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INFLUENCE OF FINANCIAL AUDITING PRACTICES ON AUDIT QUALITY OF AUDIT FIRMS IN KENYA

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ABSTRACT

This study sought to examine influence of audit disclosure, audit service cost, audit committee composition and audit risk reporting on audit quality in selected audit firms in Kenya. The study used explanatory survey design and collected primary data using structured questionnaires. The target population of the study was 98 senior and middle level management staff from 14 registered audit firms whose headquarters were in Nairobi City County, Kenya. A census method was used to select all respondents to participate in the study. The study employed purposive sampling technique. Validity was measured by content validity while Cronbach alpha test which is a measure of internal consistency was used to test instrument reliability. Data collected from the field was coded, cleaned, tabulated and both descriptive and inferential statistics were computed with the aid of Statistical Package for Social Sciences (SPSS) version 24 software. Descriptive statistics such as frequencies and percentages and measures of central tendency (mean) and dispersion (standard deviation) was used. Further, inferential statistics such as regression and correlation analyses was used to determine both the nature and the strength of the relationship between the dependent and independent. From 98 questionnaires that were dispatched for data collection, 87 questionnaires were returned completely filled, representing a response rate of 88.7% which is very good for generalizability of the research findings to a wider population. Both descriptive and inferential statistics showed that all conceptualized independent variables (audit disclosure, audit service cost, audit committee composition and audit risk reporting) significantly influenced audit quality in selected audit firms in Kenya. The study concluded that: one, audit disclosure significantly influences audit quality, that is, judgement and consequent action of the auditor are influenced and impaired when accounting matters are disclosed as KAM, thus affecting audit quality; two, audit service costs in terms of audit charges and insurance cover, client size, audit firm reputation costs have a significant bearing on audit quality. The study recommended that one, audit firms should consider all key and critical audit matters when making audit disclosures, two, audit firms should have binding audit charges corresponding to client size so as to avoid litigation and reputation costs, three, audit firms should have manageable audit committee size and diverse audit committee composition so as to win clientele and public trust. A similar study can be done in on clients of audit firms to assess audit quality in the eyes of the clients. Secondly, another study can be done to examine whether audit outsourcing has an effect of audit quality.

Key Words: Audit Disclosure, Service Cost, Committee Composition, Risk Reporting, Audit Quality

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INTRODUCTION

Audit quality has attracted divergent views in terms of definition and application due to unending financial frauds partially perpetrated by fraudulent auditors. The definition of quality of audit service was first coined by DeAngelo in 1981 when he opined that quality of audit service entails a discovery of breach in the client's system and reporting of the breach. Based on that school of thought, many scholars thereafter used this double approach to further define audit quality, focusing on competence and independence (Sirois, Marmousez & Simunic, 2016).

Chadegani (2011) asserted that, globally, audit quality has really attracted researchers who have adopted either direct or indirect approaches to measuring audit quality. Direct Measures mean that people could have an idea of the level of quality at the glance of the proxies, including financial reporting compliance, quality control reviews and bankruptcy desk reviews. Indirect Measures contains proxies which could not inform people of the level until they figure out the underlying logics between those proxies and the nature of audit quality, such as audit company size, auditor tenure, industry expertise, audit fees, economic dependence, reputation and cost of capital.

More so, in both developed and developing countries, Audit quality and the factors that affect quality have been the subject of interest in academic, practitioner and regulatory debates about auditing following a series of corporate collapses. As a result, there have been considerable developments in the auditing, financial reporting and governance regimes by regulators and professional bodies focused on enhancing audit quality which discusses various pertinent factors affecting audit quality in practice (IAASB, 2018).

Further, profitability of auditing firms and their surrounding market structure is essential to the quality of audit outcomes and earnings quality. In this sense, the likelihood of loss avoidance is adopted as one of the proxy in measuring audit quality. It is also related to meeting or beating

earnings target. Francis et al. (2011) emphasizes the importance of legal jurisdictions because audit markets are country-specific in nature due to country-level controls over the licensing and regulation of auditors. Even though the big 4 accounting firms operate a global network, each country constitutes a separate legal practice and audit market. Further, the divergence opinions regarding audit quality between auditors and users of audit reports points to lack of consensus concerning the meaning of audit quality. The divergence in quality perception is likely to emanate from variances in the perceptions as well as expectations of different stakeholders together with the audit quality's subjective. Therefore, this strand of researchers emphasizes on service quality factors along auditor's independence and competence (Knechel et al., 2013).

In Kenya, rising cases of financial scandals in both private and public organizations has raised eyebrows on the audit quality of listed audit firms in Kenya that have increasingly absolved managers involved in financial scams.

Four interrelated factors (inputs, outputs, interactions, and contextual factor) are some of the main attributes that have been identified as determinants of high-quality audits. First, the input factors are more related to the external auditor quality attributes including the values, ethics and quality control procedures. Both factors (input and output) should be applied directly at the audit engagement level, firm level, as well as the national level in order to achieve high quality audits. The third factor involves the interactions among the key stakeholders (external auditors and management, those charged with governance, users, and regulators) in that the way the stakeholders interact can have a particular impact on audit quality. These interactions, as described, can allow a dynamic relationship to exist between the inputs and outputs. Lastly, the contextual factors, such as corporate governance, legislative and regulatory requirements, are considered important to achieve

high audit quality in that they may shape or impact the efficiency of the audit process (IAASB, 2018).

