

Audit Quality Attributes and Client Satisfaction in the Public Sector in Kenya

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**Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of
Master of Commerce at Strathmore University**

Strathmore University

Nairobi, Kenya

June, 2012

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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ABSTRACT

The study sought to determine if there exists a relationship between audit quality attributes previously identified in the academic literature and client satisfaction in the public sector in Kenya and the extent of the relationship if it did exist. To address this purpose, heads of accounting units in government ministries were surveyed using the research questionnaire. The audit quality attributes studied were: Responsiveness to the client's needs Interaction with the audit Committee and the Conduct of the audit process. The study found that there existed a strong positive relationship between both the responsiveness to the client's needs and the conduct of the audit process and client satisfaction both of which were significant. Relationship between interaction with audit committee and client satisfaction was found to be weak and positive. In addition, the heads of accounting units in government ministries provided several suggestions for improving the service quality of audits in the public sector. The most common suggestions were: the need for public sector auditors to acquire skills in technical areas and the need for the auditor to be conversant with the government's Integrated Financial Management Information System (IFMIS).

TABLE OF CONTENTS

DECLARATION	ii
LIST OF FIGURES	vi
ACKNOWLEDGEMENT	vii
DEDICATION	viii
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Kenya National Audit Office (KENAO)	2
1.1.2 Significance of Public Sector Audit.....	4
1.1.3 Audit Carried Out by Government Auditors	5
1.2 Statement of the Problem.....	6
1.3 Research Objectives.....	7
1.4 Research Questions	7
1.5 Scope of the Study	8
1.6 Research Justification	8
1.6.1 Government.....	8
1.6.2 Public/ Tax payers.....	9
1.6.3. Audit Profession.....	9
1.6.4. Development Partners.....	9
1.6.5. Academicians and Scholars.	9

CHAPTER TWO	10
LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Theoretical Frameworks	10
2.2.1 Audit Quality	10
2.2.2 Public Sector Audit.....	16
2.2.3 Client Satisfaction.....	17
2.2.4 Audit Quality and Client Satisfaction	18
2.3 Conceptual Framework of Audit quality attributes and client satisfaction.....	20
2.4 Operational Justification of Variables	21
CHAPTER THREE	24
RESEARCH METHODOLOGY.....	24
3.1 Introduction.....	24
3.2 Research Design.....	24
3.3 Study Population	24
3.5 Data Analysis and Presentation	25
CHAPTER FOUR.....	27
PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS	27
4.1 Introduction.....	27
4.2 Response Rate.....	27
4.3 General Information.....	28
4.4 Descriptive Statistics.....	29
4.4.1 Responsiveness	29
4.4.2: Audit Process	30

4.4.3: Audit Committee.....	31
4.5 Client Satisfaction.....	32
4.6 Regression Analysis.....	33
4.6.1 Pearson correlation test results	33
4.6.2 Regression Results	34
4.7 The relationship between client satisfaction and audit quality attributes	35
4.7.1. The correlation between Responsiveness and Client Satisfaction.....	35
4.7.2 The correlation between Conduct of the Audit Process and Client Satisfaction	35
4.7.3 The correlation between Audit Committee and Client Satisfaction	36
4.8 Other aspects of client satisfaction in the public sector in Kenya	37
CHAPTER FIVE	39
CONCLUSIONS AND RECOMMENDATIONS	39
5.1 Introduction.....	39
5.2 Conclusions and Implications	39
5.3 Recommendations.....	40
5.4 Recommendations for further research.	40
5.5 Limitations of the study.	41
5.6 Summary Conclusion.....	41
REFERENCES	41
APPENDICES	49
Appendix 1: Letter of Introduction	49
Appendix 2: Research Questionnaire.....	50
Appendix 3: List of Government Ministries in Kenya	53

LIST OF TABLES

Table 4.1: KENAO's Responsiveness.....	27
Table 4.2: KENAO's Audit Process.....	28
Table 4.3: Audit Committee.....	29
Table 4.4: Level of client satisfaction with KENAO's Audits.....	30
Table 4.5: Pearson correlation statistics.....	31
Table 4.6: Regression Results (Response is CLNTSAT on 3 predictors, with N=27)....	32
Table 4.7: Clients's suggestions on other audit quality attributes that will enhance their satisfaction.....	35

LIST OF FIGURES

Figure 2.1: Model of Audit quality attributes and client satisfaction	20
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ACKNOWLEDGEMENT

First and foremost, I wish to thank Almighty God for granting me the energy to carry out this study. Secondly, I wish to express my sincere gratitude to my supervisor, Dr. Freshia Mugo-Waweru whose advice, guidance and motivation has seen me through the proposal writing. Special thanks go to Dr. James Boyd McFie for his insightful comments on the original draft proposal. I also wish to thank the Master of Commerce Forensic Accounting class of 2009 for their critique of the first draft proposal. My sincere gratitude goes to my family members for their encouragement and understanding throughout the writing of this proposal. Finally, I wish to thank the entire Strathmore fraternity for giving me an enabling environment in preparing this proposal. Thanks to you all.

DEDICATION

I dedicate this work to my family that has been my inspiration.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The external audit environment is characterized by intense competition, fee pressure and slow growth as noted by Elliott and Jacobson (1994). For audit firms to compete and become successful in this environment, they have to continuously aim to meet client expectations and maximize client satisfaction. The challenge for audit firms is to understand the determinants of client satisfaction (Behn et al., 1997). The external audit environment from a government and public sector perspective is different from the private sector external audit environment, based on government structure, constitutional and legislative arrangements which may attract the question on whether the audit quality attributes displayed by private audit firms to satisfy their clients are applicable to public sector external audits. Government and public sector audits are the responsibility of Supreme Audit Institutions (SAI) whose basic role is to conduct audit and other assurance services that enhance public sector and government accountability (Clark et al., 2007). Public sector audits are crucial in ensuring that an unbroken chain of accountability exists between parliament and the government, including government agencies, authorities, companies and controlled entities (Funnell, 1997).

Over the years, approaches to government auditing have been changing in line with the changes in legislations. Autonomous Audit Institutions (AAI), traditionally referred to Supreme Audit Institutions (SAI), have progressively assumed a wide variety of roles, broadening the traditional narrow scope of their mandate (Santiso, 2006). They have taken on a new task and adopted new approaches to government auditing with increased emphasis on the economy, efficiency and effectiveness of public spending through performance and value for money audits (Santiso 2006).

Whilst the private sector audit environment displays some competitive characteristics despite the concentration of services within a few large audit service providers (Doogar and Easley, 1998; Knapp, 1990), the public sector external audit environment is basically monopolistic in nature. This is because Supreme Audit Institutions have been mandated

with the provision of audit and assurance services for government, government agencies and authorities, and other public sector entities within a specified jurisdiction. In the absence of competitive forces that may enhance certain audit quality attributes for private sector audit service providers, the monopolistic nature of public sector auditing may require that alternative audit quality attributes are sought after or are more relevant for SAIs. For example, audit quality indicators for private sector audit providers, such as audit firm size (that is, one of the “big 4” as distinct to “non-big 4”) (DeAngelo, 1981), industry specialisation (Craswell et al., 1995), and audit fee premium (Francis, 1984), may not be applicable to the external audit environment in the public sector.

The private sector audit environment in Kenya is partially characterized by undue pressure to issue a favourable audit opinion on the financial statements of their clients (Njuguna, 2008). The big 4 audit firms have collectively dominated the private sector in a bid to win and retain clients. Once a client is lost to a competitor audit firm, the firm reasons that a reduced fee is better than no fee at all and therefore the issue of the quality of audit services offered arises with regard to reduced audit fees. Regardless of the nature of the specific audit issues, the client will use pressure to achieve the primary goal of influencing certain third parties¹. In some instances, clients set unrealistic deadlines that may be challenging for the audit firms to meet and therefore the audit firms look for ways to satisfy the client regardless of the quality of audit services rendered. Another form of pressure experienced is fee pressure where clients shop for new auditor on price consideration only. Clients want audit firms to do more work for less audit fees. Chief finance officers operating in the same industry compare the audit fee against a benchmark of average fees paid by their peers to determine the cost of audit services regardless of the complexity of the work undertaken by the audit firm.

¹ Possible third parties that the client seeks to influence include potential investors, creditors, suppliers and government oversight agencies.

1.1.1 Kenya National Audit Office (KENAO)

The external audit function in the public sector Kenya is carried out by the Kenya National Audit Office (KENAO) also referred to as SAI, while in some countries the external audit body in the public sector is referred to as Autonomous Audit Agency (AAA). The KENAO draws its mandate from section 229 (4) of the Constitution of Kenya² and the Public Audit Act (PAA) 2003. It is headed by the Auditor General (AG) who is appointed by the President and may be removed from office under specific circumstances defined in the Constitution but only by the President on the recommendation of a tribunal. Under the PAA, the KENAO is mandated to audit all central government ministries and departments, local authorities, semi autonomous government agencies, special funds, extra budgetary funds and state corporations (PAA, 2003). The mandate covers all entities for which the holdings of government and other public corporations are more than half the total equity. The KENAO is independent of any other authority in carrying out its prescribed functions. In some circumstances the AG sub contracts the external audit function to private audit firms where sufficient capacity in KENAO is lacking. The enactment of the PAA 2003 in Kenya widened the scope of the KENAO to include performance audits. In 2005, the KENAO established departments to carry out value for money audits. However, the Auditor General has not released a report on value for money audits yet³.

