

**The Audit Performance Gap of NSE Listed Companies: An Analysis of Client
Expectations and Perceptions of Auditing Services**

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ABSTRACT

The main objective of this research was to establish if an audit performance gap exists for public listed companies in Kenya. The gap considered was that between client expectations of auditing and client perceptions of the performance of audit firms. The study targeted NSE listed companies because they are mainly audited by the top four audit firms in Kenya. These firms are regarded as offering superior auditing services. The research sought to establish whether client expectations of auditing are being met and to determine how audit firms can improve their service offerings.

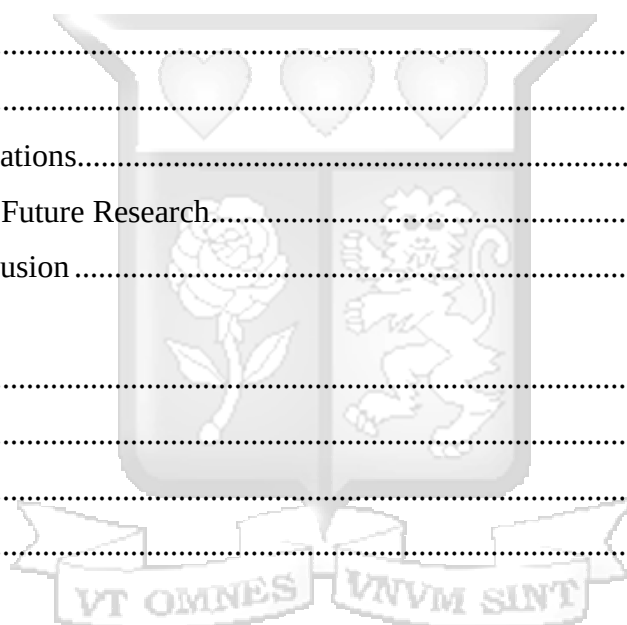
Based on the data collected the researcher found that a narrow audit performance gap does indeed exist; client expectations are not being met. However, client expectations were found to be more reasonable than those of other stakeholders of financial information such as the public in particular. In order to reduce the performance gap the researcher suggested that clients need to be better educated on the scope of auditor responsibilities as some of their expectations were found to be wide of auditor responsibilities. Auditor training and further studies can also help improve auditor skills and in doing so help reduce the expectation gaps.

The limitations of auditing have enhanced the need for more fraud examiners and forensic accounting services. These can help improve fraud prevention and detection while reducing stakeholders' expectations of auditors. The research findings are of importance to audit firms as they highlighted the most important client expectations of auditing services as well as the expectations which are not being met. These findings are important as they will inform audit firms on how they can improve their services. The underlying theory of the research was the agency theory.

TABLE OF CONTENTS

ACKNOWLEDGEMENT	i
ABSTRACT	ii
LIST OF TABLES	v
LIST OF FIGURES	vi
LIST OF ABBREVIATIONS	vii
 CHAPTER ONE: INTRODUCTION	 1
1.1 Background of Research	1
1.2 Problem Statement	3
1.3 Research Objectives	4
1.3.1 Main Objective	4
1.3.2 Specific Objectives	4
1.4 Research Questions	4
1.5 The Scope of the Study	4
1.6 Justification for the Study	5
 CHAPTER TWO: LITERATURE REVIEW	 6
2.1 Introduction	6
2.2 Auditing Environment in Kenya	6
2.3 Fraud	7
2.4 Corporate Financial Failures in Kenya	8
2.5 Theoretical Review	9
2.6 Previous Studies on Audit Expectation and Audit Performance Gap	10
2.6.1 Gaps in Extant Literature	13
 CHAPTER THREE: RESEARCH METHODOLOGY	 15
3.1 Introduction	15
3.2 The Research Design	15
3.3 Population	15
3.4 Data Description and Data Collection Methods	15
3.5 Data Analysis	17

CHAPTER FOUR: RESEARCH FINDINGS	19
4.1 Introduction	19
4.2 Response Rate	19
4.3 Demographic Information	19
4.4 Data Collection Method	20
4.5 Reliability Analysis	22
4.7 Audit Performance Gap for NSE Listed Companies	25
4.8 Suggestions for Improving Auditing Services	27
CHAPTER FIVE: DISCUSSIONS AND CONCLUSION	29
5.1 Introduction	29
5.2 Discussions.....	29
5.3 Conclusion.....	30
5.4 Research Implications.....	31
5.5 Limitations and Future Research.....	31
5.6 Summary Conclusion	32
REFERENCES	33
APPENDIX 1.....	38
APPENDIX 2.....	41
APPENDIX 3.....	45



LIST OF TABLES

Table 4.1: General Research Demographic Information (a)	19
Table 4.2: General Research Demographic Information (b)	20
Table 4.3: General Research Demographic Information (c)	20
Table 4.4: Questionnaire Item Numbering and Details.....	21
Table 4.5: Audit Dimensions and Corresponding Questionnaire Items.....	22
Table 4.6: Cronbach Scores for Items.....	23
Table 4.7: Mean Scores and Rankings for Client Expectations and Client Perceptions of Auditing Services	24
Table 4.8: Audit Performance Gaps for Auditing Services.....	26



LIST OF FIGURES

Figure 1: Conceptual Framework of the Research.....	14
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LIST OF ABBREVIATIONS

ACFE	The Kenyan chapter of the Association of Certified Fraud Examiners
KASNEB	Kenya Accountants and Secretaries National Examinations Board
NSE	Nairobi Securities Exchange
PwC	PriceWaterhouseCoopers
ICPAK	Institute of Certified Public Accountants of Kenya
GAAP	Generally Accepted Accounting Principles
BOD	Board of Directors
SPSS	Statistical Package for Social Sciences
CMA	Capital Markets Authority
UK	United Kingdom
NZ	New Zealand



CHAPTER ONE

INTRODUCTION

1.1 Background of Research

Financial statement audit involves the accumulation and evaluation of evidence to determine if financial statements are in accordance with generally accepted accounting principles (GAAP) (Ismail, Haron, Ibrahim, & Isa, 2006). The audit is carried out on the financial statements of a company, organisation, a legal entity, or a government entity. Users of financial information rely on auditors to provide an unbiased and independent audit report (Lee, 2007). Therefore, auditing enables companies to meet their objectives through a systematic and disciplined approach (James, 2003). Users of financial information include shareholders, investors, government agencies and the public.

The auditing profession in Kenya is regulated by the Institute of Certified Public Accountants of Kenya (ICPAK). ICPAK was established in 1978 by the Accountants Act CAP 531 (ICPAK, 2014). In order to take into account the various developments in the accounting profession both globally and in Kenya a new Accountants Act No. 15 was enacted in 2008 to replace the 1978 Accountants Act. In order to meet its objectives ICPAK has developed a code of ethics to guide its members. It also defines the manner of appointment as well as the format of reporting by auditors.

As businesses grow and become more complex it becomes harder to supervise large numbers of employees. This makes it easier for employees to commit fraud. Employees gradually learn more about the organisation and with time identify weaknesses and gaps in internal controls (Coenen, 2008).

Corporate failures in Kenya have negatively affected client, investor, and public confidence in audit firms (Thiong'o, 2014). It can be difficult to determine whether an audit firm is aware of financial mis-statements and if they issue opinions without obtaining sufficient information. It also raises questions on the role of auditors in detecting financial mis-management. These scandals have had a devastating effect on the lives of employees, investors, and managers. They have also harmed the reputation of auditors and analysts. The top audit firms rely greatly on their reputation and when their performance is challenged they become vulnerable to a negative market response.

Some users of financial information assume that the main role of an auditor is to detect fraud (Rao, 2013). This conflicts with the actual role of auditors. What they do not realise is that the management of a company has a major role to play in fraud prevention and detection through the improvement of internal controls and better employee supervision.

The public does not appreciate the nature and limitations of auditing. Instead they view the role of auditing as the provision of an absolute assurance rather than a reasonable assurance on whether the financial statements offer a true and fair view (Kamau, 2013). As a result the value and contribution of auditors is often underestimated.

Whenever fraud occurs it is often associated with a failure on the auditors' part (Rao, 2013). Some users of financial statement information expect auditors to detect fraud in the course of the auditing engagement. While there is a possibility of auditors unearthing fraud their efforts are often limited by the scope of auditing, materiality of the fraud, and the adequacy of internal controls (Kamau, 2013).

The lack of awareness by different financial information stakeholders on the role of auditing has led to the emergence of an audit expectation gap. The notion of an expectation gap in auditing was first introduced by Liggio (1974). The researcher defined the audit expectation gap as the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements. This definition was extended in order to consider the gap that may exist between what the public expects or envisions the role of auditors to be and what auditors themselves believe their responsibilities are (The Cohen Commission, 1978).