Overall, audit regulators in Kenya have emphasized the contextual factors besides adherence to international audit standards in achieving a high-quality audit. This is because contextual factors, coupled with international auditing standards, are important as they can shape and influence audit performance, and, ultimately, audit quality, which has been lowly widely perceived by the Kenyan public.

Statement of the Problem

High level of audit quality is best supported and sustained if audit report preparers, audit committees, auditors, standard-setters, professional audit bodies, and regulators collectively work together towards achieving this common goal of embracing audit quality (Francis et al., 2011). However, audit quality in Kenya has been a subject of debate, especially in business entities where a number of organizations have reported financial frauds yet outsourced audit firms cleared such fraudulent firms of any accounting misstatements, financial flaws and omissions. That is, audit quality and the factors that affect audit quality has been the subject of interest in academic, practitioner and regulatory debates about authentic auditing following a series of corporate and business firms' collapses (Koch & Salterio, 2017). In Kenya for, instance, there are rising cases of financial scandals in both private and public organizations, which has raised eyebrows on the audit quality of registered audit firms in Kenya. Managers and other senior management involved in financial scams have been absolved of their wrong doing, plunging audit quality into serious doubt. Further, a number of public and private organization and financial institutions have gone under receivership despite having 'clean audit reports' thus posing a question of audit quality in terms of internal audit controls or audit quality of outsourced audit firms. For example, Ethics and Anti-Corruption Commission put Deloitte & Touche on spot for mishandling Mumias Sugar's financial

accounts, accusing the audit firm of professional negligence for failing to expose financial irregularities at the company. In 2015, the capital Market Authority exposed Deloitte & Touche for abetting fraud in CMC Ltd, which operated offshore account among other financial malpractices. Price Water Coopers was accused of abetting financial fraud by aiding managers of Haco Tiger Brands Kenya in overstating the company's profits by Sh879. In 2016, Earnest & Young was exposed by the CMA for aiding Uchumi Supermarkets in cooking its books of account. Also, PKF Kenya failed to unearth financial irregularities, which led to the collapse of imperial bank where auditors were given loans to the tune of Kshs.500 million. Empirically, one stream of researchers (Chen et al., 2013) found conflicting researches on the influence of human capital on audit quality. Some researchers showed significant association while others showed insignificant association especially in cases where purported skillful auditors compromise their professional ethics or independence and engage in audit frauds. Kanagaretnam et al. (2011) also found statistically negative relationship between auditor's fee, audit firm tenure and audit quality, because large fees to auditors provide them with fewer incentives to detect errors and frauds from their clients since they are economically dependent on the clients, which can be a threat to audit independence; and audit firm tenure in terms of the length of relationships between auditors and clients could impair auditor independence. Therefore, increasing unreported accounting and financial malpractices not captured in audit reports, inadequate empirical evidence and conflicting statistical evidence on what exactly determines audit quality motivated this study to examine influence of audit disclosure, audit service cost, audit committee composition and audit risk reporting on audit quality in selected audit firms in Kenya.

Objectives of the Study

The general objective of the study was to examine influence of financial auditing practices on audit

quality of established audit firms in Kenya. The study was guided by the following specific objectives;

- To examine influence of audit disclosure on the audit quality of audit firms in Kenya.
- To evaluate influence of audit service cost on the audit quality of audit firms in Kenya
- To assess influence of audit committee composition on the audit quality of audit firms in Kenya
- To determine influence of audit risk reporting on the audit quality of audit firms in Kenya.

The research hypotheses were;

- **H₀₁:** Audit disclosure does not significantly influence audit quality of audit firms in Kenya
- **H₀₂:** Audit service cost does not significantly influence audit quality of audit firms in Kenya
- **H₀₃:** Audit committee composition does not significantly influence audit quality of audit firms in Kenya.
- **H₀₄:** Audit risk reporting does not significantly influence audit quality of audit firms in Kenya

LITERATURE REVIEW

Contingency Theory

Kaplan and Mike (2014) advanced contingency theory, which posits that internal audit may be more effective when matched with the inherent nature of the organizational financial risks experienced. The essence of a contingency theory in internal audit would be, to find a fit between contingent factors and firms internal audit management practices and establish propositions of fit that will result in desired outcomes. According to the theory, firms embrace focusing on financial risks from the beginning and establishing a separate process to check organizational resilience to these risks, whereas others keep their financial risk management function that initially isolates itself from the other line of business units.

The theory concludes that effective management of financial risks depends on a contingent of organizations circumstances and context (Kaplan & Mike, 2014). Seemingly, the theory still requires

empirical data especially in the different context of internal audit in public organizations. This theory therefore connects to this study in the sense that valid and reliable auditing systems are supposed to guarantee audit quality in auditing firms by focusing on high risk areas and accurately reporting the audit outcomes.