Different institutional arrangements exist for organizing the external audit function which reflects different historical traditions. According to Stapenhurst and Titsworth (2001), there exist three types of ideal autonomous audit agencies:

The first model is the court model which is a collegiate court of auditors or tribunals of accounts with quasi-judicial powers in administrative matters often acting as an

² The constitution of Kenya 2010.

³ Value for money audit involves the audit of economy, efficiency and effectiveness of programmes initiated by the government. A report on the same has not been issued by the Auditor General and this could be because it is not a statutory requirement for the AG to report on performance audit.

administrative tribunal such as happens in France, Italy, Spain, Portugal, Brazil, and El Salvador.

The second model is the board model which is a collegiate decision making agency but without jurisdictional authority such as Germany, the Netherlands, Sweden, Argentina, Nicaragua.

The third model is the monocratic model which is a uninominal audit agency headed by a single auditor general and often acting as an auxiliary institution to the legislature. This model is prevalent in the US, UK, Canada, Chile, Colombia, Mexico, Peru. Kenya has adopted the monocratic model whereby the KENAO is headed by an auditor general who reports to parliament through the parliamentary public accounts committee.

1.1.2 Significance of Public Sector Audit

It is argued that the expansion of the public sector audit is one of the key areas in which controls over public sector activities have followed a common development path internationally within the Organization for Economic Co-operation and Development (OECD) countries (Scott, 2003). Supreme audit institutions including auditors general, courts of auditors and government or public sector auditors play a major role in the enhancement of government and public sector accountability as Clark, De Martins and Kapardis, 2007 noted. In addition, Sawyer (1995) further expounded that auditors leave every place they visit in better condition than they found them. This occurs through their examination of and reporting on the financial reports and records of the government, including government agencies, authorities, donor funded projects through the government and controlled entities (that is, the financial report audit). External auditing involves the periodic audit of financial statements of an organization or individuals with the objective of determining whether the accounting records presented are accurate and complete. Further, whether the financial statements were prepared in accordance with the provisions of the Generally Accepted Accounting Principles (GAAP). Another objective is to examine whether the financial statements prepared from the accounts present fairly an organization's financial position and the results of its operations. These objectives in

the public sector seek to foster fiscal responsibility, increase transparency and financial accountability matters, safeguard the integrity and improve the efficacy of public spending, so that public resources can be more effectively deployed to promote development and reduce poverty (Santiso, 2006)⁴.

1.1.3 Audit Carried Out by Government Auditors

The International Standards of Supreme Audit Institutions (ISSAI) 100 outlined the full scope of government auditing which includes regularity and performance audit⁵. The standard defined regularity audit as the attestation of financial accountability of accountable entities involving examination and evaluation of financial records and expression of opinions on financial statements, the audit of financial systems and transactions including an evaluation of compliance with applicable statutes and regulations and audit of internal control, internal audit function, the probity and propriety of administrative decisions taken within the entity that was being audited and reporting of any other matters arising from or relating to the audit. The standard further defined performance audit as the audit of economy of administrative activities in accordance with sound administrative principles and practices and management policies; efficiency of utilization of human, financial and other resources including examination of information systems, performance measures and monitoring arrangements and procedures followed by audited entities for remedying identified deficiencies and effectiveness of performance in relation to the achievement of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact.

⁴ The objectives of public sector audit across the world are similar and therefore include Kenya.

⁵ The ISSAIs are standards promulgated by the International Organization for Supreme Audit Institutions (INTOSAI) whose membership includes public sector audit organizations.

The audit of the public sector in Kenya has previously not covered the whole of central government. The Performance Evaluation and Financial Accountability (PEFA)⁶ evaluation of 2006 noted that the coverage was between 50% and 75%. According to the PEFA evaluation of 2009 the audit coverage increased to 100% as evidenced in annual reports. However, audit of local authorities has lagged behind due to lack of capacity for full annual audit coverage. The PEFA report further highlighted the achievements made in public sector audit through the use of approved auditing standards, improved training of auditors and use of computer aided auditing tools.

Despite of the achievements made the PEFA report of 2009 raised concerns on the quality of audits for some entities. For instance, the approach used in auditing donor funded projects, some state corporations and local authorities, the issuance (or lack) of management letters, the format and content of these letters and the practicability of some of the recommendations have been issues of concern. This study was therefore carried out to find out the audit quality attributes that would enhance client satisfaction in the public sector and to what extent the identified attributes enhanced client satisfaction.

1.2 Statement of the Problem

Previous researchers carried out studies on the attributes of audit quality (Carcello et al., 1992; Mock and Samet 1982; Schroeder et al.1986; Sutton 1993). However, it was not clear which aspects of audit quality actually drive client satisfaction. Behn et al., 1997 further extended the research by carrying out a study on the determinants of audit client satisfaction among clients of big 6 firms. Researches on audit quality and client satisfaction mainly focused on the private sector audit environment in developed countries leaving out the developing countries like Kenya. Further, research on public sector audits focused on audit quality and its attributes but has omitted the aspect of client satisfaction. In addition, studies on audit quality and client satisfaction focused on the private sector leaving out the public sector. Studies on audit quality and client satisfaction

⁶ PEFA is an organization funded by the European Union to carry out public financial management and performance assessment in developing countries.

in the public sector were therefore inconclusive as a result of country differences, legal, political and cultural differences. Further, these studies did not adequately inform us whether there existed a relationship between audit quality attributes and client satisfaction in the public sector in Kenya.

The nature of the public sector audit environment is different from the private sector audit environment. The public sector auditor is appointed by the government to audit public sector agencies at a fee set by the auditor. However, some agencies and in particular the agencies surveyed in this study do not pay audit fee for the audit services rendered. Although the public sector agencies do not have the privilege of appointing an auditor, there exists a possibility that if they are not satisfied with the quality of audit services rendered, then they can lobby the government to implement laws which can allow them appoint an auditor for themselves.

The PEFA Public Financial Management Performance Assessment Report for Kenya published in 2009 highlighted concerns on the quality of public sector audits. For instance the approach used in auditing, the quality of management letters and the practicability of some of the recommendations were issues of concern. This study was carried out to reduce the expectation gap between the public sector auditors and their clients.

1.3 Research Objectives

The main objective of this study was to examine if there existed a relationship between audit quality attributes previously identified in the academic literature and client satisfaction in the public sector in Kenya. The specific objectives of the study were as follows;

1. To examine the relationship between responsiveness to the client's needs and client satisfaction in the public sector in Kenya.
2. To examine the relationship between the conduct of the audit process and client satisfaction in the public sector in Kenya.

3. To examine the relationship between the interaction with the audit committee and client satisfaction in the public sector in Kenya.

1.4 Research Questions

The study sought to address the following research questions:

1. Whether there was a relationship between responsiveness and client satisfaction in the public sector in Kenya. If yes, what was the extent of the relationship?
2. Whether there was a relationship between audit committee and client satisfaction in the public sector in Kenya. If yes, what was the extent of the relationship?
3. Whether there was a relationship between the conduct of the audit process and client satisfaction in the public sector in Kenya. If yes, what was the extent of the relationship?

1.5 Scope of the Study

The study examined audit quality and client satisfaction in the public sector in Kenya by focusing on the audit quality attributes of responsiveness to client needs; interaction with audit committee and conduct of audit process. The study was limited to the central government section of the public sector (government ministries)⁷ since government ministries are exclusively audited by the KENAO unlike other government agencies whose audit is sometimes sub contracted to private audit firms. The study covered six year period of July 2004 to June 2010⁸.

⁷ The focus of study will be limited to the central government since the audit of central government is not usually sub contracted to the private auditors by the Auditor General.

⁸ The study period of six years is selected since the PAA,2003 was effected in January 2004 and government financial period is July to June, therefore the study period will cover July 2004-June 2005, July 2005-June 2006, July 2006-June 2007, July 2007-June 2008, June 2008-July 2009, June 2009-June 2010.

1.6 Research Justification

The study was of importance to the following stakeholders:

1.6.1 Government

The study was of importance to the government which has been entrusted by the public with resources to ensure that public services are delivered to citizens. The audit report enables the government to detect irregularities and inefficiencies involving the misuse of public funds and identify related weaknesses in management controls that may imperil the integrity of the government entity being audited and the effective implementation of budgetary and other policy decisions.

1.6.2 Public/ Tax payers

The study was of importance since state auditors are government employees and are remunerated from the public funds. The public and the tax payers would be interested to know whether public funds spent by the government are being utilized for the intended purposes.

1.6.3. Audit Profession

The study was useful to the public sector auditors as it highlighted the expectation gap between the auditor and client and how the gap can be reduced.

1.6.4. Development Partners

The study was useful to the development partners and donors interested in finding out how the funds that they had contributed towards financing of various projects through the government had been spent by reviewing audit reports. In addition, effective auditing builds donor confidence and support from the development partners who finance major development projects in the country development expenditure.