There are two components of the audit expectations gap as identified by Porter (1993). These are the reasonableness gap (i.e. the gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish) and the performance gap (i.e. the gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve).

Consequently, extensive research into the audit expectation gap has been done in many countries. Some of the countries where research into the gap has been done include Malaysia (Lee, Gloeck, & Palaniappan, 2007), Lebanon (Sidani, 2007), Iran (Salehi, Mansoury, & Azary, 2009), Egypt (Dixon, Woodhead, & Sohlman, 2006), Nigeria (Okafor & Otalor, 2013), and Kenya (Kamau, 2004, & Kamau, 2013). It is widely accepted that a gap does

indeed exist between what the public expects of auditors and what auditors believe their role is in many countries. As a result this has led to an increase in litigation and criticism directed towards auditors.

In the Kenyan context several researchers have looked at the audit expectation gap. Kamau (2004) did research to determine if an expectation gap exists in the audit of companies listed on the NSE and whether public expectations of auditors are achievable. The researcher found that a wide gap exists. However, public expectations were found to be unreasonable and wide of auditors' responsibilities. Kamau (2013) on the other hand did research to establish the determinants of the audit expectation gap for public listed companies in Kenya. The research found that the main determinants of the gap were public knowledge and user needs.

1.2 Problem Statement

The role of the auditor is to provide assurance that the financial statements of a company present a true and fair account (Kamau, 2013). There are several users of accounting information and it is almost inevitable that they will differ on what the role of auditing should be. Different stakeholders will have varying expectations of auditing and this may differ from what auditors themselves believe their role is. This leads to the emergence of an audit expectation gap.

Past research into the audit expectation gap in Kenya has considered the gap between what the public expects from auditing and what auditors believe their role is. The public has high expectations of auditors. This is mainly due to public ignorance on the role of auditing and what is reasonably achievable (Kamau, 2004, & Kamau, 2013).

While public expectations of auditors may be high and unreasonable the expectations of other users of financial statement information may be more realistic. Clients of audited companies have a better understanding of the auditing environment and so may have more reasonable expectations of auditing. Hence, this research's main objective was to establish whether an audit expectation gap exists for public listed companies in Kenya. However, the gap that was considered was that between what clients reasonably expect auditors to accomplish and what they are perceived to achieve. This gap is referred to as an audit performance gap. Research into whether this gap exists can provide essential insights into how auditors can improve their performance and how client expectations in Kenya can be better addressed.

1.3 Research Objectives

1.3.1 Main Objective

The main objective of the research was to establish if there is an audit performance gap for NSE listed companies.

1.3.2 Specific Objectives

The specific research objectives were to;

1. Establish client expectations of auditing services for NSE listed companies.
2. Establish client perceptions of the performance of audit firms for NSE listed companies.
3. Establish if an audit performance gap exists for NSE listed companies.

1.4 Research Questions

1. What are client expectations of auditing services for NSE listed companies?
2. What are client perceptions of the performance of audit firms for NSE listed companies?
3. Does an audit performance gap exist for NSE listed companies?

1.5 The Scope of the Study

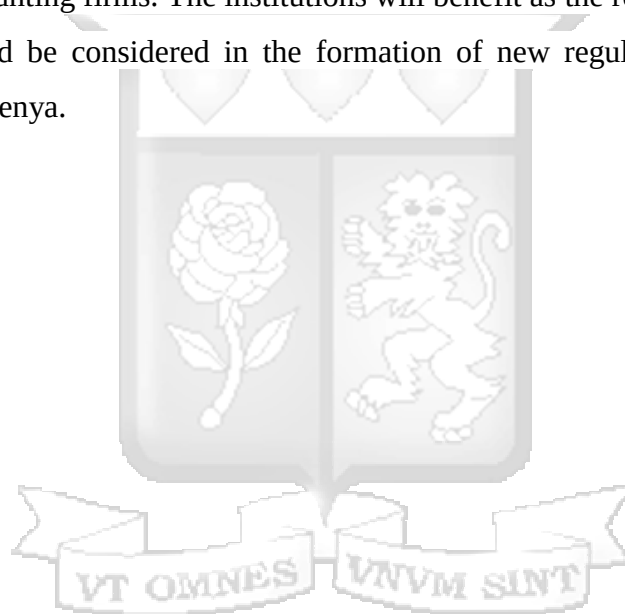
The study sought to establish if there is an audit performance gap for companies listed on the NSE. NSE listed companies were targeted since they are mainly audited by the top four audit firms in Kenya. The top four firms are widely regarded as offering superior auditing services. This research will establish whether client expectations are being met by these firms. Two sets of questionnaires were used, the first to measure client expectations and the second to measure client perceptions of the performance of audit firms in order to address the research objectives. The period of study was five years while the underlying theory of the research was the agency theory.

1.6 Justification for the Study

The research findings contribute to the existing knowledge on factors that contribute to the audit expectations gap by considering the expectations of clients. Clients of audited companies have a better understanding of the auditing environment and so may have more reasonable expectations of auditing. The findings may also help to shed some light on the

reasons companies opt to change auditors by determining the dimensions of auditing services for which clients expectations are not being met for NSE listed companies. This will benefit audit firms since they will get a better understanding of the factors that contribute to client satisfaction and dissatisfaction. This could help them relate better with clients and better understand their needs and in doing so improve their performance. By improving their auditing services audit firms can benefit from client loyalty in the long run.

The research will offer recommendations that various institutions and agencies stand to benefit from. Institutions that will benefit from this research are the Institute of Certified Public Accountants of Kenya (ICPAK), the Kenyan chapter of the Association of Certified Fraud Examiners (ACFE), Kenya Accountants and Secretaries National Examinations Board (KASNEB), and accounting firms. The institutions will benefit as the research will offer them information that could be considered in the formation of new regulations and policies to improve auditing in Kenya.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks at previous research that has been done into audit expectation gap. The literature review begins by looking at the auditing environment in Kenya and provides a brief background on fraud. The researcher then discusses theories that have been used by in past research in order to determine which is best suited to this particular research. By looking at previous research, gaps are identified that will guide the research and provide a foundation for future research to fill those gaps.

2.2 Auditing Environment in Kenya

An auditor is a professional who carries out an audit in accordance with specific laws or rules (Vyas, 2012). The audit is carried out on the financial statements of a company, organisation, a legal entity, or a government entity. Users of financial information rely on auditors to provide an unbiased and independent audit report (Lee, 2007). Users of this information include shareholders, investors, government agencies and the public.

Financial statement audit involves the accumulation and evaluation of evidence to determine if financial statements are in accordance with generally accepted accounting principles (GAAP) (Ismail, 2006). Auditing enables companies to meet their objectives through a systematic and disciplined approach. It helps improve risk management, control, and corporate governance within the organisation (James, 2003). An auditor report is issued after an audit (Mat and Subramaniam, 2007). It provides a formal and unbiased opinion that offers the client an objective assurance for them to make decisions based on the audit results. The auditor's objectivity is crucial. It ensures that their performance is not compromised (Mutchler, Chang, and Prawitt, 2001). Auditors should be objective and withstand management pressure when evaluating a firm's performance. (DeZoort, Houston, and Reisch, 2000) An auditor's performance depends on their technical capabilities, a good auditor-client relationship and auditor independence.

The auditing profession in Kenya is regulated by the Institute of Certified Public Accountants of Kenya (ICPAK). ICPAK was established in 1978 by the Accountants Act CAP 531 (ICPAK, 2014). In order to take into account the various developments in the accounting profession both globally and in Kenya a new Accountants Act No. 15 was enacted in 2008 to

replace the 1978 Accountants Act. In order to meet its objectives ICPAK has developed a code of ethics to guide its members. It also defines the manner of appointment as well as the format of reporting by auditors.

2.3 Fraud

In order to effectively prevent and detect fraud it has to first be defined. There are many accepted definitions of fraud. It is commonly referred to as an intentional wrongful act committed to harm others so as to gain an unfair or unlawful gain (Rezaee & Riley, 2010). Types of fraud are further distinguished depending on the classes of perpetrators. They can be committed by either individuals or corporations.

PwC Kenya (2011) identified two types of fraud in Kenya namely electronic and non electronic. Electronic fraud involves the manipulation of electronic files, circumvention of information technology controls by those with superior administrative rights or by management, unauthorized penetration mechanisms while non-electronic fraud involves cash theft (including planned robberies), identity fraud especially as regards applications for loans, mortgages and other financial accommodation facilities, card skimming, phishing and cheque fraud.

