

**AN ANALYSIS OF AUDIT QUALITY ATTRIBUTES AND CLIENT
SATISFACTION FOR COMPANIES QUOTED AT THE NAIROBI
SECURITIES EXCHANGE**

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DECLARATION & APPROVAL

DECLARATION

This Research Project is my own original work and has not been presented for a degree qualification in any other University or Institution of higher learning.

SIGNED DATE

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APPROVAL

This Research Project has been submitted for Examination with my approval as the University Supervisor.

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DEDICATION

This project is dedicated to my wife Evelyne Chahayo for her patience and understanding and my sisters Anne and Maureen who have been a source of inspiration and support in the course of my studies, to my parents Jared and Linet Mbakaya for their guidance and financial support.

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ABSTRACT

With the collapse of Enron involving the misconduct of one of the Big 4, Arthur Andersen & Co. in the US and the CMC and Uchumi scandals in Kenya involving the big audit firms Delloitte and PwC, the argument for audits for big audit firms as synonymous with quality audit has become questionable. Despite several studies having been done on audit quality, none of them has touched on the analysis of audit quality attributes in relation to client satisfaction for the listed companies on the Nairobi Securities Exchange. The general objective of the study was to analyze audit quality attributes and client satisfaction for companies listed at the Nairobi Securities Exchange and the study will be significant to the management of the listed companies and the audit firms alongside the scholars who may want to pursue the subject further. The study comprised of all the listed companies on the Nairobi Securities Exchange as at 31st December 2013, they were 60 companies in number. The study reviewed literature on audit qualities which included audit reliability, audit tangibility, auditors assurance, auditors responsiveness and auditors empathy, also auditors experience and auditors independence were reviewed. Client satisfaction, empirical studies and theoretical review were also covered, the literature review finalized with the conceptual framework. The study employed descriptive study design and entailed the 60 listed companies as the population, which was taken as a census because of the small number. Primary data was collected by use of a structured questionnaire by use of drop and pick later. The collected data was analyzed first by use of descriptive statistics; correlation analysis was done to establish the relationship between the dependent and independent variables and finally a regression analysis was performed on the model to test the hypotheses. A total of 60 questionnaires were sent out of which 49 were respondent to, 41 were satisfactorily filled and considered for analysis, this formed 84 percent response rate. The study found that only two out of five audit quality attributes (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) were statistically significant related to client satisfaction. Thus the two attributes of tangibility and responsiveness has a significant impact on the client satisfaction.

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ABBREVIATIONS

NSE	Nairobi Securities Exchange
CMA	Capital Markets Authority
CMC	Cooper Motor Corporation
SAS	Statement on Auditing Standards
AIMR	Association for Investment Management and Research)
GAAS	Generally Accepted Auditing Standards
CPAs	Certified Public Accountants
SME's	Small Medium Enterprises
PwC	Price Waterhouse Coopers
IPO	Initial Public Offer
PCPS	Practice Center provides
CRSP	Center for Research in Security Prices

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter briefly highlights: background to the study, statement of the problem, objectives of the study, research hypotheses, justification of the study, scope and limitation of the study and finally outlines definition of variables.

1.1 Background of the study

In the recent past, the world has experienced a rise in corporate failures, financial scandals and audit failure. This has stimulated firm debate among the accounting profession's regulators and the public about the audit expectations gap. This is because the accounting information users often ask where auditor was when the scandals were taking place. Some accounting information users therefore seem to partly blame the auditors for corporate failures (Sidani, 2007). With the collapse of Enron involving the misconduct of one of the Big 4, Arthur Andersen & Co., the argument for audits for big audit firms as synonymous with quality audit has become questionable. These corporate scandals confirmed a requirement for high quality audit and considerable attention to different factors that may have effect on audit quality. High quality audit refers to the production of financial information without misstatements, omissions or biases. From an agency theory perspective, Dang (2004) argues that audited financial statements are a monitoring mechanism to provide assurance for users of financial information

In Kenya Deloitte exhibited poor audit quality by failing to recognize losses from CMC assets that were damaged, failing to disclose the auto firm's subsidiary in South Sudan in the annual reports, abetting the booking of undelivered vehicle sales as revenues and not capturing interest payments for cars sold on credit (Kamau et al. 2012). A final report on CMC's operations by the regulator CMA for the 2009 and 2010 released revealed that directors and management signed misleading financial statements, the accounts were not prepared in compliance with the International Financial Reporting Standards, consequently putting the firm on a precarious business model. Such evidence has raised questions concerning the extent to which audit firms participate in company activities and whether shareholders rights are protected moving forward to avoid recurrences. The Deloitte saga marked the second time one of the Big Four audit firms

in Kenya was being put on the spotlight over the quality of its audit services after the investigation of PwC in the wake of Uchumi Supermarket's near-collapse in 2006. These latest CMC developments turned the spotlight on the auditors' responsibility in failing to detect the alleged inflation of invoices and diversion of funds from the company by its directors which greatly impacts on the quality of the audit services (Onwong'a, et al. 2010)