1.6.5. Academicians and Scholars

This study addressed an aspect of auditing funded by the government not previously studied and thus provided a basis for further studies in this field.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A review of related literature was presented in this chapter. This chapter focused on previous studies carried out on audit quality and client satisfaction. The chapter examined audit quality, public sector audit, client satisfaction and customer satisfaction and service quality. Further, previous studies and the theories supporting this study were documented, followed by a review of variables used, the conceptual framework and operationalization of the variables used in the study.

2.2 Theoretical Frameworks

2.2.1 Audit Quality

Audit quality is the probability that the auditor will both discover and report a breach in the client's accounting system (DeAngelo, 1980), and this depends on the auditor's technical capabilities and the auditor's independence (Ismail et al., 2007). Audit quality has been examined broadly and widely using various approaches. Researchers have carried out studies on different aspects related to audit quality by making reference to pricing differentials. Francis and Simon (1987) carried out a study on test of audit pricing in the small client segment of the US audit market. The purpose was to provide further evidence on audit pricing in the small client segment of the US audit market for publicly traded companies. The results of their findings were that a big eight price premium exists and that the premium exists with respect to both national firms and local/ regional firms. Previous studies have revealed that initial audit engagements are priced significantly lower than continuing engagement and this notion supports the report of price cutting behaviour. Simon, (1985) replicated earlier works on the association between audit fees, client size and complexity variables using data for the years 1978 to 1983. The results of his findings were that there existed a strong positive relationship between audit fees and non audit consulting fees. The finding further supported the model of audit fees a function of firm size and audit complexity variables. Other studies have examined audit

quality differences among types of firms and among individual firms using various measures of quality performance. Nicholas and Smith (1983) carried out a study on auditor credibility and auditor changes based on market model methodology used in event studies. The model involved examining whether positive abnormal returns accrue to firms which move from a non Big Eight audit firm to a Big Eight audit firm and negative abnormal returns accrue to firms which move in the other direction⁹. The analysis of the market reaction was in line with the market predictions, that is the market behaved in such a manner that it appeared to react generally positive to a change from a non Big Eight to a Big Eight auditor and vice versa. However, the magnitude of the difference in the generally positive reactions was not statistically significant. Shockley and Holt (1983) carried out a behavioural investigation of supplier differentiation in the market for audit services using multidimensional scaling to examine banker's comparison and ratings of Big Eight CPA firms. The finding of the study was that the class of purchasers of audit services can and does differentiate between the Big Eight audit firms. Bases for the differentiation of audit include audit firm, market share and perceptions of audit conservatism. Ettredge, Shane and Smith (1988) carried out a study on audit firm size and the association between reported earnings and security returns by investigating audit quality differential and employing a methodology that compares the correlations between earnings forecast errors and abnormal returns. The results were consistent with a quality difference between Big Eight and non Big Eight auditor although the significance levels were low. Imhoff, (1988) carried out a study on comparison of analysts accounting quality judgements among CPA firm's clients by examining the differences in accounting quality judgements by analysts for publicly held clients for major CPA firms. The results suggested that perceived accounting quality did not systematically differ by CPA firms and that the absence and that absence of systematic differences among CPA firms clients provides some evidence that accounting quality is relatively uniform among major CPA

⁹ The Big Eight audit firms existed in early eighties and they include; Arthur Andersen, Coopers and Lybrand, Deoitte Haskins and Sells, Ernst and Whinney, Peat Marwick Mitchell, Price Waterhouse, Touche Ross and Arthur Young. The audit firms merged during corporate mergers in mid eighties while others while others like Arthur Andersen were demised in corporate scandals.

firms. Wilson and Grimlund, (1990) examined the importance of an auditors reputation by looking at the effects of disciplinary actions by the Securities and Exchange Commission (SEC) pertaining to public accounting firms. The findings were that audit firms involved in disciplinary actions tend to lose market share relative to their competitors. They have more difficulty retaining clients than other public accounting firms. They are also less able to attract and retain clients in the state mentioned in the SEC enforcement release. Palmrose (1988) used litigation against firms to measure the quality of audits provided by individual audit firms.

The studies of Mock and Samet (1982) and Sutton and Lampe (1990) were similar in that they both relied on input from practicing auditors in developing a model to evaluate audit quality. Mock and Samet employed a hierarchical multi-attribute evaluation model to develop a list of attributes that could be used in evaluating audit quality. Sutton and Lampe relied on structured group processes in developing their audit quality evaluation model. Schroeder, Solomon and Vickrey (1986) surveyed audit committee chairpersons of the fortune 500 companies in the United States to determine how these individuals defined audit quality. Questionnaires were sent to the chairpersons asking them to rank fifteen factors mentioned in previous literature as affecting audit quality as to their perceived importance to audit quality. The study concluded that audit-team factors (partner/ manager involvement, independence of audit team members) were viewed as more important in determining audit quality than were firm wide factors (quality control procedures and regulatory agency experience of the firm). According to Schroeder et al. (1989), much of the auditing professions efforts to improve the quality of practice have been at firm wide level while little or no effort are directed at audit team members. Similar views were shared by Carcello, Hermanson and McGrath (1992).

There existed a major difficulty with determining the quality of the services provided by a given audit firm. The difficulty was that audit quality is not always directly observable, except in extreme cases such as court cases. Court cases were however at best a rough and usually inaccurate indication of audit quality (Chen, Shome, and Su (2001). This may not be applicable in the public sector in Kenya as litigation cases against the public sector auditor have not arisen. Audit quality was important in the rendering of audit services.

Prior research has examined the attributes of audit quality (Carcello et al. 1992; Sutton, 1993). However, the majority of previous research on auditing measured audit quality using the proxy of size, i.e. “big 6” and “non big 6” audit firms. Behn et al. (1997) introduced a new proxy for measuring audit quality by examining the attributes of audit quality that will determine client satisfaction.

The concept of audit quality appeared to have been changing over time. Traditionally many assumed that the quality of SAIs work was guaranteed by its status and authority that was the mandate from which the audit is carried out. This was linked to positivist assumptions that external social realities can be identified and recorded. The views were however questioned as Pollit (2000) put it ‘post positivist perspectives in their different ways challenge the notion that auditors or anyone else could just go out and examined some documents conduct some interviews perhaps conduct a survey that delivered an objective or still more ambitious scientific analysis. This was also challenged within some SAI, for instance at the Norwegian SAI. Changes in the skills and backgrounds of staff have brought about revised assumptions as to whether they can rely on their standing as a guarantee of quality (Gunvaldsen and Karlsen 1999). De Ruyter et al. (1998) found that poorly perceived service quality may also result in high service satisfaction for those customers who may not necessarily buy the highest quality service. Such customers may view convenience, price and availability as more important variables affecting overall service quality. Behn et al. (1997) and GAO (2003) found that attributes of audit quality are positively associated with client satisfaction.

Most of the attributes identified in previous studies as determinants of client satisfaction were adapted in this study with some minor changes arising due to the differences in the organization structure of both the KENAO and the clients as well as differences in the institutional environment.

Responsiveness to clients needs as an audit quality attribute is the willingness of the employees of the audit firm staff to assist clients and provide prompt service (Ismail et al., 2007). It involves working with clients to find better ways to meet their needs. Audit firms need to find out their clients expectations in order to meet them and maximize their

satisfaction. The findings of Behn et al. (1997) and Carcello et al. (1992) showed that responsiveness to clients needs was an important audit quality attribute to client satisfaction. On the contrary, the findings of Ismail et al. (2007) showed that responsiveness to clients needs was not an important audit quality attribute to client satisfaction among 500 public listed companies in Malaysia. The contradictory findings from previous researchers attracted the question of whether responsiveness as an audit quality attribute was an important attribute to client satisfaction in the public sector audit environment.

Audit committee was defined by the Auditor General of New Zealand as a committee of the public entity set up to advise the highest level of governance. In the case of the public sector, advice is given in a government department. In New Zealand, there existed no specific regulatory or legislative requirements for setting up audit committees in the public sector although there existed a number of explicit and implicit expectations of good governance that suggested very strongly that public entities operated an effective audit committee.

In Kenya, audit committees in government ministries were established through Treasury Circular No.16/2005 of 4th October, 2005 which outlined the mandate and guidelines to be followed in their establishment. Carcello et al. (1992) argued that involvement of audit committees required frequent communication between the audit team and the committee, besides the committee being knowledgeable and active. Carcello et al. (1992) further found that there existed a strong positive relationship between audit committee and client satisfaction among fortune 500 companies in the United States of America. The results were further supported by Behn et al. (2007)

Attributes relating to audit firm structure examined in previous studies were adjusted to correspond to the structure of the KENAO. Previous studies also included attributes relating to audit firm's involvement in the Securities and Exchange Commission (SEC) or some other US regulatory agencies. These attributes were not included in this study for their lack of relevance to the Kenyan public sector audit environment.

Several notable differences existed between the private audit firms and the KENAO which warranted further discussion. First, the central government section of the public sector which comprises of government ministries do not pay audit fees to the KENAO for the audit services rendered. The audit fees paid by the state corporations and other government agencies is determined by the KENAO and is not subject to negotiations with the client. As a result, the argument made by some researchers of lowering audit fee in order to retain the client which in turn lowers audit quality may not arise to a large extent.

