditor has followed International Auditing Standards and International Financial Reporting Standards, regardless of the fairness and accuracy of the financial statements					
A properly done audit does not guarantee that serious distortions of the financial statements have not occurred					
Auditors can commit fraud by knowingly issuing a more favorable audit report than is warranted due to auditor accepts a bribe or bows to client pressure or threats					
Auditors can be unduly influenced by having a direct or indirect financial interest in the client					
Auditors evaluate evidence in a selective fashion when they have a stake in reaching a particular conclusion					
Motivated reasoning leads to biased conclusions whenever there is sufficient ambiguity in the evidence to allow for a biased interpretation					

Determinants of the Auditor's Reported Opinion

11: What determines your reported opinion

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Section D: Challenges That the Auditor Experiences Which Influence the Auditors Opinion

What are the challenges that the auditor experiences which influence the auditors to deflate from the true audit opinion?

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How do you overcome the challenges influence the auditors to deflate from the true audit opinion?

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