During the early development of the profession, auditors were engaged to provide almost absolute assurance against fraud and planned mismanagement since the size of the firms during that time were reasonably small. This role however was reduced to the provision of reasonable assurance as time went by and organizations became much complex. According to Porter (1997) the primary objective of an audit in the pre-1920's phase was to uncover fraud. This objective however changed by the 1930's, whereby the primary objective of an audit changed to verification of accounts. This was perhaps due to the increase in size and volume of companies' transactions which in turn made it difficult for auditors to examine all transactions. As a result the auditing profession therefore began to assert that the responsibilities of fraud detection rested with the management. Further, management should also implement appropriate internal control systems to avert fraud in their companies. Schelluch et al. (2006). Most of the users of accounting information may not have adjusted to the changed role of the auditors hence the existence of an audit expectation gap.

The audit expectation gap has two components, the first one being the difference between what society expects auditors to achieve and what they can reasonably expect to accomplish, known as the reasonableness gap and the second one being the difference between the responsibilities society reasonably expects of auditors and auditors' actual performance, known as the performance gap. In view of the discussion above on the role of auditor in Kenya as required by law and accounting international standards, Kimutai (2012) explains that an expectation gap mainly in relation to the level and nature of auditor's responsibility exists in Kenya.

Audit quality by Khomsiyah and Indriantoro (1998) has become an important issue for the accounting profession. So much pressure from the outside parties to monitor the work and demands to increase audit quality process. To fulfill the good audit quality then auditors in

carrying out his profession as an examiner should be guided on the accounting code of ethics, professional standards, and applicable accounting standards in Kenya. Each auditor must maintain the integrity and objectivity in carrying out their duties, by acting honestly, firmly, without pretensions, so that he can act fairly, regardless of pressure or demand certain parties to fulfill their personal interests. Basuki and Krishna (2006) states that audit quality is a complex issue because so many factors that can affect the quality of the audit depends on the point of view of each party, making audit quality difficult to measured becomes a matter that is sensitive to individual behavior conducting the audit. Theoretically, the quality of work is usually associated with auditor qualifications, expertise, timeliness of completion of the work, a competent examination of the sufficiency of evidence at the lowest cost and the independence to client.

Rudyawan and Badera (2007) states that the auditor who has a reputation can provide a better audit quality, including in revealing going concern problems in order to maintain their reputation. According to Cheng, Liu, and Chien (2008) reputation of the auditor has a relationship with the human resources of the audit office, human resources (human capital) is the most important asset of a public accounting firm. Audit firm must ensure that they have enough personnel equipped with the competencies and professional characteristics so that they can perform according to standards, legal requirements and community expectations. To address these expectations, audit firms must establish a planned process of human resource management. To ensure the viability and flexibility and its ability to meet the needs of investors, audit firms must continue to recruit, develop, educate, and train auditors at all levels are prepared to conduct high quality audits in a dynamic environment. The task is to examine public accounting and give opinion on the fairness of financial statements of a business entity based on standards set by the Cheng, Liu, and Chien (2008). Based on these two public accounting have an obligation to maintain the quality of audits to the standards set by the Indonesian Institute of Accounting.

Oliver (1997) defines satisfaction as the consumer's fulfillment response, the degree to which the level of fulfillment is pleasant or unpleasant. Zeithaml and Bitner (2000) define satisfaction as the customers' evaluation of a product or service in terms of whether that product or service

has met their needs and expectations. Dissatisfaction with the product or service is resulted as failure to meet the customers' needs and expectations. Satisfaction and perceived quality are highly inter-correlated (Bitner and Hubbert, 1994). Some studies find that satisfaction drives a general perception of quality, while others find that perceptions of quality drive satisfaction (De Ruyter, Bloemer, and Peters, 1997). Most marketing researchers accept a theoretical framework in which quality leads to satisfaction Oliver (1997), which in turn influences purchasing behaviour (Oliver, 1999). These arguments suggest that service quality is likely to affect customer satisfaction.

1.2 The statement of the problem

With the collapse of Enron involving the misconduct of one of the Big 4, Arthur Andersen & Co., the argument for audits for big audit firms as synonymous with quality audit has become questionable. Corporate scandals like Enron debacle and Andersen collapse in the USA and Uchumi and CMC in Kenya confirmed a requirement for high quality audit and considerable attention to different factors that may have effect on audit quality. Several researchers have conducted research into the audit quality of the audit firms. According to the previous empirical studies on audit quality, the researchers started with around 50 to 100 factors and ended up with 3 to 10 of the most important attributes. Moreover, the researchers tried to find factors affecting audit qualities such as audit fees, the size of the audit firms, increased audit partner tenure and audit quality reduction behaviours, defined as actions taken by an auditor during an engagement that reduce evidence-gathering effectiveness inappropriately which can menace audit quality or damage the profession's reputation, none of the previous studies compared the audit quality attributes with client satisfaction and that is what necessitated the researcher to seek and evaluate the relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi Securities Exchange

1.3 The objectives

The general objective of the study was to evaluate the relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi Securities Exchange.