The rapid development of Information Technology (IT) has also led to the rise of electronic fraud and further complicated the business environment. According to Fraud Survey of KPMG (2008), the total value of fraud reported was \$301.1 million. As businesses grow and become more complex it becomes harder to supervise large numbers of employees. This makes it easier for employees to commit fraud. Employees gradually learn more about the organisation and with time identify weaknesses and gaps in internal controls (Coenen, 2008).

Financial statement fraud pertains to the intentional, deliberate, misstatement or omission of material facts or accounting data (Rezaee & Riley, 2010). Some users of financial information assume that the main role of an auditor is to detect fraud (Salehi & Azary, 2009). This conflicts with the actual role of auditors. What they do not realise is that the management of a company has a major role to play in fraud prevention and detection through the improvement of internal controls and better employee supervision. A large number of committed frauds are due to negligence on the part of the management.

Whenever fraud occurs it is often associated with a failure on the auditors' part (Wiley, 2013). Some users of financial statement information expect auditors to detect fraud in the course of the auditing engagement (Moeller, 2010). While there is a possibility of auditors unearthing fraud their efforts are often limited by the scope of auditing, materiality of the fraud, and the adequacy of internal controls (Kamau, 2013).

The public does not appreciate the nature and limitations of auditing. Instead they view the role of auditing as the provision of an absolute assurance rather than a reasonable assurance on whether the financial statements offer a true and fair view (Kamau, 2013). As a result the value and contribution of auditors is often underestimated.

2.4 Corporate Financial Failures in Kenya

There have been several major corporate failures in Kenya that have raised the alarm on objectivity of auditing. Uchumi Supermarkets suffered financial and operational problems that ultimately resulted in the BOD declaring insolvency in 2006 (Wambugu, 2011). Subsequently, the company's listing on the NSE was suspended.

Uchumi embraced an aggressive expansion strategy that resulted in cash flow issues (Wambugu, 2011). This coupled with poor management, unsuitable resource policy and unsuitable financing led to the fall of the supermarket giant. The auditors at the time were PriceWaterhouseCoopers (PwC) and their role in the insolvency was scrutinised. However, they were cleared of any malpractice in the lead up to the collapse (Wandera and Kibe, 2005).

On the other hand, CMC Holding Limited almost collapsed in 2012 despite being audited by Deloitte, one of the major audit firms in Kenya. As a result Deloitte received great public interest further fuelling the debate on audit firm performance.

PwC and Deloitte were investigated to determine whether their opinions were in accordance with set professional standards. Deloitte countered allegations by stating that CMC had intentionally presented falsified documents. The audit firm unknowingly based their opinions on the documents presented. Additionally, Deloitte resigned in early 2012 citing frustrations in getting information from CMC.

Corporate failures in Kenya have negatively affected client, investor, and public confidence in audit firms (Thiong'o, 2014). It can be difficult to determine whether an audit firm is

aware of financial mis-statements and if they issue opinions without obtaining sufficient information. It also raises questions on the role of auditors in detecting financial mis-management. These scandals have had a devastating effect on the lives of employees, investors, and managers. They have also harmed the reputation of auditors and analysts. The top audit firms rely greatly on their reputation and when their performance is challenged they become vulnerable to a negative market response.

2.5 Theoretical Review

The most common theoretical approaches used to prescribe the need for auditing are the policeman theory, theory of inspired confidence and the agency theory. The theories also clarify the role of an auditor within a company and different theories have been developed to describe auditors' relationship with stakeholders of financial information.

The policeman theory considers an auditor as a policeman who is tasked with ensuring arithmetic accuracy of financial statements (Hayes et al., 2005). Based on the theory, an auditor is expected to prevent and detect fraud. However, this theory is now outdated as there has been a shift in the nature of auditing. It is no longer reasonable to expect auditors to prevent and detect all types of frauds. The role of auditing has changed to providing an objective assurance on the truth and fairness of financial statements. This change in the nature of auditing has not been accompanied with a change in stakeholder expectations as research in various markets still indicates that some stakeholders still expect auditors to play a bigger role in fraud prevention and detection.

On the other hand, the theory of inspired confidence addresses both the demand and supply of auditing services. The demand for auditing services is enhanced by external stakeholders who demand accountability from the management (Hayes et al., 2005). External stakeholders appreciate that information provided by management may be biased due to conflicts of interest. The supply of auditing services part of the theory is concerned with the level of assurance provided by auditors. Auditors should ensure that reasonable expectations of external outsiders. However, determining what is reasonable is subjective. There are several external stakeholders and they have varying expectations and needs. This has created a need for stakeholder education on the role of auditing.

Another theory that is often used to explain the need for and role of auditing is the agency theory. The theory analyses the relationship between an agent who undertakes certain duties on behalf of a principle who rewards the agent (Jensen and Meckling, 1976). Based on this theory the role of an auditor is to oversee this relationship between the managers of a corporation and the owners. However, an expectation gap may arise if the scope of responsibilities is not well laid out. The agent and the principal have to understand that accounting is not the role of an auditor, rather, the auditor has to make sure that audits have been done appropriately and that the financial statements provided provide a true and fair account (Andresson and Emander, 2005).

This research sought to establish whether a performance gap exists for auditing services. The gap was based on client expectation of auditing services and their perceptions of the performance of audit firms. This helped establish if a performance gap exists for companies listed on the NSE. As a result of the objectives of the research the agency theory was adopted in this research. This research did not consider external stakeholders. It considered client expectations in order to determine their perceptions on the role of auditing in the agent-principal relationship.

2.6 Previous Studies on Audit Expectation Gap and Audit Performance Gap

The notion of an expectation gap in auditing was first introduced by Liggi (1974). He defined the audit expectation gap as the difference between the levels of expected performance as envisioned by the independent accountant and by the user of financial statements. This definition was extended in order to consider the gap that may exist between what the public expects or envisions the role of auditors to be and what auditors themselves believe their responsibilities are (The Cohen Commission, 1978).

There are two components of the audit expectations gap as identified by Porter (1993). These are the reasonableness gap (i.e. the gap between what society expects auditors to achieve and what they can reasonably be expected to accomplish) and the performance gap (i.e. the gap between what society can reasonably expect auditors to accomplish and what they are perceived to achieve).

Consequently, extensive research into the audit expectation gap has been done in many countries. Some of the countries where research into the gap has been done include Malaysia (Lee, Gloeck, & Palaniappan, 2007), Lebanon (Sidani, 2007), Iran (Salehi, Mansoury, &

Azary, 2009), Egypt (Dixon, Woodhead & Sohlman, 2006), Nigeria (Okafor & Otalor, 2013), and Kenya (Kamau, 2004, & Kamau, 2013). It is widely accepted that a gap does indeed exist between what the public expects of auditors and what auditors believe their role is in many countries. As a result this has led to an increase in litigation and criticism labelled against auditors.

However, research also indicates that even though a gap does generally exist in many markets the users of auditing information and the public in particular place high levels of expectations on auditors as compared to what auditors perceive their responsibilities to be. Stakeholders, expect auditors to engage in employee surveillance, immerse into company affairs and detect fraud on the part of management.

In the Kenyan context several researchers have looked at the audit expectation gap. Kamau (2004) did research to determine if an expectation gap exists in the audit of companies listed on the NSE and whether the public expectation of auditor responsibility is achievable. The researcher found that a wide gap exists. Public expectations were found to be unreasonable and wide of auditors' responsibilities.

The researcher considered several gaps. A narrow gap was found to exist concerning the responsibility for the maintaining of accounting records. A narrow gap was also observed on the reliability statement and on the usefulness of audited financial statements in monitoring the performers of the entity, on the issue of usefulness of the audited financial statements in decision-making and on giving assurance on the efficiency of management. Regarding the gap on the objectivity of the auditor the researcher found that the majority of respondents felt that the auditor was unbiased and objective. In general the researcher concluded that the audit expectation gap does indeed exist for public listed companies in Kenya. The gap was narrow. However, it was mainly due to unreasonable public expectations (Kamau, 2004).

Kamau (2004) also found that respondents felt that increased competition among audit firms could improve the performance levels. Additionally, the researcher warned that the provision of non audit services by an auditor could compromise auditor independence.

Kamau (2013) on the other hand did research to establish the determinants of the audit expectation gap for public listed companies in Kenya. The research found that the main determinants of the gap were public knowledge and user needs. Kamau (2013) considered

several gaps in his research that are components of the audit expectation gap. These were the performance gap and the reasonableness gap.

The researcher observed a performance gap which he defined as the gap that exists between what public expectations of the auditors' performance and the actual performance of auditors. The researcher also observed a reasonableness gap which he defined as the gap that exists between what the public expects auditors to achieve and what they can reasonably expect them to accomplish. This provided insights into public knowledge on the role of auditors. The research found that the public has a lack of awareness on the scope of auditing and the role of auditing. This led to unreasonably high expectations being placed on auditors. However, the researcher also found that the efforts and skills of auditors also play a role in the existence of an audit expectation gap.