Limperg's Theory of Inspired Confidence

This theory was developed in the late 1920s by a Dutch teacher, Theodore Limperg (Hayes et al., 2014). Limperg's hypothesis tends to both the interest for and the stasis of review administrations. As indicated by Limperg, the interest for review administrations is the immediate result of the support of a firm's outside stakeholders. These partners request responsibility from the administration as an end-result of their commitment to the organization. Since data given by the board may be one-sided, a potential uniqueness between the enthusiasm of the executives and outside partners, a review of this data is required.

As to the degree of review confirmation that reviewer ought to give, (the inventory side), Limperg receives a standardizing approach. The auditor's employment ought to be executed so that the desires for a reasonable outcast are not impeded. In this way, given the conceivable outcomes of review innovation, the examiner ought to do everything to meet sensible open desires. This theory of inspired confidence is therefore related to this study because it helps assess how auditors and auditing firms should enhance audit quality so as to attract public confidence in audit work.

Agency Theory

Agency theory was coined by Stephen Ross and Barry Mitnick and examines the connection that exists between investors and managers. The agent (management) agrees to discharge tasks of behalf of the principal (investors) and the latter pays a consideration for the services of the former (Andersson & Emander, 2006).

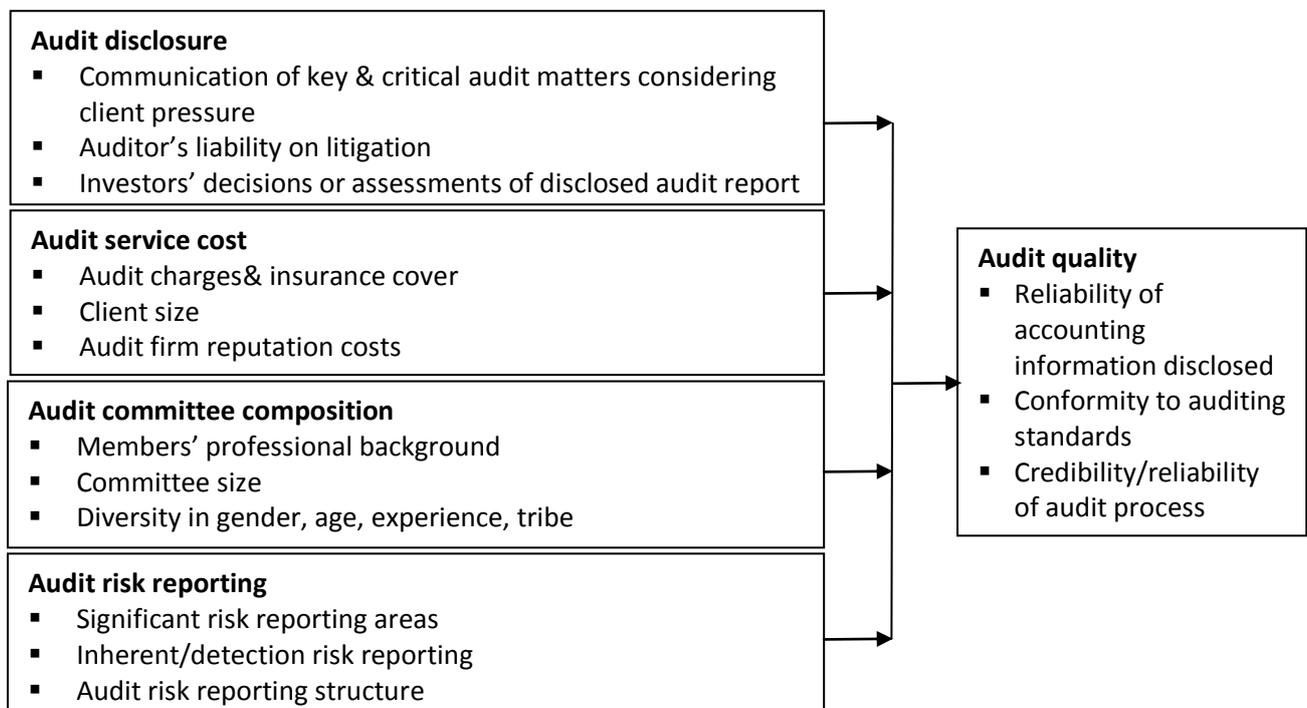
From this perspective, agency theory holds that the auditor plays an oversight role through supervising the relationship between investors and the management. Usually, there is an expectation gap in the event that there is no clarity of management responsibility, which needs to be precisely crafted in the organization's regulations. The auditor is charged with the duty of ensuring that the audit is discharged properly and is not liable for the client's accounting (Andersson & Emander, 2006).

Lending Credibility Theory

Lending credibility theory as detailed by Hayes et al. (2014) asserts that the fundamental role of audit on financial statements is to bolster their credibility. It thus emerges that auditors offer their clients credibility, an important financial statement ingredient. Audited financial statements often boost the confidence of users, who trust the accuracy of the information presented to them courtesy of audit. Audit enables financial statement users to make informed decisions regarding investment by providing accurate and reliable information.