1.3.1 The specific objectives of the study were;

- i. To determine the effect of audit tangibility on client satisfaction.

- ii. To determine the effect of audit reliability on client satisfaction.
- iii. To determine the effect of audit responsiveness on client satisfaction.
- iv. To determine the effect of audit assurance on client satisfaction.
- v. To determine the effect of audit empathy on client satisfaction.
- vi. To evaluate the relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi Securities Exchange

1.4 Hypotheses testing

The researcher sought to test the following hypotheses

- Ho1 There is no significant relationship between audit tangibility and client satisfaction
- Ho2 There is no significant relationship between audit reliability and client satisfaction
- Ho3 There is no significant relationship between audit responsiveness and client satisfaction
- Ho4 There is no significant relationship between audit assurance and client satisfaction
- Ho5 There is no significant relationship between audit empathy and client satisfaction
- Ho6 There is no significant relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi Securities Exchange

1.5 Significance of the Study

In a world where many companies are increasingly relying on audit, it is necessary for a company's management to understand the full degree of operational dependence on audit systems or the extent to which audit plays a role in shaping the firm's strategies.

This research will be necessary to the Directors/Owners of a firm to set standards for audit governance. Many firms on the NSE have embraced audit and according to past studies expenditures on audit have significantly increased. It is therefore necessary to monitor the spending and use of audit to ensure value for money.

The research finding will be important to scholars by adding to the body of existing knowledge on internal audit and risk management.

1.6 The Scope of the study

The study comprised of all the listed companies at the Nairobi stock exchange as at 31st December 2013. There were 60 companies as at that date.

1.7 Limitation of the Study

The limitations of the study need to be acknowledged.

The empirical data collected was representative of the listed firms only and this should not be taken as a generalization for other industries because of different industry characteristics, business culture, and management styles imposed.

Due to logistical constraints, questionnaires for companies located outside Nairobi were sent online where they were responded to and send back; as a result thus most of them were not fully answered and therefore not considered for analysis.

1.8 Definition of variables

Service quality: A measure of how well the service level delivered matches customer expectations.

Audit quality Is a function of the auditor's ability to detect material misstatements (technical capabilities) and reporting the errors (auditor independence

Audit quality attributes Is the desired behaviors/approaches that enables auditors detect material misstatements thus satisfying their clients

Quality service: Means conforming to customers' expectations on a consistent basis

Reliability: The ability to deliver the promised service dependably and accurately. It is a situation when keeping promises of delivery, price and complaint handling.

Responsiveness: Willingness to help customers and provide prompt service. It measures stresses service personnel's attitude to be attentive to customer requests questions and complaints.

Assurance: Is the service quality dimension that focuses on the ability to inspire trust and confidence.

Empathy: Is the service aspect that stresses the treatment of customers as individuals.

Tangibles:	Are the service dimension that focuses on the elements that represent the service physically. They are the physical facilities, equipment, staff appearance, etc. of the audit firm
Satisfaction:	Is an overall customer attitude towards a service provider or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some need, goal or desire.
Experience	It the prior experience by the audit firm in auditing the client.
Independence	The ability of the audit firm to undertake independent audit without due influence
Auditing	Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users
Auditor	Is an approved or authorized accountant with the capacity to carry out audit
Non-audit Services	Non-audit services are all those services provided by audit firms which do not involve audits, for instance, bookkeeping, tax services, and management advisory services including investment banking assistance, strategic planning, human resource planning, computer hardware and software installation and implementation, and internal audit outsourcing.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, a literature review of the various research objectives has been undertaken. It further presents a review of past studies and the critical review and lastly it presents the general literature review of the subject matter.

2.2 Audit qualities

More recently the Global Financial Crisis has seen policy makers once again focus attention on the importance of an effective audit function as a key component in effective capital markets and attempt to identify key drivers of audit quality. For example, in the US the Advisory Committee on the Auditing Profession (2007) was established to provide advice to the US Treasury Department on the auditing profession. In the UK the Financial Reporting Council released The Audit Quality Framework 2008 and in Australia, The Treasury released Audit Quality in Australia – A Strategic Review 2010. These investigations and regulatory changes make it clear that there has been considerable dissatisfaction with the effectiveness of corporate governance, the quality of the audit process and the roles of auditors and auditing. In response, regulators and the accounting profession have taken a number of policy measures to improve audit quality in both fact and appearance.