SERVQUAL was adopted by Ismail et al. (2006) in Malaysia to find the audit performance gap. The audit performance gap was on a scale of -6 to +6 whereby a negative score indicated that client expectations were not being met and a positive score indicated that client expectations were being met and so an audit performance gap did not exist. Subsequently, the higher a negative score was the wider the audit performance gap.

Ismail et al. (2006) did research to establish client perceptions of audit performance and whether client expectations are being met. The research targeted public listed companies in Malaysia. The researchers argued that audit firms could be in a better position to anticipate client requirements and react to them. The study found that clients' expectations were being met for the dimension of tangibility. However, clients' expectations were not being met for the other four dimensions. As a result, an audit expectation gap was found to exist indicating that client expectations were not being met by audit firms. The gaps ranged from -0.91 to 0.14 with an overall performance gap of -0.69. The dimension of empathy had the largest performance gap.

On the other hand, Porter et al. (2008) did a research to identify differences in the audit expectation-performance gap in the United Kingdom (UK) and New Zealand (NZ). The research targeted auditor, auditee and financial and non-financial audit beneficiaries interest groups. The research found that the composition and structure of the gap in NZ and the UK were broadly similar but the gap was nearly 40 per cent wider in NZ. The researchers suggested that the difference may be as a result of greater awareness on audit issues and more stringent monitoring of auditors' performance in the UK.

Cameran et al. (2010) noted that the perceptions of performance by the ultimate consumer (shareholders) may differ from the financial executives of the company. This indicates that while the expectations of financial executives may be met, their expectations may not necessarily consider what is useful to the owners and external stakeholders (Hellman, 2006)

There has been substantial research into audit expectation gaps and while most researchers accept that it would be difficult to eliminate these gaps it is still important to study these gaps as they improve the auditing profession by enabling a better understanding of the theoretical and empirical perspectives (Cameran et al., 2010).

2.6.1 Gaps in Extant Literature

Past research into the audit expectation gap in Kenya has considered the gap between what the public expects from auditing and what auditors believe their role is. The public has high expectations of auditors. This is mainly due to public ignorance on the role of auditing and what is reasonably practicable (Kamau, 2013).

While public expectations of auditors may be high and unreasonable the expectations of other users of financial statement information may not be. Clients of audited companies have a better understanding of the auditing environment and so may have more reasonable expectations of auditing. Hence, this research's main objective was to establish whether an audit performance gap exists for public listed companies in Kenya. However, the gap that was considered was that between what clients' expectations of auditing services and client perceptions of the performance of audit firms. Client expectations are changing as the business environment changes. Due to regulatory changes and competition clients have more expectations for auditing services. Research into the audit performance gap can provide essential insights into how auditors can improve their performance and how the audit expectation-performance gap can be reduced in Kenya.

2.7 Conceptual Framework on Audit Performance Gap

The independent variable in the study was client expectations of auditing services while the dependent variable was client perceptions on the performance of audit firms. This was in order to determine whether a performance gap exists between what clients expect of auditing services and what audit firms actually deliver.

There were three control variables that were considered in the relationship. These were audit firm size, audit fee paid by the client and the size of the company (client size). The majority of listed companies are audited by the big 4 while the only exceptions are audited by PKF which is the fifth largest audit firm in Kenya. As a result the conceptual framework is as below.

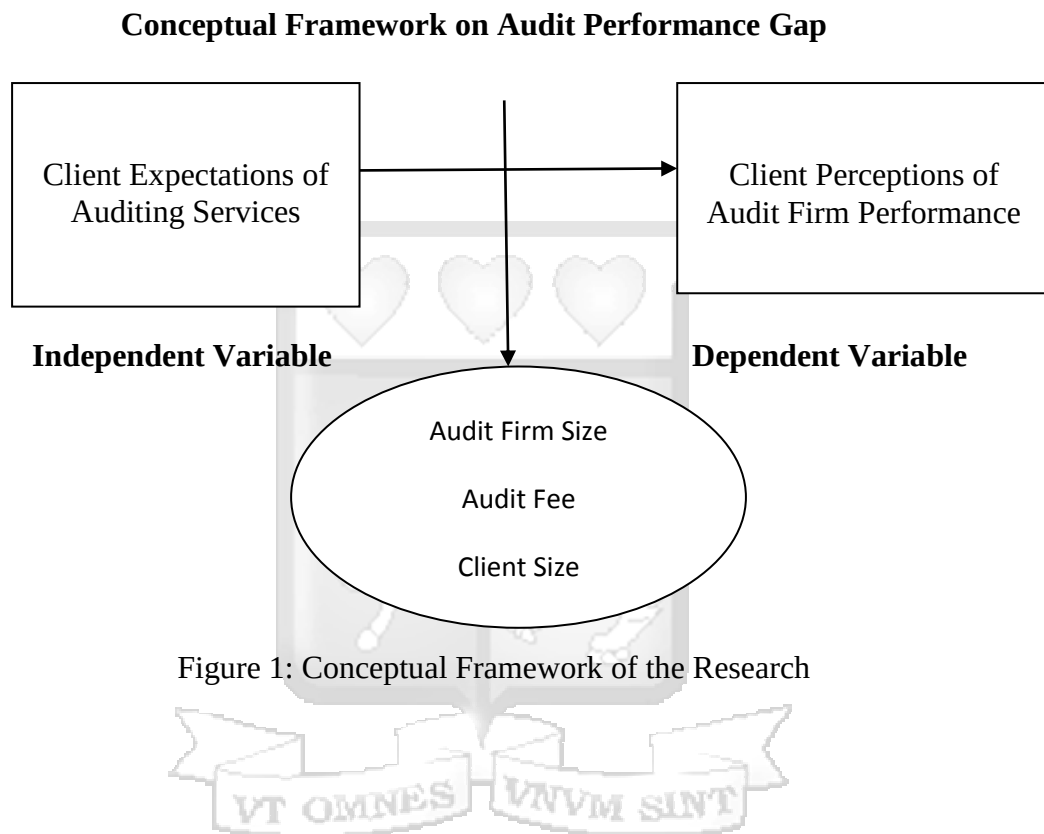


Figure 1: Conceptual Framework of the Research

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the data collection methods that were used in the research. It also explains how the data was collected and analyzed as well as how participants were selected and approached.

3.2 The Research Design

This research was explanatory in nature. The researcher sought to establish if a performance gap exists. The gap was the difference between client expectations of auditing and client perceptions of the performance of audit firms for NSE listed companies. The research analyzed and explained, rather than to just describe, the gap that exists between client expectations and their perceptions of the performance of audit firms.

3.3 Population

The research targeted all the NSE listed companies as of the end of 2013. All the companies were invited to participate in the study. Hence, the target population was 62 companies. This provided the researcher with a broader amount of data to develop applicable results. A list of the target companies can be found in appendix 1.

In particular, Chief Financial Officers (CFO) were targeted since they actively participate in the auditing process. They are involved in the selection of audit firms and they avail the financial statements to be audited. They are in a better position to comment on the company's expectations of auditing and the perceived performance of audit firms.

3.4 Data Description and Data Collection Methods

The research sought to collect data on clients' expectations of auditing services as well as their perceptions of the performance of audit firms. It is important to note that customers do not perceive performance as being a one dimensional concept (Ismail et al., 2006). Performance varies for different customers and so to accurately establish the performance of a service it is more appropriate to measure it over several dimensions. Parasuraman et al. (1988) developed the SERVQUAL model to measure service performance. It measures performance over the following five dimensions:

Reliability – The ability to perform the promised service dependently and accurately.

Responsiveness – The willingness to help a customer and provide prompt service.

Tangible – The appearance of the physical facilities, equipment, personnel and communication material.

Assurance – The knowledge and courtesy of employees and their ability to inspire trust and confidence.

Empathy - Caring, individualized attention the firm provides its customer.

The SERVQUAL model is based on the conventional view that a client expectations are based on their impression of the service provided. Clients form perceptions of service performance based on past experiences of service performance. As a result, customers form expectations of service performance and measure these expectations against their perceptions of actual service performance. The gap between clients' expectations of performance and their perceptions of the actual performance is found by a twenty two item questionnaire split between the five dimensions. Respondents give answers on a seven point likert scale ranging between strongly disagree and strongly agree. The questionnaire is administered twice; the first time to measure client expectations of service performance and the second to measure their perceptions of actual service performance (Parasuraman et al., 1988).

Some of the criticisms of the SERVQUAL model have been with regards to its validity, reliability, operationalization of expectations, and dimensional structure (Ismail et. al, 2006). Despite all the criticism there is a general agreement that it is reliable in predicting service performance (Markovic, Raspor, and Segaric, 2010). The model allows for a more in depth analysis of performance. SERVQUAL appreciates that client perceptions of audit performance are influenced by past experiences and in turn past experiences help form client expectations of auditing services.