Further, the management often used audited financial statements build trust of investors on stewardship of the agents and also to minimize asymmetry of information. Nonetheless, Wallace (2004) asserted that investors' decisions are not primarily founded on audited information. Financial statements are thus perceived as conveyors of information that was previously distributed. In the past, people viewed the auditor's responsibility as that of searching, discovering and preventing fraud in his/her client's company, which was an early 20th century perception (Hayes et al., 2014). Currently, audit function has evolved into providing advisory services to the client's accounting department.

In this regard, a credible auditor undertakes professional audit task through his/her professional judgment, which manifest in the form credible reports. This is because the primary goal of auditors is to give reasonable assurance by asserting and corroborating that financial statements portray true and fair view of their clients' entities. The auditor gives his or her professional advice on how to correct accounting errors and prevent possible accounting malpractices and financial fraud.



Independent Variables

Dependent Variable

Figure 1: Conceptual framework

Empirical Review

Asbahr and Ruhnke (2017) conducted a study on key audit matters (KAM) and discovered that auditors assess the likelihood that the recoverable amount is reasonable to be substantially higher when KAM are reported. Correspondingly, the data indicates that auditors assess the likelihood that they will require the client to adjust the estimation of the recoverable amount to be (slightly) lower when they consider KAM.

Kerler and Brandon (2016) study further found out that auditors exhibit significantly less skeptical judgment when KAM consideration is present than when KAM consideration is absent. This suggests that, when considering KAM and due to moral licensing, auditors are more willing to acquiesce to their clients' desired accounting treatments, believing either that KAM communication provide a defense for not requiring adjustments, or that KAM communication meets the auditor's fiduciary duty to ensure availability of information to the investing public. Hence, the findings suggested that when auditors consider KAM, auditor judgment performance is impaired, thus affecting audit quality.

Jamal, Marshall and Tan (2016) while conducting a study on conflict of interest disclosures revealed that client pressure manipulation has a significant positive impact on the probability that the auditors require an adjustment of the recoverable amount ($p = 0.020$, coef. = 0.919). Hence, high client pressure is associated with more skeptical action, which is indicative of a reasonableness constraint being triggered and may have a bearing on the quality of the audit report.

Yang (2018), in his study, indicated that audit fees are positively related with the company's specific financial, strategic, and operational risks, thus, companies in which there are deficiencies in internal controls have significantly higher audit fees. The study also revealed that carrying out an internal audit contributes to reducing fees and that auditors charge their clients higher fees when

greater governance risks are verified, especially in organizations with many governance levels.

Bortolon, Sarlo and Santos (2013) also revealed in their study that greater governance levels lead to more being spent on auditing, as they require more effort on the part of the auditor and greater monitoring of the client. They also found that various authors distinguish the fees charged by the Big 4 as premium fees in relation to other auditors in the market, revealing the quality of the procedures practiced and also the fact that the market reacts favorably when the client is audited by an auditor from this group. Therefore, the link between KAMs, quality of audit and audit expenditure might be certain.

In their study, Sundgren and Svanström (2014) revealed that the size of the audit firms could influence the deviation in audit quality. Larger audit firms are associated with high audit quality because of the availability of resources, less economic dependence on single clients and greater potential loss of reputation for big-size audit firms, which motivates the firms to perform high-quality audits and enhance the propensity of the auditors to issue high-quality financial statements or accurate audit opinion. Although mixed results have been reported, prior research has revealed that auditors from larger audit firms are more competent than those from smaller firms because larger firms are capable of providing rigorous training to ensure high audit quality.

Francis and Yu (2009) found that concerned auditors size, the Big 4 provide better quality audits. This can be explained by their investment in human and financial resources, enabling these auditors to have access to advanced technology and, therefore, they can invest in their auditing processes, they have capacity to withstand pressure from clients and identify and report non-compliances, and do not also compromise their independence.

Cipriano, Hamilton and Vandervelde (2017) study indicated that to ensure quality audit risk reporting, the auditor must form an opinion regarding

whether the financial statements are elaborated, in all relevant aspects, according to the applicable financial report structure. To form this opinion, the auditor must conclude whether reasonable certainty has been obtained regarding whether the full set of financial statements do not present relevant misstatements, independently of whether they, they should issue a modified opinion. Thus, given the consequences that issuing a qualified opinion can have for the clients, auditors have little margin for negotiating with them regarding the compliance of the financial statements with the accounting risk reporting standards.

Ferreira and Morais (2019) study, further found that issuing an opinion involving operational going concern risk, auditors must assess the consequences for their clients. That is, the auditor must weigh issuing an opinion with going concern risk that is not subsequently verified (type I error) against not issuing such an opinion and the client failing (type II error).

More so, Lee, Jiang and Anandarajan (2005) study indicated that auditors are more willing to disclose an opinion with going concern risk when the company in question is less profitable, reveals high levels of leverage, presents reduced liquidity and is small in size. Recording losses in consecutive years is also an indicator for the auditor to assess the capacity for going concern (Gallizo & Saladrignes, 2016), and uncertainty in relation to the estimates of the company's bankruptcy risk increases the possibility of obtaining an opinion with operational going concern risk.