The importance of auditor individual differences in the audit process has been articulated by several writers. For example, Nelson and Tan (2005) make the following point: “Auditors need to perform a variety of tasks to form an overall assurance or attestation opinion. To do so, various personal attributes of the auditor (e.g., skills and personality) influence the outcome.” As such it is likely that individual characteristics of the auditor could affect the quality of the audit being undertaken. However, prior archival research has largely conducted the audit quality analysis at the audit firm or individual office level (Francis, 2004). The importance of individual auditors in determining audit quality has received increasing attention from policy-makers and academics in recent years. Wallman (1996) suggests that in assessing auditor independence, the focus should be on “the *individual*, office, and other unit of the firm making audit decisions with respect to a particular audit client”. In a recent review paper, DeFond and

Francis (2005) suggest that the audit quality analysis be push from the audit firm or office level down to the *individual* auditor level.

According to Wicks & Roethlein, (2009), quality has many different definitions and there is no universally acceptable definition of quality. They claim it is because of the elusive nature of the concept from different perspectives and orientations and the measures applied in a particular context by the person defining it. This therefore means the definition of quality varies between manufacturing and services industries and between academicians and practitioners. These variations are caused by the intangible nature of its components since it makes it very difficult to evaluate quality which cannot be assessed physical implying other ways must be outlined in order to measure this quality. Quality has been considered as being an attribute of an entity (as in property and character), a peculiar and essential character of a product or a person (as in nature and capacity), a degree of excellence (as in grade) and as a social status (as in rank and aristocracy) and in order to control and improve its dimensions it must first be defined and measured (Ghylin et al., 2008).

2.3 Audit Quality Attributes

Audit quality attribute is determined by an auditor's ability to discover breaches of accounting standards and their incentives to report such breaches, i.e., audit quality is a product of auditor competence and independence. Oliver (1999) argues that large audit firms are associated with higher audit quality because they are more independent. For large auditors, such as the Big 4 international audit firms, no single client is of more importance and there is more to lose if they misreport. Furthermore, Big 4 firms have established brand name reputations and, thus, have incentives to protect their reputation by providing high-quality audits (Francis and Wilson, 1988). Motivated by these arguments, early studies use the dichotomy between Big 4 and non-Big N audit firms, and show that Big 4 audit firms are of higher quality and are more conservative (Francis and Krishnan, 1999). Big audit firms consist of many city-based practice offices. Oliver (1999) argument regarding audit quality and firm size can be applied to the office level. In terms of economic importance, for example, a client that is not big relative to a Big 4 firm could be very important to one of the firm's offices. Accordingly, more recent studies shift the audit quality analysis from the firm level to the office level (Francis and Yu, 2009).

A natural extension of this literature is to move the audit quality analysis further down, from the level of the office to that of the individual auditor, because individual auditors may differ in regard to both dimensions of audit quality, i.e., independence and competence (DeFond and Francis, 2005). Accounting scholars have recently begun to investigate the role of individual auditors in determining audit quality. For example, Chen et al. (2010) perform one of the first analyses of how economic dependence affects audit quality at the individual auditor level using Chinese data, and find that the impact of client importance on the independence of individual auditors is conditional on the legal environment.

2.3.1 Audit Reliability

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria (Arens et al., 2003). Financial statement audit is the determination by auditors of whether the financial statements of a company show a true and fair view. The end-product of an audit is the issuance of an audit opinion, i.e. qualified or an unqualified, on the financial statements of the public listed companies. Besides audit service, audit firms also offer other types of services: taxation, secretarial and consultation work. Taxation involves amongst others, assisting clients to prepare the tax returns and in planning their tax. Secretarial service involves assisting clients in preparing the submission of documents to the Companies Commission. Consultation services include expressing views on whether a certain exercise by the client would be detrimental to the company as well as offering alternative solutions to business problems. Audit firms also offer other non-assurance related services such as review engagement.

Most previous research pertaining to quality of services offered by audit firms revolves around audit work. Audit quality is the probability that the auditor will both discover and report a breach in the client's accounting system, and this depends on the auditor's technical capabilities and auditor's independence. Two explanations for variation in audit quality vis-a-vis the independence issue found in the literature are auditor reputation and power conflict. Faced with competitive pricing pressure, an incumbent auditor can choose to lower both audit quality and audit price contemporaneously to retain the client and preserve quasi-rents. Two proxies of audit firm size thought to affect audit quality are the number of clients and the

percentage of audit fees dependent on retaining any client (Fuerman, 2003). It is argued that large audit firms can mitigate against such opportunistic behaviour because they have more audit clients and have more to lose from loss of reputation. An auditor with many clients will also be more concerned with maintaining their reputation; hence is less likely to lower audit quality. The number of clients served reflects industry expertise and variations in technical capabilities. Thus, audit quality increases with the number of audit clients. On the other hand, over a long association with a client, the auditor may become less challenged and less likely to use Service quality, satisfaction and loyalty innovative audit procedures, and may fail to maintain an attitude of professional skepticism. Hence, audit quality will decrease as audit tenure increases.