Second the KENAO organization structure does not follow a partner- senior manager- manager- supervisor- audit trainee hierarchy as most private audit firms do. The KENAO organization structure has the highest position headed by the auditor general who is assisted by five deputy auditor generals who head various divisions within the firm i.e central government, state corporations, local authorities, specialized audit and finance, administration and human resource management.

In the ultimate analysis, the quality of audit services rendered was based on subjective judgement made by the individual clients. Consequently, it was important for auditors to possess or have an understanding of what the client perceive as being crucial to audit quality in order to satisfy the client. Further, the client in the public sector may have a different perception of audit quality from their counterpart in the private sector. The study was therefore carried out to help the researcher to understand the client's perception of audit quality in the public sector in Kenya.

Researches on audit quality carried out focused on the private sector audit firms with little focus on the public sector. In addition, most of the studies have been carried out in developed countries where there exist laws and regulations that are complied with, compared to developing countries where laws and regulations do exist but to a large extent are not complied with. This study therefore focused on audit quality in the public sector of a developing country (Kenya).

2.2.2 Public Sector Audit

Public sector audit allows SAI to be primarily responsible for the provision of audit and assurance services for government, government agencies and authorities and other public sector entities. Government auditing which is carried out together with internal control and evaluation consists of processes, procedures and mechanisms that are designed to ensure that planning, budgeting and the use of public resources conform to a country's laws, pursue the objectives defined by parliament and government. The mechanisms are linked to the real world of programme operations and without these mechanisms there is a considerable risk that policy decisions were be based on flawed information and those resources may be mismanaged or used inefficiently. Research has shown that public sector auditors have developed a range of approaches to provide assurance about the quality of audit services rendered throughout the audit process (Lonsdale and Mayne (2005). The approaches may be built into the way the public sector audit organizations were organized and run in terms of recruitment and training, be part of the performance audit process in terms of reference panels, use of outside experts and advisory committees, or be part of a quality review process after work is complete such as external reviews, client and auditee questionnaires. Public sector audit organizations were also seen in ways in which factual accuracy checks were built into the process of finalizing draft reports.

Some substantial questions were raised about the quality of reports within the expanding academic literature on audit. These focused for example on the limitations of methodologies used (Power, 1997) and duplication of focus and coverage of reports (Bowerman 1994) and whether effectiveness auditing was really practiced by most SAIs (Schwartz 1999). In Kenya, the Public Audit Act authorizes the Auditor General to carry out performance audits which includes effectiveness auditing. The auditor general has however not issued an audit report with regard to performance audit since the enactment of the Public Audit Act 2003.

2.2.3 Client Satisfaction

Client satisfaction was the most critical issue in most service industries. Satisfaction was defined as an emotional reaction to a product or service experience (Spreng et.al, 1996) and was generally associated with one particular transaction at a particular time. Yi (1990) mentioned that customer satisfaction was influenced by two factors; experience and expectations with service performance. Crosby, Evans and Cowles (1990) further demonstrated that customer's past satisfaction affected their decisions to have a continuing relationship with the service provider. Satisfaction in the public sector would mean that the public has confidence in the government that had been entrusted in management of its resources. Studies on client satisfaction have been carried out with a purpose of primarily ranking the big 6 firms on overall client satisfaction and on various other dimensions of satisfaction. A survey study was carried out in 1992 where Controllers and Chief Finance Officers were requested to assess audit firm performance and reputation in nine key areas; wide range of skills, good chemistry, understands our business, recognized industry expertise, offer practical advice, capable responsive staff, responds quickly to requests, give real value for their fees and proactive, takes initiative (Accounting today, 1992). Price Waterhouse Coopers (PWC), Arthur Anderson (AA), Ernst and Young and KPMG Peat Marwick were recognized for their excellence in various attributes.

Another study was carried out in 1994 where 310 corporate executives were requested to assess audit firm performance and reputation in nine key areas previously mentioned. Arthur Anderson emerged the overall winner for the client satisfaction title (Accounting today, 1994). A similar study was carried out in 1996 where chief finance officers were requested to assess audit firm performance in nine key areas. Ernst and Young edged out Arthur Anderson for the client satisfaction title (Accounting today, 1996). Most of the studies were carried out in developed countries in the private sector. It was not clear whether the results could be generalized to the public sector and to what extent the results could be generalized. Further, some of the key areas assessed may not be applicable in the public sector in Kenya. For instance real value for audit fee may be applicable in State Corporation and some government agencies. However, it may not be applicable in

the central government which covers government ministries since government ministries are not required to pay audit fees to the Auditor General for audit services rendered by the KENAO.

2.2.4 Audit Quality and Client Satisfaction

Customer satisfaction and service quality were and still are critical matters in most service industries and are even more important for financial service providers that offer generally undifferentiated products (Stafford et al. 1998). Marketing literature distinguished between the product quality and customer satisfaction. Hall and Elliott (1993) confirmed this statement when they stated that the service quality construct is typically viewed as being closely related to, yet distinct from the issue of satisfaction. Various researchers have carried out studies in relation to audit quality and client satisfaction. Carcello, Hermanson and McGrath (1992) carried out a study on audit quality attributes; the perceptions of audit partners, preparers and financial statement users by surveying high ranking auditors, preparers and users as a basis for comparing their perceptions of the underlying components of audit quality. Responses from 245 audit partners, 264 fortune 500 controllers and 120 sophisticated users were distilled into 12 salient components using factor analysis. The study concluded that characteristics related to members of the audit team were perceived to be more important to audit quality than characteristics related to audit firm. Factors perceived to be most important were: audit team and firm experience with client, industry expertise, conduct of audit process, interaction with audit committee, responsiveness to client's needs and compliance with standards.

Behn, Carcello, Hermanson and Hermanson (1997) carried out a study to investigate the relationship among client satisfaction, attributes of audit quality, auditor change and controller work experience among controllers of Fortune 1000 companies in the United States. They found that five components of audit quality had no significant relationship with client satisfaction. They were: technical competence in applying Generally Accepted Accounting Principles (GAAP) and Generally Accepted Auditing Standards (GAAS), due care, quality commitment, independence and ethical standards and accounting

knowledge of audit team members. These attributes were the foundation of auditing although they did not directly relate to client satisfaction as Behn et al., (1997) found out. This could mean that probably the clients expected auditors to perform well in these dimensions. Ismail, Haron, Ibrahim and Isa (2006) carried out a similar study to explore the relationship between audit service quality, client satisfaction and loyalty to audit firms among public listed companies in Malaysia and used a marketing model, SERVQUAL to analyze the results¹⁰. They concluded that the dimensions of tangibility, reliability and empathy were found to be statistically significant suggesting an increased level of satisfaction. However, responsiveness and assurance dimensions had negative coefficient meaning decreased level of satisfaction.

Customer satisfaction generally arose from an individual's comparison of perceived product performance compared with expectations for this performance. Satisfaction was indicated when expectations are exceeded (Oliver, 1980). Parasuraman *et al.* (1998) applied this conceptualization in the construction of SERVQUAL model to measure perceived service quality based on the difference between a consumer's expectations of service and the consumer's perception of actual performance. There were controversies on how service quality was measured. Some favored performance-only scores¹¹ (e.g. Bolton and Drew, 1991a, 1991b; Churchill and Surprenant, 1982; Cronin and Taylor, 1992; 1994), the complaint ratio might be an example of a performance score in the insurance industry, since it assesses company-level performance in reduction of complaints. Others favored difference scores¹² (Bolton and Drew, 1991a, 1991b; Brown and Swartz, 1989; Dabholkar *et al.*, 1996; Lee and Ulgado, 1997; Parasuraman *et al.*,

¹⁰ SERVQUAL is a model used for qualitatively exploring and assessing customer service experiences, used widely by service delivery organizations (Buttle, 1996).

¹¹ Performance-only scores is a method of measuring service quality where attributes of performance are identified and equated in form of ratios and ranked against a service.

¹² Measurement of customer satisfaction in marketing using difference in scores involves allocation of highest scores to consumers who are satisfied with quality received of a product and low scores to consumers who are dissatisfied with quality of product.

1988), of which the SERVQUAL paradigm was an example. Each approach was valuable; the question was how insurers might take steps to get better performance or difference scores, and it would appear that a dimensional investigation of the components of service quality would be the answer.

Research indicates that customer satisfaction and service quality were distinct, but interrelated concepts. Cronin and Taylor (1992) pointed out that this relationship was not clear; the confusion probably stems from their common link to the disconfirmation paradigm. Satisfaction was generally associated with one particular transaction at a particular time, and was defined as an emotional reaction to a product or service experience (Spreng *et al.*, 1996, p. 17), much like the discrete and emotional episodes of aggravation that form the basis for the complaint ratio. Service quality was considered to be more congruent with a long-term attitude (Bolton and Drew, 1991a; Parasuraman *et al.*, 1988). In sum, satisfaction was generally considered more experiential, transitory, and transaction-specific, while perceptions of service quality were believed to be more enduring.