Lennox and Kausar (2017) also researched on audit risk reporting and asserted that to protect their reputation and reduce the risk of litigation; auditors are likely to act carefully on audit risk reporting in companies with greater going concern risk. These companies tend to see their financial information being analyzed in more detail by the auditors and the increase in the auditors' efforts to reduce their audit risk reporting responsibility tends to improve the auditing procedures and, therefore, the identification of key audit matters. Further, clients

of the Big 4 have a lesser tendency to receive an opinion with going concern risk due to these clients being in a better financial position and their presenting a lower level of manipulation of audit reports.

METHODOLOGY

This study used explanatory survey design. The design is suitable for exploring relationships that are conducted in order to explain any behavior or reactions of people to a given phenomenon in the society (Peshkin, 1990). The target population of the study was 98 senior and middle level management staff from 42 registered audit firms whose headquarters was in Nairobi city county, Kenya. Primary data was collected by means of self-administered questionnaires. The questionnaires had structured questions. SPSS version 24 is the analysis computer software that was used to compute statistical data.

Study conceptualized Regression Model;

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

Y = audit quality

β_0 = Constant

X_1 = audit disclosure

X_2 = audit service cost

X_3 = audit team composition

X_4 = audit risk reporting

$\{\beta_0 - \beta_4\}$ = Beta coefficients

e = the error term

FINDINGS AND DISCUSSIONS

Descriptive Statistics

The descriptive statistics presented in this section were summarized responses on the statements measuring the study's independent variables (audit disclosure, audit service cost, audit committee composition, audit risk reporting) and dependent variable (audit quality) using Likert scale with values ranging from 5 to 1; that is; 5=Strongly Agree, 4=Agree, 3= Uncertain, 2=Disagree and 1= Strongly Disagree. The results were presented in the table form showing frequencies of responses as per each statement and its corresponding percentage score in brackets, plus means and standard deviations.

Audit Disclosure and Audit Quality

These are summarized responses on the perceptible influence of audit disclosure on audit quality in

established audit firms. The descriptive results are presented in table 1.

Table 1: Descriptive statistics: Audit Disclosure

Statement	5	4	3	2	1	mean	Std.dev
Detailed client-specific information exposed to the public influence audit quality	8(9.2)	51(58.7)	5(5.7)	20(23.0)	3(3.4)	3.64	0.950
Auditor's liability on litigation issues and the expected cost of losing a client influences audit quality	10(3.3)	48(55.2)	4(4.6)	22(25.3)	4(4.6)	3.55	0.902
Investors' decisions or assessments of disclosed audit reports influence audit quality	11(12.6)	50(57.5)	6(6.9)	19(21.8)	2(2.3)	3.57	0.983
Communication of key audit matters and their resolutions influences audit quality	12(13.8)	46(52.9)	8(9.2)	18(20.7)	3(3.4)	3.53	0.922
Client pressure manipulations influence audit report	11(12.6)	45(51.2)	5(5.7)	20(23.0)	5(5.7)	3.47	0.993
Valid listwise 87							
Grand mean = 3.552							

From table 1, most respondents agreed (58.7%) and strongly agreed (9.2) that detailed client-specific information exposed to the public influence audit quality, implying that some clients fear detailed exposure to the public which can compromise audit quality.

Similarly, most respondents agreed (55.2%) that auditor's liability on litigation issues and the expected cost of losing a client influences audit quality, implying that some clients possibly threaten audit firms to bear litigation costs in case of 'wrong disclosure' to the public, thus could affect audit quality.

More so, most respondents agreed (57.5%) and strongly agreed (12.6%) that investors' decisions or assessments of disclosed audit reports influence audit quality, which was reinforced by 52.9% of respondents that agreed that communication of key audit matters and their resolutions influences audit quality. That is communication of key audit matters that may negatively affect investor decisions make possibly force clients to make audit firms twist audit reports to boost investor confidence.

Lastly, most respondents agreed (51.2%) and strongly agreed (12.6%) that client pressure manipulations influence audit report implying that client pressure manipulations of audit report definitely affects audit quality.

In summary, the grand mean was 3.552 rounded off to 4 which was 'agree' on the Likert scale of measurement, implying that on average, most respondents agreed that audit disclosure influence audit quality. The results are supported by Kerler and Brandon (2016) who found that auditors exhibit fundamentally less skeptical judgment when accounting estimates are reported as KAM than when KAM is missing; thus the findings suggest that the disclosure of KAM impairs judgment performance of auditors because they become less skeptical in their work, thus affecting audit quality.

Descriptive Statistics: Audit Service Cost and Audit Quality

These are summarized responses on the perceptible influence of audit service cost on audit quality in established audit firms. The descriptive results are presented in table 2.