The SERVQUAL model was applied in Malaysia by Ismail et al. (2006). It was found to be practical in determining whether a gap exists between client expectations of auditing and the perceptions of the performance of audit firms. This research adopted the SERVQUAL model as it was the most applicable.

The data was collected using questionnaires. The questionnaire was based on the SERVQUAL questionnaire. The standard SERVQUAL questions were modified and pre tested so as to fit the Kenyan auditing environment. This involved giving the questionnaire to

auditors from the big four auditing firms in Kenya namely Deloitte, KPMG, Ernst and Young, and PwC. The researcher engaged the auditors due to their knowledge of auditing standards and practices in Kenya. They were asked to comment on the relevance of the questions and on any ambiguity of the questions. The questionnaire was then revised before distribution. They were distributed by hand together with a cover page. The cover page indicated the purpose of the research. The questionnaires can be found in appendix 2 and 3.

Respondents were required to fill in the questionnaire twice; the first time to measure clients' expectations of auditing services and the second to measure clients' perceptions of the performance of audit firms. The sequence of questions was altered for the second questionnaire to avoid confusion and enhance the reliability of data. The questionnaire to establish client expectations was divided into three sections: section one contained general demographic questions, section two contained open ended questions, while section three contained the modified standard SERVQUAL questions. The respondents gave answers based on a seven point likert scale. The scale ranged from 1 (strongly disagree) to 7 (strongly agree). This helped the researcher to establish the most important aspects of auditing for listed companies.

3.5 Data Analysis

Reliability tests were conducted prior to analysing the data. These tests were to test the reliability of the SERVQUAL model and how well the data collected fits the model. The SERVQUAL model was tested using Cronbach's alpha (α) scores as in past research in Malaysia and Turkey.

After testing and ensuring that the data was reliable the researcher proceeded to analyse it. Section one of the questionnaire was analysed first. The personal data collected in the questionnaires was presented in tables. This allowed for an analysis of the impact of personal factors on the performance gap. The researcher then found the means for expectations in order to establish and rank client expectations of auditing services. This addressed objective 1 of the research. The dimensions with the highest means for expectations indicate the dimensions that clients value most.

The researcher then proceeded to find the means for perceptions of the performance of audit firms. The dimensions with the highest means for perceptions indicate the dimensions that

clients felt audit firms provided the highest levels of performance. This addressed objective 2 of the research.

In order to address the main objective of the research a paired t test was done to find the disparity between the means. The disparity indicated the performance gap that exists between client expectations of auditing services and their perception of the performance of audit firms. This was done by subtracting client expectations from client perceptions for each of the attributes of auditing services. A negative result signified that client expectations were not being met while a positive gap indicates that client expectations were being met.



CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter presents the research findings. It begins by providing a preliminary analysis in regards to the response rate of the data collection and also presents information on the demography of the respondents. It then proceeds to provide a descriptive analysis of the data collected in order to address the research objectives.

4.2 Response Rate

The researcher targeted all the 62 NSE listed companies. All companies were invited to participate in the study. However, only 39 companies participated in the research giving a response rate of 63%. The remaining 23 companies showed an unwillingness to provide feedback. Even after several attempts there was no positive response.

4.3 Demographic Information

The first section of the questionnaire on client expectations sought to gather general data on the target population. The main aim of this was to determine whether the respondents had sufficient knowledge and experience in their respective companies to participate in the study.

Table 4.1: General Demographic Information

Years as CFO of Company		
Variables	Frequency	Percentage
Less than a year	0	0
1 to 3 years	5	13
3 to 5 years	12	31
More than 5 years	22	56
Totals	39	100

Majority of the respondents have been CFO's in their respective companies for at least 5 years (56%). This means that they have sufficient past experience in their respective companies to provide feedback on the research questions.

Table 4.2: General Demographic Information (b)

Years Audited by Current Audit Firm		
Variables	Frequency	Percentage
Less than a year	0	0
1 to 3 years	5	13
3 to 5 years	10	26
More than 5 years	24	61
Totals	39	100

However, majority of the companies that responded to the questionnaire have retained their current audit firm for over 5 years (61%). 26% of the companies have been audited by their current auditor for 3 to 5 years while 13 % of the companies have been audited by their current audit firm for 1 to 3 years.

Table 4.1: General Demographic Information (c)

Industry Statistics		
Variables	Frequency	Percentage
Agricultural	5	13
Construction and Allied	3	8
Manufacturing and Services	6	15
Banking	6	15
Insurance	3	8
Investment	2	5
Energy	4	10
Telecommunications	1	3
Commercial and Services	6	15
Automobile	3	8
Totals	39	100

The bulk of the companies that participated in the research were from the Manufacturing and Services, Banking, and Commercial and Services sector. They represented 45 % of the total response rate. This is of no surprise since they are the sectors with the most listed companies. The sectors with the fewest listed companies had the lowest representation. These were the Telecommunications and Investment sectors which had only 8 % representation.

4.4 Data Collection Method

The research questionnaire was based on the SERVQUAL questionnaire. The standard SERVQUAL questions were modified to suit the context of auditing in Kenya. After

modification, 19 attributes of auditing services were settled on. The 19 aspects are presented below.

Table 4.4: Questionnaire Item Numbering and Details

Item Number	Item Details
Item 1	The audit staff should be qualified and technically competent.
Item 2	The audit team should be up to date with the latest developments and challenges that affect your industry.
Item 3	The organization should have assurance that the confidentiality and privacy of their information will be maintained at all times by the audit firm.
Item 4	The audit team should be willing to provide guidance on accounting principles.
Item 5	The audit team should regularly identify examples of added value and solutions to identified problems.
Item 6	The audit firm should be procedurally consistent in providing their services.
Item 7	The audit team should maintain an attitude of professional scepticism.
Item 8	The audit team should give clear communication about their expectations before, during and after the audit period.
Item 9	The quality of the services rendered by the audit firm should correspond with the fees charged.
Item 10	The audit team should be equipped with knowledge on the company's accounting systems.
Item 11	The audit team should operate with high ethical standards.
Item 12	The audit team should always deliver services within a promised time frame.
Item 13	The audit team should be thorough and analytical to understand what is going on within the company.
Item 14	The audit team should be flexible when scheduling the timing of audit visits.
Item 15	Reports and presentations prepared by the audit team should be easily understood by the company.
Item 16	The conduct of the audit team should instil the organisation with confidence.
Item 17	The audit team should provide the organization with individual and personalized attention.
Item 18	The auditors of the audit firm should be consistently courteous.
Item 19	The employees of the audit firm should be well dressed and presentable to show professionalism.

The 19 attributes were based on SERVQUAL's five dimensions. The attributes fit into the five dimensions as below.

Table 4.5: Audit Dimensions and Corresponding Questionnaire Items.

Dimension	Corresponding Questionnaire Items
Tangibles	Items 15 and 19
Reliability	Items 1, 2, 6, 7, 9, 10, and 12
Responsiveness	Items 4, 5, and 8
Assurance	Items 3, 11, and 16
Empathy	Items 13, 14, 17, and 18

4.5 Reliability Analysis

Prior to conducting the data analysis the SERVQUAL model's reliability was first tested. The internal consistency of the scale and model were tested using Cronbach α . The test was conducted on a sample of 15 questionnaires for expectations and perceptions. Nunally (1967) suggested that a model should have a reliability score of at least 0.5 to 0.6.

Table 4.6: Cronbach Scores for Questionnaire Items

Dimension	Cronbach Score for Expectations	Cronbach Score for Perceptions
Item 1	0.85	0.80
Item 2	0.86	0.80
Item 3	0.82	0.77
Item 4	0.84	0.83
Item 5	0.84	0.78
Item 6	0.82	0.78
Item 7	0.84	0.79
Item 8	0.83	0.78
Item 9	0.81	0.79
Item 10	0.82	0.80
Item 11	0.82	0.79
Item 12	0.82	0.80
Item 13	0.83	0.78
Item 14	0.83	0.80
Item 15	0.81	0.78
Item 16	0.83	0.80
Item 17	0.81	0.80
Item 18	0.83	0.81
Item 19	0.84	0.80
Mean Score	0.83	0.79

The Cronbach scores for the research model ranged from 0.77 to 0.86. This indicates satisfactory levels of internal consistency. The high reliability scores vindicate the use of the SERVQUAL model for this particular research.