2.3 Conceptual Framework of Audit quality attributes and client satisfaction

The study was guided by the following conceptual framework;

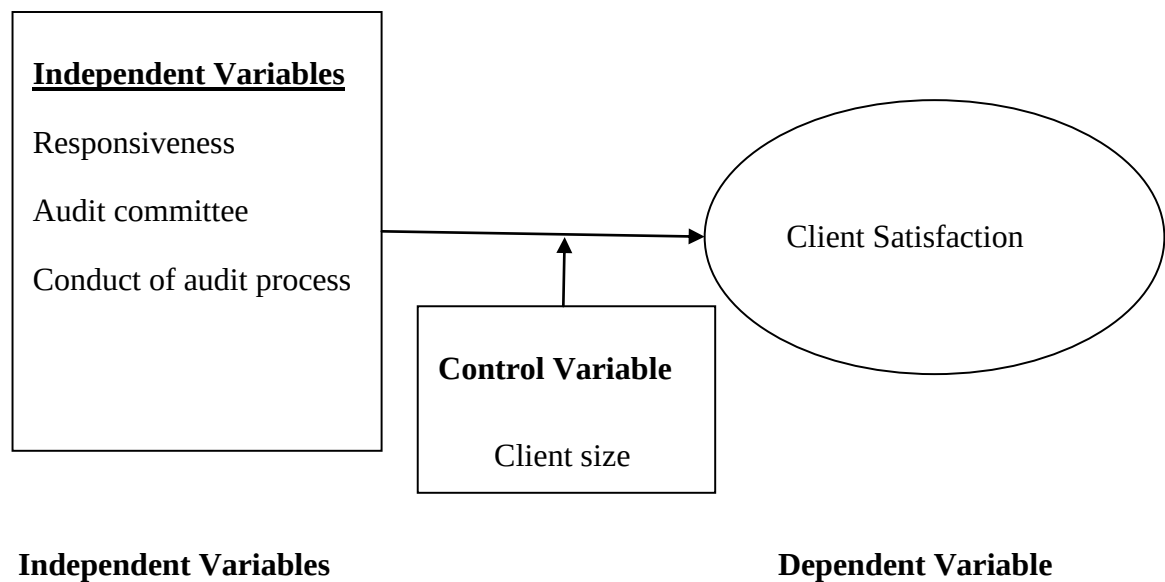


Figure 2.1: Model of Audit quality attributes and client satisfaction

The conceptual framework was represented by the following model;

$$CLNTSAT = f (RES, AC, CAP, CLNTSIZE)$$

The reduced form equation of the general model was as follows:

$$CLNTSAT_{it} = \alpha_0 + \beta_1 RES_{it} + \beta_2 AC_{it} + \beta_3 CAP_{it} + \beta_4 CLNTSIZE_{it} + \varepsilon_{it}$$

Where CLNTSAT=Client satisfaction

RES= Responsiveness

AC= Audit Committee

CAP= Conduct of Audit Process

CLNTSIZE=Client size

From the equation, the study hypothesized the relationship between client satisfaction and audit quality attributes of responsiveness, audit committee, conduct of audit process and client size to be positive.

The model was summarized in the following equation:

$$CLNTSAT_{it} = \alpha_0 + \sum_{t=1}^n \beta_t X_{it} + \varepsilon_i$$

Where: $CLNTSAT_{it}$: Client satisfaction i at time t ; $i=1, 2, 3 \dots 41$ government ministries

α_0 : The intercept of the equation.

β_t : The coefficients of X_{it} variables.

X_{it} : The independent variable i at time t .

t : the time period;

ε_i : Regression equation error term.

2.4 Operational Justification of Variables

The dependent variable in this study was the overall level of client satisfaction with regard to identified audit attributes. Ismail et al. (2006) measured the level of client satisfaction using one item that captured overall satisfaction of clients on an audit firm and client satisfaction on the services offered by the audit team on a five point likert scale (from 1-strongly disagree to 5- strongly agree). Behn et al., (1997) measured the level of client satisfaction using a five point likert scale. In this study, client satisfaction was expressed and measured in terms of: the quality of audit carried out by the KENAO, frequency of communication with the KENAO and the level of co-operation between the KENAO and its clients. The item was measured on a five point scale using likert scale response format: 5-Very satisfied, 4- Satisfied, 3- Neither satisfied nor dissatisfied, 2- Dissatisfied, 1- Very dissatisfied. The likert scale is easy to understand and traditionally reliable (Anderson et al., 1983). A scale of four and above was considered as acceptable level of satisfaction. The study further estimated a regression model using overall client satisfaction with the KENAO as the dependent variable.

Responsiveness was defined in the study as the willingness of the employees of the audit firm to assist clients and provide prompt service (Ismail et al. 2006). Responsiveness was expressed in terms of: the client receiving advisory services from the auditor, co-operation between the auditor and the client and the auditor discussing areas of weaknesses with the client. Findings by Carcello et al. (1992) and Behn et al. (1997) showed that responsiveness was a significant audit quality attribute to client satisfaction while the findings of Ismail et al. (2006) showed that responsiveness was not a significant audit quality attribute to client satisfaction. Due to the contradicting findings, this study sought to examine the relationship between responsiveness and client satisfaction in the public sector in Kenya. Responsiveness was measured using a five point likert scale as was used by Behn et al., 1997.

Audit committee was defined in the study as the effective and ongoing interactions between the auditor and the client. The variable was expressed in terms of: cordial relationship between the auditor and the audit committee, attendance of auditor to the

audit committee meetings and participation of the auditor in the audit committee meetings held by the client. Behn et al., (1997) found that there existed a weak positive relationship between audit committee and client satisfaction. The study hypothesized that a positive relationship existed between audit committee and client satisfaction in the public sector. Effectiveness and ongoing interactions with the audit committee in this study was measured on a five point likert scale where respondents were required to express their level of agreement with statements relating to audit committee.

Conduct of audit process was defined in the study as the audit approach adapted by the auditor when carrying out an audit in the premises of the client. Conduct of audit process was expressed in terms of: how conversant the auditor was with industry practises, auditor's knowledge about clients businesses, pre-engagement investigations and risk control procedures carried out by the auditor, extensive use of statistical techniques by the auditor and ethical standards of the auditor. Behn et al., 1997 found that conduct of audit had a strong positive relationship with client satisfaction. Conversely, Ismail et al. 2006 found that the relationship between conduct of audit and client satisfaction was weak. The researcher predicted a positive relationship between conduct of audit and client satisfaction. The attribute relating to conduct of audit process was measured on a five point likert scale as was used by Behn et al. 1997.

Client size referred to the size of the government ministry in terms of budget allocation. Ministries were classified as big spenders, and small spenders. Ministries with total budget allocation of above Kshs 10 billion per financial year were classified as big spenders while ministries with total budget allocation below Kshs 10 billion were classified as small. Client size was measured using binary numbers of 0 and 1 for big spenders and small spenders respectively. Ministries with high budget allocation posed a high audit risk and may receive more firm attention therefore larger clients may be more satisfied (Behn et al. 1997). Conversely, larger clients may have received superior service from professional advisors, as such may be less impressed and hence less satisfied with auditors performance. The study did not therefore predict any particular relationship between client size and client satisfaction.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section covers research design, population and sampling procedure, data collection procedure and data analysis and presentation.

3.2 Research Design

The study research was a census survey where both qualitative and quantitative methods were used to answer the research objectives. Qualitative data was analyzed to establish the major audit quality attributes of client satisfaction in the public sector in Kenya. Quantitative data was used to analyze values allocated to responses obtained from questionnaires and to establish the extent of the relationship between audit quality attributes and client satisfaction. Questionnaires were used to obtain the views of heads of accounting units in government ministries on their level of satisfaction with the external auditors in the public sector in Kenya.

3.3 Study Population

The study covered the entire population of 41 government ministries in Kenya (Appendix 3). Sampling was not done since the study population was small. Each ministry has an accounting department with accountants. The head of accounting department in each ministry filled the questionnaire in Appendix 2. Head of ministry's accounting department was the most appropriate individual to evaluate the performance of the external auditor from a client service and client satisfaction perspective since the auditor's mandate require a close working relationship with the accounting department. Further, the head of accounting department made follow up on ministry's annual financial statements, auditor general's reports and public accounts committee recommendations. In addition, the head of accounting department engaged auditors for the audit and non audit services.

The public sector in Kenya comprises the central government, distributed national government, Provincial and District level administration, local authorities, state-owned public enterprises, semiautonomous government entities as well as special funds. The study however covered the central government that is government ministries¹³ since the audit is exclusively carried out by the KENAO. Local authorities, state owned enterprises and semiautonomous government entities were not considered in this study since their audits are not exclusively carried out by the KENAO but are contracted out to private audit firms by the Auditor General.

3.4 Data Collection Procedures

The study made use of questionnaires which were developed as shown in Appendix 2. Using a five point Likert scale, the survey participants were required to evaluate the degree to which each audit quality attribute enhances client satisfaction. Survey questionnaires were divided in two parts and the likert scale was used to measure the clients' views; Part one sought to obtain the general information about the respondents. Part two comprised of questions that were specific to the research objectives. The questionnaires were hand delivered to the clients at their work stations. Ethical consideration was assured to enhance dignity, privacy and welfare of all participants. 27 out of 41 responses (65.9%) were received and were reviewed against the available literature to establish the audit quality attributes that are important to client satisfaction in the public sector in Kenya.