Table 2: Audit service cost

Statement	5	4	3	2	1	mean	Std.dev
Audit firm size determines audit charges which then influences audit quality	9(10.3)	52(59.9)	5(5.7)	18(20.7)	3(3.4)	3.58	0.973
Reduced auditor fees to increase its market share of customers adversely affect the quality of the audit process.	12(13.8)	46(52.9)	4(4.6)	21(24.1)	4(4.6)	3.49	0.948
Audit firm reputation costs influence audit quality	10(11.5)	47(54.0)	8(9.2)	20(23.0)	2(2.3)	3.34	0.981
Large audit firms have greater insurance coverage in the event of financial statement fraud and/or other forms of proven audit failure.	8(9.2)	48(55.2)	6(6.9)	19(21.8)	6(6.9)	3.51	0.930
Generally, firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid reputation costs	11(12.6)	45(51.8)	7(8.0)	22(25.3)	2(2.3)	3.47	0.946
Valid listwise 87							
Grand mean = 3.478							

Most respondents as shown in table 2 agreed (59.9%) and strongly agreed (10.3%) that audit firm size determines audit charges which then influences audit quality, implying that small audit firms could quote small audit service fee yet they possibly do not have the required capacity to deliver credible audit service.

Secondly, 52.9% and 13.8% of respondents agreed and strongly agreed respectively that reduced auditor fees to increase its market share of customers adversely affect the quality of the audit process; implying that reducing audit fees could be a marketing strategy by upcoming audit firms to attract and retain clients but reduced audit fees cannot possibly guarantee audit quality.

Further, most respondents agreed (54.0%) that audit firm reputation costs influence audit quality, and this was reinforced by 51.8% of respondents who agreed and strongly agreed (12.6%) that generally, firms with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid reputation costs.

Lastly, most respondents agreed (55.2%) that large audit firms have greater insurance coverage in the event of financial statement fraud and/or other forms of proven audit failure; implying that large audit firm with insurance cover cannot compromise on audit quality by reducing audit fees.

In summary, the grand mean of responses is 3.478 rounded off to 4 which is 'agree' on the Likert scale of measurement, implying that most respondents agreed that audit service cost influences audit quality. This is supported by Bortolon, Sarloand Santos (2013) study which revealed that many governance levels lead to more being spent on auditing, as they require more effort on the part of the auditor and greater monitoring of the client. The researchers also established that various authors distinguish the fees charged by the Big 4 as premium fees in relation to other auditors in the market, revealing the quality of the procedures practiced and also the fact that the market reacts favorably when the client is audited by an auditor from this group. In this dimension, there might be a positive relationship between KAM disclosure, quality of audit as well as audit charges.

Audit Committee Composition and Audit Quality

These are summarized responses on the perceptible influence of audit committee composition on audit

quality in established audit firms. The descriptive results were presented in table 3.

Table 3: Audit committee composition

Statement	5	4	3	2	1	mean	Std. dev
Members of audit team are drawn from diverse professional backgrounds	9(10.3)	49(56.5)	5(5.7)	19(21.8)	5(5.7)	3.39	0.998
The size of the audit team affects audit quality	7(8.0)	51(58.7)	7(8.0)	18(20.7)	4(4.6)	3.53	0.928
Audit team diversity in terms of gender, age, experience, tribe influences audit quality	10(11.5)	48(55.2)	6(6.9)	20(23.0)	3(3.4)	3.40	0.899
Audit team ethical standards influence audit quality	8(9.2)	50(57.5)	6(6.9)	19(21.8)	4(4.6)	3.46	0.973
Generally, audit team composition/diversity influences audit quality	8(9.2)	52(59.8)	8(9.2)	17(19.5)	2(2.3)	3.73	0.849
Valid listwise 87							
Grand mean = 3.502							

From table 3, most respondents agreed (56.5%) that members of audit team are drawn from diverse professional backgrounds implying that audit committee members drawn from diverse professional backgrounds can enhance audit quality.

Similarly, 58.7% and 8.0% of respondents agreed and strongly agreed respectively that the size of the audit team affects audit quality, implying a large audit committee could possibly not be compromised by the client. This was reinforced by 55.2% of respondents who agreed that audit team diversity in terms of gender, age, experience, tribe influences audit quality.

Further, 57.5% and 9.2% of respondents agreed and strongly agreed respectively that audit team ethical standards influence audit quality. This implies that audit team members with high professional standards usually stick to key audit principles and international audit standards, thus ensuring high level audit quality.

Lastly, most respondents agreed (59.8%) and strongly agreed (9.2%) that generally, audit team

composition and diversity influences audit quality. The results are supported by Sundgren and Svanström (2014) study which revealed that the size and diversity of the audit firms could influence the deviation in audit quality. Larger audit firms are associated with high audit quality because of the availability of resources, less economic dependence on single clients and greater potential loss of reputation for big-size audit firms, which motivates the firms to perform high-quality audits and enhance the propensity of the auditors to issue high-quality financial statements or accurate audit opinion. Although mixed results have been reported, prior research has revealed that auditors from larger audit firms are more competent than those from smaller firms because larger firms are capable of providing rigorous training to ensure high audit quality.

Audit Risk Reporting and Audit Quality

These are summarized responses on the perceptible influence of audit risk reporting on audit quality in established audit firms. The descriptive results are presented in table 4.