2.3.2 Auditors Tangibility

Rudyawan and Badera (2007) states that the auditor has a great reputation and a name can provide better audit quality, including the problem of going concern expressed by maintain their reputation. While clients typically perceive the auditor originating from the big five or affiliated with international accounting firms have characteristics that can be associated with quality, such as training, international recognition as well as the peer review (Mayangsari, 2004). According to Cheng, Liu, and Chien (2008) the reputation of auditors has relationships with human resources audit firm, the resources people (human capital) is the most important asset of the audit firm. Audit firm must ensure that they have sufficient personnel equipped with the competencies and professional characteristics that they can be performed in accordance with the standards, legal requirements and expectations the community. To address these expectations, audit firms should be formed in a planned process of human resource management. To ensure the viability and flexibility and its ability to meet the needs of investors, audit firms must continue to recruit, develop, educate, and train auditors at all levels prepared to conduct high quality audits in the environment that dynamic.

According to Watts and Zimmerman (1986) in Lee (1994) advise auditors to strengthen reputational effect with many mechanisms, for example, membership of professional societies which regulate their professional attitude, offer their services as a partner in the audit company with unlimited liability (based on that, if successfully prosecuted for not applicable competently and independently, they not only lose their right to practice as an auditor but they

also will lose some of its good name their capital as a professional), merge audit firm to achieve a measure of economic and public presence become a reputable name.

Based on earlier research it can be concluded that the audit quality is determined by two things: how the auditor can find misstatements or violations that occur in the client's accounting and reporting system, it is consistent with the opinion of Oliver (1999) which states that the audit quality is a possibility in which an auditor would find and report a violation of existing clients in the accounting system. So the possibility that the auditor will find misstatement depends on the auditor understanding quality, in this case the longer auditor tenure will become less objective or will be more experienced to find the misstatements in the client's accounting system. And auditor specialization affect in how the auditor understand the client's industry and help to find errors in the client's accounting system because characteristics of industry may differ between each other. While the act of reporting misstatement depends on the independence and reputation of the auditor, where the independence is a major requirement that must filled by all public accountant. And reputation is a guarantee of their professionalism; reputation is required to uphold high integrity as an auditor.

2.3.3 Auditors Assurance

Statement on Auditing Standards (SAS) No. 59, "The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern", requires auditors to evaluate whether substantial doubt exists about an audit client's ability to continue as a going concern. It stresses that this information is an essential signal for users of financial statements. Prior research has indicated that the issuance of a going concern opinion by the auditor is likely to be preceded by increasing probability of bankruptcy (McKeown, Mutchler and Hopwood, 1991). Chappell, Ota, Berryman, Elo, Preston and Jones (1996) compares 68 audit reports that disclose going concern uncertainties during the period 1979 to 1988 with 86 similar financially distressed firms that receive unqualified opinions during the same period. He finds that firms that receive a going concern opinion had negative abnormal returns whereas the financially distressed firms that did not receive a going concern report had positive abnormal returns over a 5 day window around the release of the going concern opinion. Carlson, Glezen and Benefield (1998) confirm these results. Geiger and Raghunadhan (2001) explicitly speculate that going concern opinion might result in increased cost of capital to the client.

2.3.4 Auditors Responsiveness

The cost of capital of a client audited by a Big 4 auditor could be lower due to the monitoring role, the information role, the insurance role or a combination of all three roles. Disentangling the effects of such roles is a difficult task, which requires very unique circumstances. For example, Menon and Williams (1994) were able to isolate the insurance role of auditing within the context of an auditor's bankruptcy. Another approach would be to identify an audit quality attribute that is unlikely to be related to a specific auditing role. We argue that industry specialization is not related to the insurance capacity of the auditor. On the other hand, specialization would be related to the monitoring and information roles of the auditor. Casterella, Francis, Lewis and Walker (2004) describe auditor industry specialization as "A differentiation strategy whose purpose is to provide auditors with a sustainable competitive advantage over non-specialists." Krishnan (2003) and Balsam et al. (2003) find that there is less earnings management in clients of specialist Big 4 auditors compared to non-specialist Big 4 auditors by analyzing the discretionary accruals of client firms. Dunn and Mayhew (2004) find that clients of specialist Big 4 auditors have significantly better AIMR (Association for Investment Management and Research) rankings than clients of non-specialist Big 4 auditors, signifying that the former have better quality financial reports.