3.5 Data Analysis and Presentation

Data was analyzed using Statistical Program for the Social Sciences (SPSS). The descriptive statistics representing the respondents' bio data was used to compute statistical parameters of the mean and standard deviation and presented in form of a table. Regression analysis was used to establish further the quantitative associations of the

¹³ For the purpose of this research, a government ministry was defined as a government department which provides services to the public and is headed by a minister.

significant audit quality attributes to client satisfaction in the public sector in Kenya. The correlation coefficient results explained the type of relationship between the audit quality attributes and client satisfaction. The p-values explained the level of significance of the audit quality attributes at 95% confidence level. Comments from the views of the respondents were used to draw conclusions and recommendations on the other aspects of client satisfaction in the public sector in Kenya.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents the findings and discussion of the data on the relationship between audit quality attributes and client satisfaction with reference to the public sector in Kenya and the linkages with other empirical findings.

The chapter first addresses the preliminary analyses which include the response rate from the questionnaires and the general information on the respondents. The first objective on the relationship and extent of the relationship between responsiveness and client satisfaction in the public sector in Kenya was answered by sections 4.4.1 and 4.7.1 and discussed by Tables 4.2 and 4.7. The second objective on the relationship and the extent of the relationship between conduct of audit process and client satisfaction in the public sector was answered by sections 4.4.2 and 4.7.2 and discussed by Tables 4.3 and 4.7. The third objective on the relationship and extent of the relationship between audit committee and client satisfaction was answered by sections 4.4.3 and 4.7.3 and discussed by Tables 4.4 and 4.7. Other audit quality attributes which were not addressed in the literature review by other researchers but were found to be important were also been discussed in Table 4.8.

4.2 Response Rate

41 questionnaires were issued to the respondents but only 27 questionnaires were received fully completed making a response percent of 65.9%. The response rate was attributed to the data collection procedure, where the researcher personally administered questionnaires and waited for respondents to fill them and picked the filled questionnaires. The 34.1% of the questionnaires that were not returned were due to the respondents' unwillingness to respond to the survey and with follow-ups there was no positive response.

4.3 General Information

The study established the general information of the respondents since it formed the basis under which the study rightfully accessed the relevant information. The investigation centred on this information of the respondents so as to classify the different outcome according to their knowledge and responses as shown in Figure 4.1.

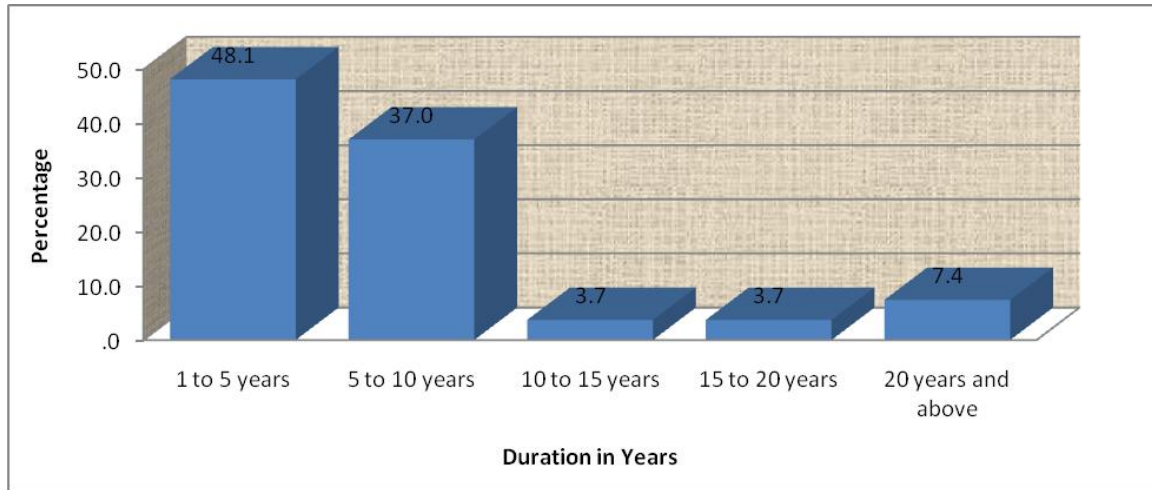


Figure 4.1: Duration of Working at the Ministry

As indicated in figure 4.1, most (48.1%) of the interviewed respondents indicated that they had been working in their respective ministry for a period of 1-5 years, 37.0% indicated that they have worked for a period between 5-10 years in their respective ministries. The respondents who worked for 20 years and above were 7.4%. Respondents who worked for 10-15 years and 15-20 years had a percentage of 3.7% each. These percentages were useful in giving information on the respondent's level of experience in the accounting department and to enable the researcher to assess whether the respondent has worked at the ministry long enough to be able to assess the respondent's level of satisfaction with the audit quality attributes. No notable differences in responses between the categories were noted in the study.

4.4 Descriptive Statistics

Descriptive statistics provided information on the level of importance of the audit quality attributes of responsiveness, conduct of audit process and audit committee to client satisfaction on a five point likert scale. Likert scale was used to capture the intensity of the respondent's feelings with regard to the audit quality attributes as follows: 1 represented strongly disagree, 2 represented disagree, 3 represented neutral, 4 represented agree and 5 represented strongly agree. The overall mean value calculated for each independent variable represents the level of importance of the variable to client satisfaction in the public sector in Kenya.

4.4.1 Responsiveness to the client's needs

The study established the level of importance of audit quality attribute of responsiveness to client satisfaction in the public sector in Kenya. The results of the study are shown in Table 4.1.

Table 4.1: KENAO's Responsiveness

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	STDEV
The client receives advisory services from the auditor.	0	0	5	17	5	4.00	.620
There is co-operation between the auditor and the client.	0	0	3	21	3	4.00	.480
The auditor discusses areas of weaknesses with the client.	1	0	3	18	5	3.96	.808
Overall responsiveness						4.00	.636

As shown in Table 4.1, the respondents expressed their feelings on KENAO responsiveness to clients needs. Advisory services received from the auditors and existence of co-operation between the auditor and the client were ranked high with a mean of 4.0. Discussions on areas of weaknesses with the clients had a mean of 3.96. The overall level of responsiveness was a mean of 4.00. This finding was below the mean

finding of Behn et al. (1997) who carried out a study on the determinants of audit client satisfaction among the clients of Big 6 firms in the USA and ranked the attribute of responsiveness as important with a mean of 4.29. However, the finding showed that responsiveness was an important audit quality attribute to client satisfaction.

4.4.2: Conduct of Audit Process

The study established the level of importance of audit quality attribute of conduct of audit process to client satisfaction in the public sector in Kenya. The results of the study are shown in Table 4.2.

Table 4.2: KENAO's Audit Process

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	STDEV
Audit team is conversant with industry practices	0	0	1	23	3	4.07	.385
Audit team members are knowledgeable about clients business	0	0	2	19	6	4.15	.534
Auditors conduct pre-engagement investigation and go through risk control procedures.	0	1	5	9	12	3.19	.879
Audit team makes extensive use of statistical techniques	0	7	10	10	0	3.15	.784
Auditors assigned to an engagement have very high ethical standards	0	3	9	11	4	3.59	.888
Overall conduct of the audit process						4.00	.694

As shown in Table 4.2 the respondents expressed their feelings on KENAO's audit process in the order of strongly disagree to strongly agree. It was established that audit team members were knowledgeable about their clients' business (mean of 4.15), audit team was conversant with industry practices (4.07), auditors assigned to an engagement had very high ethical standards (3.59), auditors conducted pre-engagement investigation and risk control procedures (3.19) and audit team made extensive use of statistical techniques (3.15). The overall conduct of audit process was 4.00. Although the mean was

below the findings of Behn et al. (1997) who found a mean of 4.08, the finding indicated that the KENAO audit process was an important audit quality attribute to client satisfaction.

4.4.3: Interaction with Audit Committee

The study established the level of importance of audit quality attribute of interaction with audit committee to client satisfaction in the public sector in Kenya. The results of the study are shown in Table 4.3.

Table 4.3: Audit Committee

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	STDEV
There exists a cordial relationship between the auditor and the audit committee.	0	0	7	19	1	3.78	.506
Auditor attends audit committee meetings held by the client.	3	7	8	7	2	2.93	1.141
Auditor participates in audit committee meetings held by the client.	1	7	1 1	6	2	3.04	.980
Overall audit committee						3.00	.875

Table 4.3 discussed the data findings on statements indicative of the relationship between KENAO auditors and clients' audit committee .Cordial relationship between the auditor and the audit committee had a mean of 3.78, auditor participation in audit committee meetings held by the client had a mean of 3.04 and auditor attendance in clients' audit committee meetings had a mean of 2.93. The overall audit committee mean was 3.00. This finding indicated that the respondents were neutral on whether the audit quality attribute of interaction with audit committee was an important attribute. This finding was inconsistent with the findings of Behn et al. (1997) and Carcello et al. (1992). Behn et al. (1997) carried out a study on the determinants of audit client satisfaction among the

clients of Big 6 firms in the USA and ranked the attribute of audit committee as important with a mean of 4.15. Carcello et al. (1992) carried out a study on audit quality attributes; the perceptions of audit partners, preparers and financial statement users and ranked the attribute of audit committee as important with a mean of 4.336.