Table 4: Audit Risk Reporting

Statement	5	4	3	2	1	mean	Std.dev
All significant audit risk areas are identified and validly reported	11(12.6)	47(54.1)	4(4.6)	21(24.1)	4(4.6)	3.44	0.993
The firm authentically engages in inherent & detection risk reporting	10(11.5)	50(57.6)	5(5.7)	19(21.8)	3(3.4)	3.58	0.992
The firm adheres strictly to professional audit risk reporting structures	9(10.3)	51(58.7)	7(8.0)	18(20.7)	2(2.3)	3.55	0.980
The firm adheres to reliable risk based audit plans	8(9.2)	48(55.2)	6(6.9)	21(24.1)	4(4.6)	3.51	0.908
Generally, authentic audit risk reporting influences audit quality	9(10.3)	49(56.5)	5(5.7)	20(22.9)	4(4.6)	3.53	0.919
Valid listwise 87							
Grand mean = 3.52							

From table 4, most respondents agreed (54.1%) and strongly agreed (12.6%) that all significant audit risk areas are identified and validly reported while 24.1% disagreed to the statement implying that there are incidences where some significant audit risk areas are not identified and not validly reported, thus affecting audit quality.

Similarly, 57.6% and 11.5% of respondents agreed and strongly agreed respectively that the firm authentically engages in inherent and detection risk reporting, while 21.8% disagreed to the statement implying that there are cases where some audit firms do not engage in authentic inherent and detection risk reporting thus compromising audit quality.

More so, 58.7% and 10.3% of respondents agreed and strongly agreed respectively that the firm adheres strictly to professional audit risk reporting structures, while 55.2% of respondents agreed that the firm adheres to reliable risk based audit plans, which is assumed to boost audit quality.

In summary, most respondents agreed (56.5%) and strongly agreed (10.3%) that generally, authentic audit risk reporting influences audit quality. The grand mean of responses is 3.522 rounded to 4

which is 'agree' on Likert scale of measurement, implying that most respondents perceived audit risk reporting as a key determinant of audit quality in audit firms.

These results were supported by Cipriano, Hamilton and Vandervelde (2017) study which indicated that to ensure quality audit risk reporting, the auditor must form an opinion regarding whether the financial statements are elaborated, in all relevant aspects, according to the applicable financial report structure. To form this opinion, the auditor must conclude whether reasonable certainty has been obtained regarding whether the full set of financial statements do not present relevant misstatements, independently of whether they, they should issue a modified opinion. Thus, given the consequences that issuing a qualified opinion can have for the clients, auditors have little margin for negotiating with them regarding the compliance of the financial statements with the accounting risk reporting standards.

Inferential Statistics

Table 5: Correlations

		Audit Disclosure	Audit Service Costs	Audit Committee composition	Audit Risk Reporting	Audit Quality
Audit disclosure	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	87				
Audit service costs	Pearson Correlation	.516**	1			
	Sig. (2-tailed)	.000				
	N	87	87			
Audit Committee composition	Pearson Correlation	.665**	.626**	1		
	Sig. (2-tailed)	.000	.000			
	N	87	87	87		
Audit Risk Reporting	Pearson Correlation	.589**	.453**	.468**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	87	87	87	87	
Audit Quality	Pearson Correlation	.714**	.745**	.742**	.667**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	87	87	87	87	87

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

Multiple Regression Analysis

Analysis of multiple regressions was done after compulsory assumptions of multiple regression analyses were checked and met. The results in table 6 showed an R square of 0.763, thus we inferred

that the study model explained 76.3% of the variations in the audit quality of audit firms, while other factors not in this study model accounted for 23.7% of variations in the audit quality of audit firms, thus, it was a good model.

Table 6: Multiple Regression Analysis

Model Summary										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics				Sig. F Change
						F Change	df1	df2		
1	.874 ^a	.763	.752	.51650	.763	66.101	4	82		.000
ANOVA ^b										
Model			Sum of Squares	df	Mean Square	F			Sig.	
1	Regression		70.537	4	17.634	66.101				.000 ^a
	Residual		21.876	82	.267					
	Total		92.413	86						

Further, ANOVA results showed that the F-statistical value is significant ($F=66.101$, *significant* at $p<.001$), thus confirming the fitness of the analytical model. That is, from the study model, the significant F value inferred that the four study independent variables (audit disclosure, audit service cost, audit committee composition, audit risk reporting) are indeed different from each other and that they influence the dependent variable (audit quality) in varied ways.

More so, from the values of unstandardized regression coefficients with standard errors in parenthesis, all the independent variables (audit disclosure; $\beta = 0.218 (0.073)$ at $p<0.05$; audit service cost; $\beta = 0.297 (0.067)$ at $p<0.05$; audit committee composition; $\beta = 0.189 (0.085)$ at $p<0.05$, audit risk reporting; $\beta = 0.249 (0.062)$ at $p<0.05$; were significant predictors of audit quality (dependent variable).