4.6 Descriptive Statistical Analysis

Having ensured that the model has satisfactory levels of internal consistency the researcher then proceeded to analyze the mean scores for the questionnaire items. An analysis of the mean scores for each of the 19 audit elements was carried out in order to address objective 2 and 3. The elements with the highest means for expectations indicate the aspects clients value most for auditing services. The means for expectations ranged from 6.31 to 6.67 with a mean of 6.49. For client perceptions the means ranged from 6.18 to 6.56 with a mean of 6.44. The elements with the highest means for client perceptions indicate the aspects that clients feel audit firms offer the highest perceived levels of performance. These scores are relatively high considering that the scores were on a scale of 1 to 7.

Table 4.7: Mean Scores and Rankings for Client Expectations and Client Perceptions of Auditing Services for Items

Dimension	Perceptions Mean Score	Expectations Mean Score	Ranking Perceptions	Ranking Expectations
Item 1	6.51	6.38	3	15
Item 2	6.49	6.46	6	9
Item 3	6.54	6.62	2	3
Item 4	6.31	6.64	17	2
Item 5	6.49	6.67	6	1
Item 6	6.44	6.46	11	9
Item 7	6.38	6.49	14	8
Item 8	6.44	6.31	11	18
Item 9	6.49	6.46	6	9
Item 10	6.18	6.44	19	12
Item 11	6.41	6.44	13	12
Item 12	6.38	6.54	14	6
Item 13	6.51	6.49	3	7
Item 14	6.49	6.41	6	14
Item 15	6.46	6.59	10	4
Item 16	6.51	6.31	3	18
Item 17	6.56	6.38	1	15
Item 18	6.26	6.36	18	17
Item 19	6.38	6.59	14	4
Average Mean Score	6.44	6.49		

Based on the data collected, the most essential aspects of auditing for NSE listed companies were ‘the audit team should identify examples of added value and solutions to problems identified’ (6.67), ‘the audit team should be willing to provide guidance on accounting principle’ (6.64), and ‘the organization should have assurance that the confidentiality and privacy of their information will be maintained at all times by the audit firm’ (6.62). Other audit aspects that scored highly were ‘the employees of the audit firm should be well dressed and presentable to show professionalism’ and ‘reports and presentations prepared by the audit team should be easily understood by the company’ which both had a mean of 6.59.

On the other hand the elements that clients view as being the least important were ‘the conduct of the audit team should instill the organization with confidence’(6.31), ‘the audit team should give clear communication about their expectations before, during and after the audit period’ (6.31) and, ‘the auditors of the audit firm should be consistently courteous’ (6.36). However, it is important to note that while the different aspects vary in their level of relative importance clients view them all as being essential to auditing. This is further

highlighted by the slim difference between the highest and the lowest mean scores; the highest being 6.67 and the lowest being 6.31.

Based on the data, it can be concluded that client rate ‘the conduct of the audit team should instill the organization with confidence’ (6.56) and ‘the audit team should provide the organization with individual and personalized care’ (6.54) as the aspects of auditing services that audit firms provide the highest levels of perceived performance for. However, once again we can see that difference between the highest and the lowest means ($6.56 - 6.18 = 0.38$) is low hence clients generally perceive high levels of performance by audit firms.

4.7 Audit Performance Gap for NSE Listed Companies

The researcher then did a gap analysis in order to address the main objective of the research. The performance gap was found by subtracting client expectations from client perceptions.

Table 4.8: Performance Gaps for Auditing Services Items

Dimension	Perceptions (P)	Expectations (E)	Performance Gap	Result
Item 1	6.51	6.38	0.13	Expectations Met
Item 2	6.49	6.46	0.03	Expectations Met
Item 3	6.54	6.62	-0.08	Expectations Not Met
Item 4	6.31	6.64	-0.33	Expectations Not Met
Item 5	6.49	6.67	-0.18	Expectations Not Met
Item 6	6.44	6.46	-0.02	Expectations Not Met
Item 7	6.38	6.49	-0.11	Expectations Not Met
Item 8	6.44	6.31	-0.13	Expectations Not Met
Item 9	6.49	6.46	0.03	Expectations Met
Item 10	6.18	6.44	-0.26	Expectations Not Met
Item 11	6.41	6.44	-0.03	Expectations Not Met
Item 12	6.38	6.54	-0.16	Expectations Not Met
Item 13	6.51	6.49	0.02	Expectations Met
Item 14	6.49	6.41	0.08	Expectations Met
Item 15	6.46	6.59	-0.13	Expectations Not Met
Item 16	6.51	6.31	0.20	Expectations Met
Item 17	6.56	6.38	0.18	Expectations Met
Item 18	6.26	6.36	-0.10	Expectations Not Met
Item 19	6.38	6.59	-0.21	Expectations Not Met
Average Mean Score	6.44	6.49	-0.05	Expectations Not Met

Note: Significant at 0.05 levels.

A negative gap indicates arises from expectations being higher than client perceptions of the actual performance of the audit firms. A positive gap signifies that client expectations are being met.

Based on the data collected client expectations of NSE listed companies are not being met. The elements with the largest performance gaps are ‘the audit team should be willing to provide guidance on accounting principles’ (-0.33), ‘the audit team should be equipped with knowledge on the company’s accounting systems’ (-0.26), ‘the employees of the audit firm should be well dressed and presentable to show professionalism’ (-0.21), ‘the audit team should regularly identify examples of added value and solutions to identified problems’ (-0.18) and, ‘the audit team should always deliver services within a promised time frame’ (-0.16).

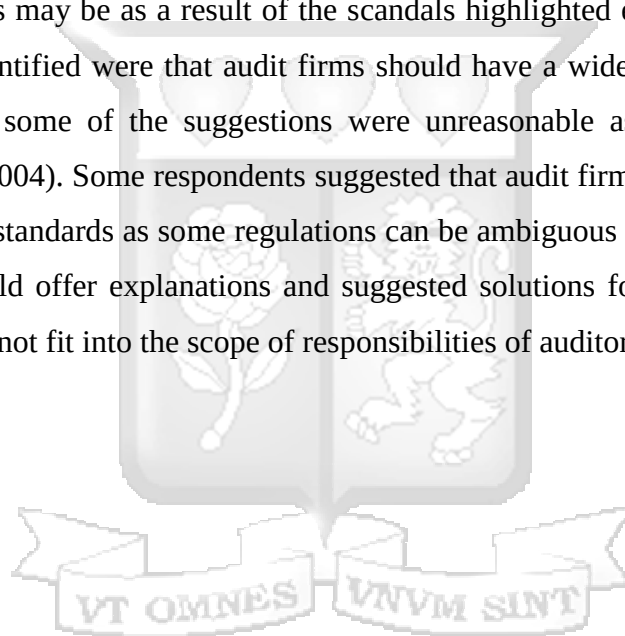
However, the findings indicate that there are some elements for which clients are being met such as ‘the audit staff should be qualified and technically competent’ (0.13), ‘the conduct of the audit team should instill the organization with confidence’ (0.20) and ‘the audit team should provide the organization with individual and personalized attention’ (0.18). There were other elements for which clients expectations were met, albeit marginally, such as, ‘the audit team should be up to date with the latest developments and challenges that affect your industry’ (0.03), ‘the quality of the services rendered by the audit firm should correspond with the fees charged’ (0.03), ‘the audit team should be thorough and analytical to understand what is going on within the company’ (0.02) and, ‘the audit team should be flexible when scheduling the timing of audit visits’ (0.08).

If a respondent had an expectation of 7 for an aspect of auditing services and a perception of 1 for the performance of an audit firm then the resultant gap would be 6 whereas if a respondent has an expectation of 1 and a perception of 7 the resultant gap would be -6. Therefore, the performance gap ranges from -6 to +6. This indicates that while clients are mainly not being met the performance gap is only marginal. This suggests that not a lot of effort is required from the top audit firms in order to meet client expectations. Therefore, audit firms should make changes to address the aspects of auditing services for which clients’ expectations are not being met as highlighted in the research in order to enhance their performance levels. The performance gaps were also found to be narrower than in other markets. The gap in Malaysia was -0.69 indicating that while client expectations are not being met in Kenya, the performance of audit firms is comparably better.

While a performance gap does indeed exist for public listed companies, it is narrow as compared to the audit expectation gap that was found in past research by Kamau (2004) and Kamau (2013). This further indicates that client expectations of auditing services are more reasonable as compared to those of other stakeholders such as the public.

4.8 Suggestions for Improving Auditing Services

Some of the most common suggestions highlighted by respondents were with regards to auditor skills and professional qualifications. Some respondents suggested that auditors should strive to add to their qualifications so as to improve their skill set. A lot of respondents also emphasised the need for auditors of audit firms to act with professionalism and high ethical standards. This may be as a result of the scandals highlighted earlier in this research. Other suggestions identified were that audit firms should have a wide range of systems and operations. However some of the suggestions were unreasonable as consistent with past research by Kamau (2004). Some respondents suggested that audit firms should provide more guidance on auditing standards as some regulations can be ambiguous while others suggested that audit teams should offer explanations and suggested solutions for identified problems. These suggestions do not fit into the scope of responsibilities of auditors.