There is also empirical evidence from the governmental sector that supports the argument that industry specialization is an important audit quality attribute. O'Keefe, King and Gaver (1994) found a negative relation between auditor specialization and Generally Accepted Auditing Standards (GAAS) violations. The auditor's industry specialization implies extensive knowledge of the client's business environment, its industry accounting practices and potential illegitimate accounting practices. Such knowledge and expertise would be perceived by investors as an information risk reducing factor. Therefore, according to Leuz and Verrecchia (2005) it should ultimately result in lower cost of capital for the clients of specialist Big 4 auditors, compared to non-specialist Big 4 auditors. Audit firm size, and not industry specialization, determines the audit firm's ability to pay compensation in case of a client failure. On the other hand, a negative relation between engaging a specialist Big 4 auditor and the client's cost of capital is indicative of non-insurance roles.

2.3.5 Auditors Empathy

Audit quality is not primarily about auditing standards but about the quality of people, their training and ethical standards. The skills, personal qualities of audit partners and staff, and the training given to audit personnel are important factors that determine auditor quality. Research in business ethics has shown that personality type is directly related to individuals' ethical orientation (Rayburn and Rayburn, 1996). A large and varying body of literature exists that investigates many different aspects of behavioral perspectives of audit quality, such as Reduced audit quality Baotham et al, (2009), Moral Reasoning Sweeney, (1995), Relationship and Behavioral perspectives Beattie & Fearnley, (1995), Ethical reasoning of auditors, Human Capital Cheng et al, (2008), Service Quality and Technical Quality that consists of: Reputation Baotham, (2009), Experience, Capability Baotham et al, (2009) and Independence (Bobbie Baotham, 2009).

Malone and Roberts (1996) developed a more comprehensive model of factors to explain reduced audit quality behaviors. They investigated the relationship between the incidence of reduced audit quality behaviors and auditors' personality characteristics, auditors' professional characteristics, auditing firm's quality control and review procedures auditing firm structure and auditors' perceptions of time budget pressure. They concluded that auditors' perceived strength of their firms' quality and review procedures and auditors' perceived strength of their firms' penalties for committing reduced audit quality acts are inversely related to incidences of reduced audit quality behaviors (Malone and Roberts, 1996). Baotham (2009) investigated the effects of audit independence, quality, and credibility on reputation and sustainable success of CPAs in Thailand. The results indicated that audit independence has a positive relationship with audit quality and credibility, and audit quality has a positive association with audit credibility. Likewise, audit quality and credibility significantly influence on reputation that is also related to sustainable success. For audit independence's antecedents, intrinsic ethical concentration and extrinsic stimulus outstandingly play important roles.

2.3.6 Auditors Experience

There has been a perception among regulatory authorities that auditors, over time, will develop stronger relationships with clients, resulting in a deterioration of audit quality. This has led to the imposition of mandatory auditor retirement in some countries Geiger and Raghunandan

(2002) for a discussion on this issue). However, academic research into this area finds contrary results. Research has found that there are more audit failures in the early years of the auditor-client relationship Geiger and Raghunandan (2002) and shorter audit tenure is associated with lower earnings quality (Myers, Myers, and Omer, 2003). Investors, too apparently acknowledge this fact and reward long auditor-client relationships with lower cost of debt Mansi, Maxwell and Miller (2004) and higher earnings response coefficients (Ghosh and Moon, 2005). If longer audit tenure results in a higher quality audit, this should also reduce information risk and result in a lower cost of capital.

2.3.7 Auditors Independence

According to Mulyadi (2002) Independence means: "Mental attitude that is free from influence, not controlled by the other hand and does not depend on others. The independence also means the honesty in self-auditors in considering the facts and the consideration of objective impartiality of the auditors themselves in formulate and express his views ". Arens, Randal and Beasley (2003) define independence in the audit means an impartial perspective in the implementation testing, evaluation of inspection results, and preparation of audit reports. Research on the independence already much done both domestically and abroad. Salehi (2011) examined the three factors that affect the independence of public accountants, namely: financial bond and business relationships with clients, the provision of other services than audit services to clients, and the length of the relationship between public accountant and clients. Porter (1997) conducted a study on four factors that affect the independence of public accountants. Respondents' researches were accounting firms, banks and financial analysis. Factors under study was the provision of consulting services to clients, inter-office competition public accountants, public accounting firm size, and duration of the audit results. Outcome research showed that public accounting firms that provide management consulting services to clients being audited increase the risk of damage to independence than those without providing the service. The level of competition among public accounting firms can increase the risk of damage to the independence of public accountants. Smaller public accounting firm have a greater risk of losing independence than the greater public accounting firm such as big five public accounting firm. While the long bond factors influence the relationship with client's significant effect on the independence of public accountants. And independence effect on audit quality.