Table 7: Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1(Constant)	.614	.200		3.073	.003
Audit Disclosure	.218	.073	.238	2.997	.004
Audit Service Costs	.297	.067	.353	4.431	.000
Audit Committee composition	.189	.085	.200	2.230	.028
Audit Risk Reporting	.249	.062	.274	4.018	.000

a. Dependent Variable: Audit Quality

Therefore, the final multiple regression equation for overall significant multiple influence of the study's four independent variables (audit disclosure, audit service cost, audit committee composition and audit risk reporting) on audit quality (dependent variable) is;

$$(v) y = 0.614 + 0.218X_1 + 0.297X_2 + 0.189X_3 + 0.249X_4$$

Where;

y= audit quality

X_1 = audit disclosure

X_2 = audit service cost

X_3 = audit committee composition

X_4 = audit risk reporting

Hypothesis Testing

The study tested a total of four null hypotheses and the decision of accepting or rejecting each null hypothesis is explained as follows; The decision is to either accept the null hypothesis (H_0) if its corresponding unstandardized regression coefficient $\beta = 0$ and not significant at 5% ($p>0.05$)

from the multiple regression results; or reject the null hypothesis (H_0) and accept the alternative hypothesis (H_A) if its corresponding unstandardized regression coefficient $\beta \neq 0$ and significant at 5% ($p<0.05$); tested as explained in the subsequent paragraphs.

Null Hypothesis one (H_{01}): Audit disclosure does not significantly influence audit quality of audit firms in Kenya. (Alternative Hypothesis one) H_{A1} : Audit disclosure significantly influence audit quality of audit firms in Kenya. Results: audit disclosure; $\beta = 0.218 (0.073)$ *significant* at $p<0.05$. Verdict; we rejected the null hypothesis (H_{01}) and accept the alternative hypothesis (H_{A1}) that Audit disclosure significantly influence audit quality of audit firms in Kenya. The results implied that a single improvement in effective communication of key and critical audit matters will lead to 0.218-unit improvement in audit quality of audit firms.

Null Hypothesis two (H_{02}): Audit service cost does not significantly influence audit quality of audit

firms in Kenya. (Alternative Hypothesis two) H_{A2} : Audit service cost significantly influence audit quality of audit firms in Kenya. Results: audit service cost; $\beta = 0.297$ (0.067) *significant* at $p < 0.05$. Verdict; we rejected the null hypothesis (H_{02}) and accepted the alternative hypothesis (H_{A2}) that audit service cost significantly influence audit quality of audit firms in Kenya. The results imply that a single improvement in requisite audit costs (audit charges and insurance cover) will lead to 0.297-unit improvement in audit quality of audit firms.

Null Hypothesis three (H_{03}): Audit committee composition does not significantly influence audit quality of audit firms in Kenya. (Alternative Hypothesis three) H_{A3} : Audit committee composition significantly influence audit quality of audit firms in Kenya. Results: audit committee composition; $\beta = 0.189$ (0.085) *significant* at $p < 0.05$. Verdict; we rejected the null hypothesis (H_{03}) and accepted the alternative hypothesis (H_{A3}) that audit committee composition significantly influences audit quality of audit firms in Kenya. The results implied that a single improvement in diversity and manageable size of audit committee compositions will lead to 0.189-unit improvement in audit quality of audit firms.

Lastly, Null Hypothesis one (H_{04}): Audit risk reporting does not significantly influence audit quality of audit firms in Kenya. (Alternative Hypothesis four) H_{A4} : Audit risk reporting significantly influence audit quality of audit firms in Kenya. Results: audit risk reporting; $\beta = 0.249$ (0.062) *significant* at $p < 0.05$. Verdict; we rejected the null hypothesis (H_{04}) and accepted the alternative hypothesis (H_{A4}) that audit risk reporting significantly influence audit quality of audit firms in Kenya. The results implied that a single

improvement in valid and consistent audit risk reporting will lead to 0.249-unit improvement in audit quality of audit firms.

CONCLUSIONS AND RECOMMENDATIONS

First, the study concluded that audit disclosure significantly influence audit quality, that is, judgement and consequent action of the auditor are influenced and impaired when accounting matters are disclosed as KAM, thus affecting audit quality. Secondly, the study concluded that audit service costs in terms of audit charges and insurance cover, client size, audit firm reputation costs have a significant bearing on audit quality.

Thirdly, audit committee composition in terms of committee size and diversity positively and significantly influence audit quality of audit firms. Lastly, objective audit risk reporting highlighting all financial risk areas really influences audit quality of audit firms.

On recommendation, first, the study recommended that audit firms should consider all key and critical audit matters when making audit disclosures. Secondly, audit firms should have binding audit charges corresponding to client size so as to avoid litigation and reputation costs. Thirdly, audit firms should have manageable audit committee size and diverse audit committee composition so as to win clientele and public trust. Lastly, audit firms should have authentic risk reporting areas and standard audit risk reporting structure that detect and validly report all audit risks.

Areas for Further Research

First, a similar study can be done on clients of audit firms to assess audit quality in the eyes of the clients. Secondly, another study can be done to examine whether audit outsourcing has an effect of audit quality.

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