CHAPTER FIVE

DISCUSSIONS AND CONCLUSION

5.1 Introduction

This chapter provides a summary of the research. It begins by recapping the objectives of the research and then discussing the research findings. It then proceeds to indicate the limitations that the researcher faced. The chapter concludes by prescribing areas that should be considered for future research.

5.2 Discussions

The main objective of this research was to establish if an audit performance gap exists for companies listed on the NSE. The performance gap was defined as the gap between client expectations of auditing services and their perception of the performance of audit firms. The underlying theory of the research was the agency theory.

The data collected indicates that clients' expectations are not being met by audit firms. This is consistent with past literature by Kamau (2004) and Kamau (2013) who found that an audit expectation gap exists for public listed companies. However, this research considered the expectations of clients rather than those of the public. This was in order to find the performance gap for public listed companies. The researcher found that performance gaps do indeed exist. However, the gaps are narrow suggesting that clients' expectations are more reasonable than the expectations of other financial information stakeholders like the public in particular.

The findings also suggest that not a lot of effort is required by the top audit firms to ensure that client expectations are met. Audit firms should take a more pro active role in determining client expectations and striving to meet them. They should measure client perceptions of performance over time in order to determine if implemented measures are having their desired effect.

Notably, some clients suggested that audit firms should provide more guidance on accounting regulations as well as offering solutions to identified problems. This indicates that clients want audit firms to go the extra mile in their service offerings. Rather than just sticking to the standard roles, they want additional services. These expectations for audit firms to go outside

their parameters are consistent with past research that indicates that some stakeholders have unreasonable expectations. These unrealistic expectations have facilitated the need for fraud examiners and forensic accounting services.

Forensic accounting has a role to play in reducing audit performance gaps in Kenya (Wanjohi, 2011). More should be done to promote the need for qualified fraud examiners and forensic accounting. The mindset of a fraud specialist is very different from that of an auditor. A forensic accountant uses investigative techniques backed up with accounting and business skills. This makes them better equipped to detect, prevent and reduce fraudulent activities within an organisation. This will also help reduce high stakeholder expectations of auditors.

In order to improve their level of expertise audit firms should encourage their auditors to seek further professional qualifications and trainings. Continuous training could help staff improve their professionalism and knowledge while also help them gain confidence in their competencies.

5.3 Conclusion

The findings of this research have important implications for audit firms in particular. The findings indicate that there is a performance gap that exists between client expectations of auditing services and their perception of the performance of audit firms for NSE listed companies. Based on the data collected the most important attributes were the audit team should identify examples of added value and solutions to problems identified', 'the audit team should be willing to provide guidance on accounting principle', and 'the organization should have assurance that the confidentiality and privacy of their information will be maintained at all times by the audit firm'.

The aspects of auditing services with the highest performance gaps for NSE clients were 'the audit team should be willing to provide guidance on accounting principles', 'the audit team should be equipped with knowledge on the company's accounting systems', 'the employees of the audit firm should be well dressed and presentable to show professionalism', 'the audit team should regularly identify examples of added value and solutions to identified problems', and 'the audit team should always deliver services within a promised time frame'.

This is consistent with past research by Kamau (2004) and Kamau (2013) who found that stakeholders place high expectations on auditors and often expect them to go beyond their scope of responsibilities. However, while some of the clients' expectations may not fit into the role of the auditor in general they have relatively lower expectations for auditing services as compared to the public and most of their expectations can be deemed reasonable.

5.4 Research Implications

Listed companies may refrain from changing auditors because their options are limited. NSE listed companies are required to engage one of the top four audit firms. These firms are perceived as offering similar levels of service performance. Policies could be introduced that allow listed companies to engage approved auditors outside the top four. This may help improve audit firms' performance through enhanced competition.

The scope of auditing limits auditors' ability to prevent and detect fraud. Unfortunately, this is a fact that is not appreciated by stakeholders of financial statement information. Policies could be introduced that require listed firms to engage forensic accountants. This would help reduce client expectations of auditing services while also improving fraud prevention and detection. Forensic accountants are better equipped to detect, prevent and reduce fraudulent activities.

5.5 Limitations and Future Research

Researchers often face certain obstacles that limit the quality of work done. The main limitations that the researcher encountered were time and cost restraints. However, the researcher was able to cope with the limitations and met the research objectives. The researches findings present a whole new set of research topics. It is important to note that the findings of this research pertain to client expectations and perceptions. Future research could expand the target population so as to consider the viewpoints of financial directors, owners and external stakeholders to see if their perceptions of audit performance differ from those of CFO's.

Future research could also examine the reason as to why companies retain audit firms even though research indicates that their expectations are not being met. Majority of the companies that participated in the research have retained their auditors for at least 3 years as of end of 2013. It is a requirement of NSE listed companies to have their financial statements audited

by one of the top 4 audit firms. These top audit firms are viewed as offering similar levels of performance. Research could determine if this is a possible reason for companies opting to retain audit firms. Future research could also determine if NSE listed companies would be tempted to engage an audit firm outside the big 4.

Future research could also be done to analyse the performance gaps for listed companies per sector to see if there are sectors where client expectations are being met. Additionally, research could be done to determine which sectors have the largest performance gaps. This will provide in depth information that could help audit firms better understand their client's needs and make necessary improvements.

5.6 Summary Conclusion

Auditors face many challenges in balancing the interests of different stakeholders which is something that clients may overlook at times. This research sought to establish if an audit performance gap exists for companies listed on the NSE. The data collected indicates that client expectations are not being met. However, the performance gap was found to be low. This did not surprise the researcher. The researcher expected clients' expectations to be more reasonable than the expectations of other stakeholders. This could also be attributed to audit firms improving their performance due to negative publicity in the fallout of the scandals of CMC Motors and Uchumi Supermarkets.

There is a need for more stakeholder education on the role of auditing. The expectations of stakeholders of financial information are unreasonably high. Public expectations in particular are unattainable. However, frauds are on the increase and steps need to be taken to improve fraud prevention and detection. While the scope of auditing limits auditors' ability to prevent and detect fraud, additional training and further studies can help improve auditor skills. However, a gap still remains as auditors cannot be reasonably expected to meet all stakeholder needs. This has created the need for more fraud examiners and forensic accounting services.

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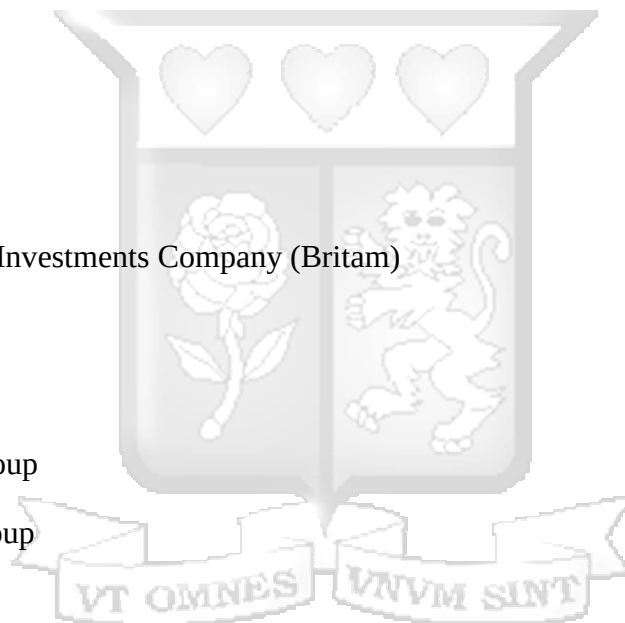
APPENDIX 1

List of Target Companies

1. Express
2. Kenya Airways
3. Uchumi Supermarket
4. Longhorn Kenya
5. Car and General
6. CMC Holdings
7. Sameer Africa
8. Marshalls (E.A.)
9. B.O.C Kenya Ltd
10. British American Tobacco Kenya
11. Kenya Orchards
12. A.Baumann Company
13. Crown Berger
14. E.A.Cables
15. Unga Group
16. Olympia Capital Holdings
17. Sasini
18. Limuru Tea Co.
19. Nation Media Group
20. Housing Finance
21. Kenya Commercial Bank
22. National Bank of Kenya
23. I&M Holdings
24. Diamond Trust Bank Kenya
25. The Co-operative Bank of Kenya