2.4 Client Satisfaction

Customer service has never been as exciting as it is today because customers are more connected and knowledgeable than ever before, the social media, online customer reviews, messages forums and the power of internet search are tipping and shifting the balance of power in their favour. Kevin et al (2011) observed that websites provides the type of information that customers would like to have, this has been seen to increase in use of internet services. Effective modes of communications have shaped the marketplace enabling consumers to present their preferences and standards to organizations that are poised to listen and respond (Adele, 2013). As contributed by Schultz (2012), that as competition in the organizations intensifies, managers have learnt to shift their strategies from customer acquisition to customer retention and loyalty, which is only possible with effective customer satisfaction.

A research done by Kenexa Institute found out that there was a strong positive relationship between employee and customer satisfaction (Wiley, 2012), and this is because employee behaviour is defined as consequences of their actions in delivering services. Knowing what the customer expects is the first and possibly most critical step in delivering good quality service, but being wrong about what customers wants can mean losing a customer's business when another company hits the target exactly.

Customer loyalty is the degree to which customers experience positive feelings for and exhibit positive behaviour towards a company or brand. According to Kotler and Armstrong (2006), loyalty is won through delivery of consistent superior customer service, it means providing them with services that are so good such that there is little chance of not meeting up to their expectations and requirements. Retaining loyal customers for organizations is essential and a core factor in keeping the industry in shape and competitive enough to measure itself up to the changing trends of the industry (Schulz, 2012). Achieving the desired results of customer loyalty is frequently a customer action, and that loyal customers don't leave for any attractive offer elsewhere, but rather gives the organization a chance to beat the other offer. Kotler and Armstrong (2006) saw loyalty as a factor of consistent superior customer service, they found out that five percent increase in customer retention yielded seventy five percent increases in the net present value of a firm.

In research contributions, Cvent (2013) found that in today's era of customer-oriented business strategy, the 80/20 rule has proved to be one of the fundamental business effects; this is where 80 percent of profitable revenues come from just the 20 percent of the organizations' clients. Findings from Carson Research Consulting (2013) indicate that loyal customers are those who purchase from an organization repeatedly, will do so even in the face of certain challenges, that they are twenty six to fifty four percent more likely to positively refer the organization to others. Rousan et al (2010) also found out that loyal customers don't get swayed by price inducement from the competitors, but will continue as loyal customers , a research in South Africa fast foods industry showed that customers retention tend to focus on evaluation of customers management relationships as the major strategy for retaining customers. Kohlmayr (2012) concludes that to inspire long term loyalty among guests, hoteliers must not only identify who their most valuable guest is, but also put strategies in place to make them feel welcome and most valued.

Satisfaction and perceived quality are highly inter-correlated De Ruyter, et al. (1997). Some studies find that satisfaction drives a general perception of quality, while others find that perceptions of quality drive satisfaction. Most marketing researchers accept a theoretical framework in which quality leads to satisfaction Dabholkar, Shepherd, and Thorpe (2000), which in turn influences purchasing behaviour Oliver (1999). These arguments suggest that service quality is likely to affect customer satisfaction.

Customer satisfaction is a key and valued outcome of good marketing practice. The principle purpose of a business is to create satisfied customers. Increasing customer satisfaction has been found to lead to higher future profitability Anderson, Fornell, and Lehmann (1994), lower costs related to defective goods and services Anderson, Fornell, and Rust (1997), increased buyer willingness to pay price premiums, provide referrals, and use more of the product Anderson and Mittal (2000), and higher levels of customer retention and loyalty (Bolton, 1998). Increasing loyalty, in turn, has been found to lead to increases in future revenue Anderson, Fornell, and Lehmann (1994) and reductions in the cost of future transactions (Srivastava, Shervani, and Fahey, 1998). All of this empirical evidence suggests that customer satisfaction

is valuable from both a customer goodwill perspective and an organization's financial perspective.

A firm's future profitability depends on satisfying customers in the present retained customers should be viewed as revenue producing assets for the firm (Anderson and Mittal, 2000). Empirical studies have found evidence that improved customer satisfaction need not entail higher costs, in fact, improved customer satisfaction may lower costs due to a reduction in defective goods, product re-work, etc. (Anderson, Fornell, and Rust, 1997). However, the key to building long-term customer satisfaction and retention and reaping the benefits these efforts can offer is to focus on the development of high quality products and services. Customer satisfaction and retention that are bought through price promotions, rebates, switching barriers, and other such means are unlikely to have the same long-run impact on profitability as when such attitudes and behaviors are won through superior products and services (Anderson and Mittal, 2000). Thus, squeezing additional reliability out of a manufacturing or service delivery process may not increase perceived quality and customer satisfaction as much as tailoring goods and services to meet customer needs (Fornell, et. al, 1996).

2.5 Empirical Studies

Audit quality has been investigated within a variety of perspectives in the literature like: independence, ethics, judgments, reduced audit quality, client services and public sector. The aim of this project is to summarize these studies and provide the comprehensive and new classification of researches that have done about this topic.