The possible explanation for the inconsistency in mean findings could be attributed to the fact that the audit committees established in government ministries may not be very active in their role. There exist several institutions which have been established in the public sector with overlapping roles. For instance, the Efficiency Monitoring Unit (EMU), the Ethics and Anti Corruption Commission (EACC) and the Internal Audit department have the role of enhancing oversight, governance, accountability and transparency in the public service. For this reason, it may be concluded that audit committee may not be very active hence the role of the auditor in the audit committee not felt enough.

4.5 Client Satisfaction

The study sought to establish the level of client satisfaction in relation to the quality of audit work carried out by KENAO, the frequency of communication and the satisfaction with the level of co-operation between KENAO and its clients as shown in Table 4.4.

Table 4.4: Level of Client Satisfaction with KENAO's Audits

Statement	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied	Mean	STDEV
How satisfied are you with the quality of audit carried out by the KENAO	0	0	4	21	2	3.93	.474
How satisfied are you with the frequency of communication from the KENAO	1	1	3	17	5	3.89	.892
How satisfied are you with the level of co-operation between the KENAO and its clients	0	3	1	20	3	3.85	.770
Overall level of satisfaction						4.00	.712

As shown in Table 4.4, the respondents expressed their level of satisfaction with the KENAO audits. Satisfaction with the quality of audits carried out by the KENAO had a mean of 3.93, satisfaction with the frequency of communication from the KENAO had a mean of 3.89 and satisfaction with the level of co-operation between the KENAO and its clients had a mean of 3.85. The overall mean level of satisfaction was 4.00. Carcello et al. (1992) used a measurement of satisfaction level on a five point likert scale and established that a mean value of 3 and below indicated that the respondents are either dissatisfied or very dissatisfied while a mean value of 4 and above indicated that the respondents are either satisfied or very satisfied. The researcher's finding of mean of 4.00 therefore indicated that the respondents were satisfied with the audits carried out by the KENAO.

4.6 Regression Analysis

Logistic regression model was used in the study to establish the extent of the relationship between the audit quality attributes and client satisfaction in the public sector in Kenya.

4.6.1 Pearson correlation test results

The study used Pearson correlation to measure the degree of association between the different variables under consideration (Andres & Vallelado, 2008). As preliminary test

for multicollinearity, Pearson correlation was conducted among the model's independent variables. The test results of Pearson correlations were presented in Table 4.5.

Table 4.5: Pearson correlation statistics

		Audit Process	Responsiveness	Audit Committee
Client Satisfaction	Pearson Correlation			
Audit Process	Pearson Correlation	1		
	Sig. (2-tailed)			
Responsiveness	Pearson Correlation	.288	1	
	Sig. (2-tailed)	.145		
Audit Committee	Pearson Correlation	.466	.296	1
	Sig. (2-tailed)	.214	.134	
	N	27	27	27

* Correlation is significant at the 0.05 level (2-tailed).

As shown in Table 4.5, correlation results between audit process and responsiveness was 0.288 while with audit committee was 0.466. Correlation between responsiveness and audit committee was 0.296. Although the results depicted low degrees of association among variables, this depicts lack of multi collinearity.

4.6.2 Regression Results

Regression results are shown in Table 4.6 below. Correlation coefficient established the type of the relationship while the p-value established the extent of the type of relationship between the audit quality attribute and client satisfaction.

Table 4.6 Regression Results (Response is CLNTSAT on 3 predictors, with N=27)

	Correlation coefficient	P-Value	T-statistic
Constant	0.076		
Responsiveness	0.684	0.000*	2.479
Conduct of Audit	0.642	0.001*	0.955
Audit committee	0.421	0.008*	0.987

R-Sq 58.09%

R-Sq (Adj) 57.72%

*Note: * Indicates significance at the 1% significance level*

*** Indicates significance at the 5% significance level*

**** Indicates significance at the 10% significance level*

4.7 The relationship between client satisfaction and audit quality attributes

4.7.1. The correlation between Responsiveness and Client Satisfaction

One of the objectives of the study was to establish if there exists a relationship between responsiveness and client satisfaction in the public sector in Kenya. As indicated in Table 4.6 of the regression results, responsiveness was noted to have a strong positive relationship with client satisfaction in the public sector in Kenya. This relationship was significant at 95% level, with $p=0.000$. This meant that an increase in responsiveness to clients needs by one unit led to a corresponding increase in client satisfaction by 0.684 units holding other factors constant.

This finding was consistent with that of Behn et al. (1997), which found that the relationship between responsiveness and client satisfaction was strong and positive among clients of Big 6 firms in the USA. The findings also corresponded to that of the study conducted by Carcello et al. (1992) on Audit Quality Attributes: The perceptions of audit partners, preparers and financial statement users that found a positive relationship between responsiveness and preparers. However, the results contradicted the findings of the study carried out by Ismail et al. (2007) on service quality, client satisfaction and loyalty towards audit firms who found that a negative relationship existed between responsiveness and client satisfaction among 500 public listed companies in Bursa Saham Malaysia.

4.7.2 The correlation between Conduct of the Audit Process and Client Satisfaction

Another objective of the study was to establish the relationship between audit process and client satisfaction in the public sector Kenya. As indicated in Table 4.6 of the regression results, conduct of audit process was noted to have a strong positive relationship with client satisfaction with a level of significance of $p=0.001$. This meant that an increase in conduct of audit process by one unit led to a corresponding increase in client satisfaction by 0.642 units, holding all other factors constant.

This finding was consistent with that of Behn et al. (1997), which found that the relationship between conduct of audit process and client satisfaction was strong and positive among clients of Big 6 firms in the USA. The findings also correspond to that of the study conducted by Carcello et al. (1992) on Audit Quality Attributes: The perceptions of audit partners, preparers and financial statement users that found a positive relationship between conduct of audit process and preparers. However, the results contradict the findings of the study carried out by Ismail et al. (2007) on service quality, client satisfaction and loyalty towards audit firms who found that a negative relationship existed between conduct of audit process and client satisfaction among 500 public listed companies in Bursa Saham Malaysia.

4.7.3 The correlation between Audit Committee and Client Satisfaction

The objective of the study was to establish the relationship between interaction with audit committee and client satisfaction in the public sector in Kenya. As indicated in Table 4.6 of the regression results, interaction with audit committee is noted to have a weak positive relationship with client satisfaction with a level of significance of $p=0.008$. This meant that an increase in interaction with audit committee by one unit led to a corresponding increase in client satisfaction by 0.421 units, holding all other factors constant.

This finding was inconsistent with that of Behn et al. (1997), which found that the relationship between interaction with audit committee and client satisfaction was strong and positive among clients of Big 6 firms in the USA. The finding was also inconsistent

with the study conducted by Carcello et al. (1992) on Audit Quality Attributes: The perceptions of audit partners, preparers and financial statement users that found a positive relationship between conduct of audit process and preparers.

The possible explanation for the variation in the findings of the study was the fact that the public sector operates in a sort of controlled environment whereby instructions are issued from the Treasury to government ministries through treasury circulars which are specific on the establishment, composition and operations of audit committees. The circulars were however silent on the role played by the external auditor.

The study found the regression model to be strong, suggesting that the results of the process had a high level of validity. The R-Sq (adjusted), which is 57.72% points that the regression model explained the nature and the extent of the relationship that exists between the audit quality attributes and client satisfaction in the public sector in Kenya. This means that about 57.72% of the level of client satisfaction could be explained by the audit quality attributes resulting from the regression process. This was contrary to the researcher's expectation of at least 70% of the level of client satisfaction to be explained by the audit quality attributes studied. The possible explanation for the difference in the expected R-Sq (adjusted) and the R-Sq (adjusted) found in the study could be attributed to the fact that the respondents did not strongly agree but generally agreed on the importance of the audit quality attributes of responsiveness and conduct of audit process to client satisfaction. Further, the respondents were neutral with regard to the importance of audit committee to client satisfaction. About 42.28% of variation in level of client satisfaction could possibly be explained by the other aspects of client satisfaction as discussed in Table 4.7.

4.8 Other aspects of client satisfaction in the public sector in Kenya

Table 4.7 below outlines other audit quality attributes that would enhance client satisfaction in the public sector in Kenya which were not discussed by previous researchers but were found to be an important aspect of client satisfaction.

Table 4.7 Client's suggestions on other audit quality attributes that will enhance their satisfaction.

<u>Suggestion mentioned item</u>	<u>Clients % N=27</u>
Acquisition of skills in technical areas	25.9
Conversant with IFMIS used by the government	22.3
Enhance ethical standards and integrity	14.8
Enhance client co-operation when auditing	11.1
Do more on performance audit	7.4
Improvement in Information technology	7.4
Enhance level of independence and practice results based management audit	3.7
Due care during audit and be on forefront in instituting change in Government financial procedures	3.7
Emphasis to systems audit and increased frequency of meetings after every audit	3.7

As shown in Table 4.7, majority (25.9%) of the respondents felt that the auditor needs to acquire more skills in technical areas especially the donor funded projects implemented by the government. Further, 22.3% of the respondents felt that the auditor needs to be more conversant with the Integrated Financial Management Information System (IFMIS) used by the government in order to advise on the shortcomings of the system. Other respondents (14.8%) felt that the auditor should enhance his/ her ethical standards and integrity and 11.1% of the respondents felt that the auditor should enhance client co-operation when auditing.