26. Jubilee Holdings
27. Pan Africa Insurance Holdings
28. Kenya Re-Insurance Corporation
29. Liberty Kenya Holdings
30. Centum Investment Co.
31. Trans-Century
32. Kenol Kobil
33. TPS Eastern Africa (Serena)
34. Scangroup
35. Hutchings Biemer
36. NIC Bank
37. Equity Bank
38. British-American Investments Company (Britam)
39. Bamburi Cement
40. Home Afrika
41. CIC Insurance Group
42. Access Kenya Group
43. Safaricom
44. Barclays Bank
45. CFC Stanbic Holdings
46. Standard Chartered Bank
47. Carbacid Investments
48. Athi River Mining
49. KenGen
50. Kenya Power & Lighting Co
51. Standard Group
52. Eveready East Africa



- 53. E.A.Portland Cement
- 54. Kapchorua Tea Co.
- 55. Rea Vipingo Plantations
- 56. Williamson Tea Kenya
- 57. Eaagads Ltd
- 58. Kakuzi
- 59. East African Breweries
- 60. Total Kenya
- 61. Mumias Sugar Co.
- 62. Umeme



APPENDIX 2

Questionnaire to find client expectations of Auditing

Section A

Name of the company? _____

1. How long have you been the CFO in the company?

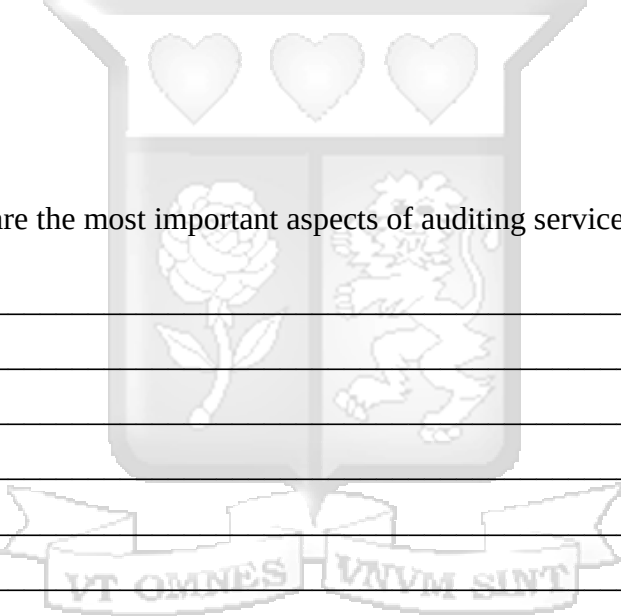
Less than 1 year [] 1-3 years [] 3-5 years [] Above 5 years []

2. How many years have you been audited by your current audit firm?

Less than 1 year [] 1-3 years [] 3-5 years [] Above 5 years []

Section B

In your opinion, what are the most important aspects of auditing services?



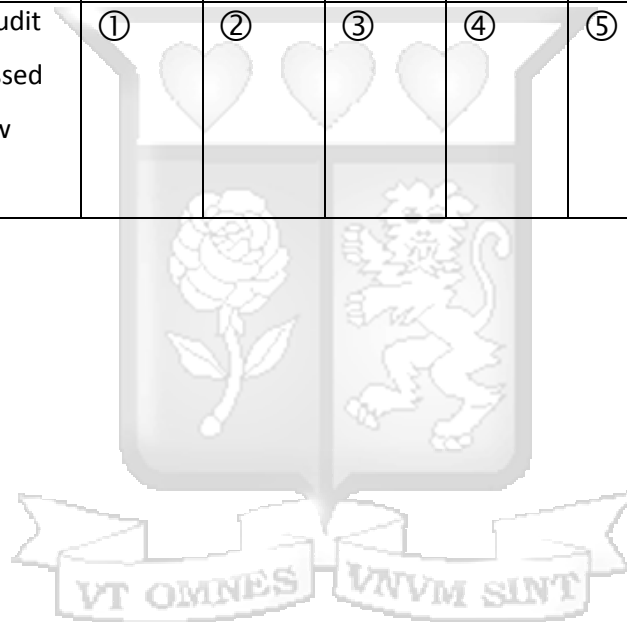
Section C

The purpose of this section was to establish the elements of auditing services clients value most. Respondents rated the extent of their expectations.

	strongly disagree	disagree	somewhat disagree	neither agree nor disagree	somewhat agree	agree	strongly agree
The audit staff should be qualified and technically competent.	①	②	③	④	⑤	⑥	⑦
The audit team should be up to date with the latest developments and challenges that affect your industry.	①	②	③	④	⑤	⑥	⑦
The organization should have assurance that the confidentiality and privacy of their information will be maintained at all times by the audit firm.	①	②	③	④	⑤	⑥	⑦
The audit team should be willing to provide guidance on accounting principles.	①	②	③	④	⑤	⑥	⑦
The audit team should regularly identify examples of added value and solutions to identified problems.	①	②	③	④	⑤	⑥	⑦
The audit firm should be procedurally consistent in providing their services.	①	②	③	④	⑤	⑥	⑦
The audit team should maintain an attitude of professional scepticism.	①	②	③	④	⑤	⑥	⑦

The audit team should give clear communication about their expectations before, during and after the audit period.	①	②	③	④	⑤	⑥	⑦
The quality of the services rendered by the audit firm should correspond with the fees charged.	①	②	③	④	⑤	⑥	⑦
The audit team should be equipped with knowledge on the company's accounting systems.	①	②	③	④	⑤	⑥	⑦
The audit team should operate with high ethical standards.	①	②	③	④	⑤	⑥	⑦
The audit team should always deliver services within a promised time frame.	①	②	③	④	⑤	⑥	⑦
The audit team should be thorough and analytical to understand what is going on within the company.	①	②	③	④	⑤	⑥	⑦
The audit team should be flexible when scheduling the timing of audit visits.	①	②	③	④	⑤	⑥	⑦
Reports and presentations prepared by the audit team should be easily understood by the company.	①	②	③	④	⑤	⑥	⑦

The conduct of the audit team should instil the organisation with confidence.	①	②	③	④	⑤	⑥	⑦
The audit team should provide the organization with individual and personalized attention.	①	②	③	④	⑤	⑥	⑦
The auditors of the audit firm should be consistently courteous.	①	②	③	④	⑤	⑥	⑦
The employees of the audit firm should be well dressed and presentable to show professionalism.	①	②	③	④	⑤	⑥	⑦



APPENDIX 3

Questionnaire to measure client perceptions of audit firm performance

The purpose of this questionnaire was to establish client perceptions of the performance of audit firms. The period under consideration was between 2008 to end of 2013 and so respondents should base their views on the performance of auditing firms within that period. The results of this questionnaire will be analysed against client expectation. This will help establish whether client expectations are being met and whether and audit performance gap exists.

	strongly disagree	disagree	somewhat disagree	neither agree nor disagree	somewhat agree	agree	strongly agree
The audit team is always willing to provide guidance on accounting principles.	①	②	③	④	⑤	⑥	⑦
The audit team regularly identifies examples of added value and solutions to identified problems.	①	②	③	④	⑤	⑥	⑦
The conduct of the audit team instils the organisation with confidence.	①	②	③	④	⑤	⑥	⑦
The audit firm is procedurally consistent in providing their services.	①	②	③	④	⑤	⑥	⑦
The audit team is always flexible when scheduling the timing of audit visits.	①	②	③	④	⑤	⑥	⑦

The audit team is always up to date with the latest developments and challenges that affect your industry.	①	②	③	④	⑤	⑥	⑦
The audit staff are qualified and technically competent.	①	②	③	④	⑤	⑥	⑦
The auditors of the audit firm are consistently courteous.	①	②	③	④	⑤	⑥	⑦
The employees of the audit firm are always well dressed and presentable to show professionalism.	①	②	③	④	⑤	⑥	⑦
The company has assurance that the confidentiality and privacy of our information will be maintained at all times by the audit firm.	①	②	③	④	⑤	⑥	⑦
The audit team always maintains an attitude of professional scepticism.	①	②	③	④	⑤	⑥	⑦
The audit team always gives clear communication about their expectations before, during and after the audit period.	①	②	③	④	⑤	⑥	⑦
The quality of the services rendered by the audit firm correspond with the fees charged.	①	②	③	④	⑤	⑥	⑦
The audit team is always equipped with knowledge on the company's accounting systems.	①	②	③	④	⑤	⑥	⑦

The audit team always operates with high ethical standards.	①	②	③	④	⑤	⑥	⑦
The audit team provides the organization with individual and personalized attention.	①	②	③	④	⑤	⑥	⑦
The audit team is always thorough and analytical to understand what is going on within the company.	①	②	③	④	⑤	⑥	⑦
The audit team always delivers services within a promised time frame.	①	②	③	④	⑤	⑥	⑦
Reports and presentations prepared by the audit team are easily understood by the company.	①	②	③	④	⑤	⑥	⑦