Other audit quality attributes that the respondents felt could enhance their satisfaction included: emphasis to systems audit and increased frequency of meetings after every audit, due care during the audit and the auditor to be at the forefront in instituting change

in government financial procedures, enhance level of independence and practice results based management audit and do more on performance audit.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights the conclusions and implications based on the findings of the study. In addition, the recommendations for further research were presented. Some of the challenges encountered during the study and how they were overcome were also provided.

5.2 Conclusions and Implications

Based on the findings of the study, the following conclusions were made

The study established that there existed a strong positive relationship between audit quality attribute of responsiveness and client satisfaction in the public sector in Kenya. This was interpreted to mean that when the auditor enquires from the client about the client's needs and fulfils the needs then the client gets satisfied. The study therefore concluded that communication between the auditor and the client and their relationship play a key role in client satisfaction. Responsiveness calls for the auditor to have good listening skills in order to understand the needs of the client and meet them.

The study also established that there existed a strong positive relationship between audit quality attribute of Conduct of audit process and client satisfaction in the public sector in Kenya. This was interpreted to mean that the client is satisfied with the auditor's processes of planning the audit, execution and reporting on audit findings. The study therefore concluded that technical capabilities are vital in the conduct of audit process. An auditor needs to be technically capable of planning, executing and reporting on audit findings.

The study further established that there existed a positive relationship between the audit quality attribute of interaction with audit committee and client satisfaction in the public sector in Kenya. However, the strength of the relationship was a weak and positive one which was contrary to the findings of Carcello et al., (1992) and Behn et al.,(1997) who

found a strong positive relationship between audit quality attribute of interaction with audit committee and client satisfaction among clients of the Big 6 audit firms in the US. The possible explanation for the variation in the findings of the study was the fact that the public sector operates in a sort of controlled environment whereby instructions are issued from the Treasury to government ministries through treasury circulars on the establishment and operations of audit committees.

The auditor is in a position to give an audit opinion. However, clients want more than an audit opinion, therefore, the challenge is for the public sector auditor to meet the needs of the client and increase their level of client satisfaction.

5.3 Recommendations

Based on the findings of the study, if there is to be an effective relationship between the auditor and the audit committee, there is need to establish an unrestricted and frank exchange of information about sensitive issues and emerging risks to an organization. The study recommended that auditor be further trained on the technical areas in the public sector specifically the donor funded projects, performance audit and the Integrated financial management information system (IFMIS) used by the government. The study also recommends that the KENAO needed to improve on their relationship with client's audit committee by opening up communication between the auditor and the audit committee and learning more on the client's expectations with regard to services received by the auditor.

5.4 Recommendations for further research

Further study can be carried out on audit quality determinants in private audit firms that have been contracted by the KENAO to assist in public sector audits. Further research can be carried out on audit quality attributes and client satisfaction in the private sector and the results compared with the study to find out whether the expectations of the clients in the public sector are similar to the expectations of clients in the private sector.

Further research can also be carried on the audit quality attributes highlighted by the respondents that enhance client satisfaction in the public sector and the extent to which the attributes enhance client satisfaction.

5.5 Limitations of the study

There was a problem in data collection period. The researcher had anticipated collecting data within a period of one month, however, the actual data collection period was two months due to unavailability of some respondents. However, the researcher made numerous trips to administer the questionnaires and waited for the respondents to fill them.

There was also a problem in the control variable. The study considered only one control variable which was incorporated in the study although there may be other control variables. However, the control variable incorporated in the study was a key control variable.

5.6 Summary Conclusion

From the findings, it was concluded that the KENAO's clients which are the government ministries in Kenya were generally satisfied with the services received from the auditor. This was with respect to the audit quality attributes of responsiveness to client's needs and conduct of audit process. However, the KENAO's clients were indifferent with respect to KENAO's level of interaction with client's audit committee. This poses as a challenge for the KENAO to interact more with the audit committee and seek ways that will improve the overall service quality in the public sector. In addition, the clients want the auditor to acquire more skills in technical areas especially with regard to donor funded projects and be conversant with the government financial management system in order to reduce their level of satisfaction.

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APPENDICES

Appendix 1: Letter of Introduction

Dear Respondent,

RE: REQUEST TO SEEK RESPONSE ON AUDIT QUALITY AND CLIENT SATISFACTION IN THE PUBLIC SECTOR IN KENYA SURVEY QUESTIONNAIRE.

I am a student of Strathmore University pursuing a Master of Commerce Degree.

I am carrying out a research on Audit Quality and Client Satisfaction in the Public Sector in Kenya. Strathmore University requires graduate students to carry out a research thesis for a partial fulfillment of the master of commerce degree program. The study aims to find out whether there exists a relationship between audit quality and client satisfaction in the public sector in Kenya and suggest ways of improving audit quality in the public sector.

I kindly request you to carefully read each question and answer them, and comment where necessary. It will be appreciated if you would help in the completion of the questionnaires within the shortest possible time.

The study will be solely conducted as an academic research and information you provide will be treated with utmost care and in strict confidence. Ethical principles will be adhered to ensure confidentiality and the results of the study will not include reference to any other individual or organization. However, you can obtain the findings of the research on request. For further information, kindly contact the researcher on e-mail graceowendo@yahoo.com or on phone +254 722 392 778. Thank you for your cooperation.

Grace .A. Atila

Appendix 2: Research Questionnaire

AUDIT QUALITY ATTRIBUTES AND CLIENT SATISFACTION IN THE PUBLIC SECTOR IN KENYA.

This questionnaire consists of two sections A and section B. Section A consists of items on the personal information of the respondents and section B consist of items pertaining to the area of study.

PERSONAL INFORMATION

Please read the following items comprehensively and give your response. Some responses may require you to tick (✓) the check box alongside the appropriate answers.

1. Which ministry do you work for?

.....
.....

2. How long have you worked in the ministry?

1 to 5 years ☐

5 to 10 years ☐

10 to 15 years ☐

15 to 20 years ☐

20 years and above ☐

SECTION A

Please indicate the extent to which you are satisfied or dissatisfied and agree or disagree with each of the following statements by placing a “✓ or x” on the scale provided. The scale should be treated as a continuous range from ‘very satisfied’ to ‘very dissatisfied’ and ‘strongly agree’ to ‘strongly disagree’.

Statement on Client satisfaction	Very Satisfied	Satisfied	Neither Satisfied Nor Dissatisfied	Dissatisfied	Very Dissatisfied
Client Satisfaction					
a) How satisfied are you with the quality of audit carried out by the KENAO?					
b) How satisfied are you with the frequency of communication from the KENAO?					
c) How satisfied are you with the level of co-operation between the KENAO and its clients?					
Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Conduct of audit process					
d) Audit team is conversant with industry practises.					
e) Audit team members are knowledgeable about clients business					
f) Auditors conduct pre-engagement investigation and go through risk control procedures.					
g) Audit team makes extensive use of statistical techniques.					
h) Auditors assigned to an engagement have very high ethical standards.					
Responsiveness					
i) The client receives advisory services from the auditor.					
j) There is co-operation between the auditor and the client.					
k) The auditor discusses areas of weaknesses with the client.					
Audit committee					
l) There exists a cordial relationship between the auditor and the audit committee.					
m) Auditor attends audit committee meetings held by the client.					
n) Auditor participates in audit committee meetings held by the client.					

SECTION B

1. What other audit quality attribute do you think will enhance your satisfaction with the external auditor?

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THANK YOU FOR YOUR TIME

Appendix 3: List of Government Ministries in Kenya

1. Ministry of Agriculture
2. Ministry of Co-operatives Development and Marketing
3. Ministry of East African Community
4. Ministry of Education
5. Ministry of Energy
6. Ministry of Environment and Mineral Resources
7. Ministry of Finance
8. Ministry of Fisheries Development
9. Ministry of Foreign Affairs
10. Ministry of Forestry and Wildlife Services
11. Ministry of Gender , Children and Social Development
12. Ministry of Higher Education, Science Technology
13. Ministry of Home Affairs
14. Ministry of Housing
15. Ministry of Industrialization
16. Ministry of Information and Communication
17. Ministry of Justice, National Cohesion and Constitutional Affairs
18. Ministry of Labour and Human Resource Development
19. Ministry of Lands
20. Ministry of Livestock Development
21. Ministry of Local Government
22. Ministry of Medical Services
23. Ministry of Nairobi Metropolitan Development
24. Ministry of Public Health and Sanitation
25. Ministry of Public Works
26. Ministry of Regional Development Authorities
27. Ministry of Roads
28. Ministry of Special Programmes

29. Ministry of State for Planning, National Development and Vision twenty
thirty
30. Ministry of State for Public Service
31. Ministry of State for Provincial Administration and Internal Security
32. Ministry of State for Defence
33. Ministry of State for Immigration and Registration of Persons
34. Ministry of State for Northern Kenya Development and Semi Arid Lands
35. Ministry of State for National Heritage and Culture
36. Ministry of Tourism
37. Ministry of Trade
38. Ministry of Transport
39. Ministry of Water and Irrigation
40. Ministry of Youth and Sports
41. Office of the Prime Minister