Khurana and Raman (2004) undertook a study with the objective of examining the influence of a Big 4 auditor choice on cost of equity capital to better understand the underlying drivers of audit quality. They conducted a sample of 579 Australian companies over 10 years from 1990-99. They found out two potential drivers in the literature, brand name reputation for higher quality reporting and insurance for litigation risk. They interpreted their failure to find Big 4 auditor choice lowers the cost of equity capital in their Australian sample compared to finding that Big 4 audits had a lower cost of capital in the more litigious US setting, as supporting

insurance for litigation risk driving audit quality. They concluded that the insurance role of a big 4 (versus non-Big 4) auditor which could affect equity pricing is much weaker in Australia.

Azizkhani et al. (2007) carried out a study with the main objective of finding out the association between auditor and partner tenure and perceived credibility of financial reporting. That study was motivated by recent regulatory debates over whether audit firm/partner rotation will improve auditor independence. They used the tenure of a big 4 (a non-Big 4) auditor in an overlapping period from 1995 to 2005, the sampled 2033 companies over the period 1995 to 2005. They did find that a longer auditor tenure or engagement partner tenure will lead to a lower cost of equity capital. They concluded that such impact only exists for non-Big 4 clients and in the earlier (less regulatory surveillance) years of their period of study.

Saxby et al. (2004) undertook investigation with objective of establishing the relationship between service quality and both client satisfaction and firm/client conflict. They sampled a total of 292 clients from manufacturing, construction, wholesale/retail, not-for-profit, health care, and other industries who were the clients of a large regional accounting firm. They found out that the most important issues to the clients when they use services from accounting firms were reliability and assurance. They concluded that accuracy, one component of reliability, was more important than another component, timely service. In addition, within the assurance dimension, the clients paid higher attention to the firm's knowledge than their trustworthiness.

Ismail et al. (2006) undertook a study with the objective of discovering the relationship between audit quality and client loyalty to the audit firm. They sampled 500 Malaysian public listed companies who were sent questionnaires, a total of 115 responded to the questionnaire. Five dimensions were used in the questionnaire; tangibles, reliability, responsibility, assurance, and empathy. They found out that the tangibles dimension was the most satisfied dimension for the Malaysian public listed companies. The remaining four dimensions (reliability, responsibility, assurance, and empathy) were not satisfied. The most dissatisfied dimension was empathy. They concluded that client satisfaction partially mediated the relationship of reliability and client loyalty.

Baotham (2009) investigated the effects of audit independence, quality, and credibility on reputation and sustainable success of CPAs in Thailand. The results indicated that audit independence has a positive relationship with audit quality and credibility, and audit quality has a positive association with audit credibility. Likewise, audit quality and credibility significantly influence on reputation that is also related to sustainable success. For audit independence's antecedents, intrinsic ethical concentration and extrinsic stimulus outstandingly play important roles.

Sun and Liu (2011) undertook study with the objective of examining whether client-specific litigation risk affects the audit quality differentiation between Big 4 and non-Big 4 auditors. They took a census study of the US listed companies; they collected the data from the Compustat and CRSP databases, and conduct regression analyses. They found that the higher effectiveness of Big 4 auditors over non-Big 4 auditors in constraining earning management is greater for high litigation risk clients than for low litigation risk clients, suggesting that clients' high litigation risk can force big auditors to perform more effectively.

Colbert and Murray (1998) investigate the relation between auditor size and audit quality for small CPA firms based on PCPS peer review outcomes. They sampled 422 small CPA firms. They found that quality is a function of audit firm size, and argue that size can be used as a surrogate for audit quality within non-Big 5 firms. Although they found that quality is related to audit firm size, they also noted that based on peer review outcomes, most firms performed quality audits. Quality was lowest for sole practitioners, and the differences in peer review outcomes were not significant for other size groups within the non-Big 5 firms. They concluded that, there may not be meaningful differences in audit quality among firms that audit IPO companies.

2.6 Theoretical review

Understanding of audit quality by Krishnan (2003) is the probability of detecting and reporting financial statements materially errors together in an accounting system. The person who provides an audit is the auditor. Which an auditors must have a high quality, expertise, resources, and incentives to separate the components of information are damaged. They quickly find the information which has the potential misstatements made by management.

Quality audit is actually attached to the auditors as party implementers of the audit (Otley and Pierce, 1996). Audit quality is determined by technical capabilities of auditors and auditor independence (Wilopo, 2001). Yet Grant, Bricker, and Shipsova research (1996) explains that very difficult for individual auditors achieve credibility as a provider audit quality is superior. This is due to the credibility of an estimate that appear in a group to see the quality of audits by the auditors.

2.6.1 Quality Theory

Oliver (1999) introduced the quality theory model, where the control on the audit firm is divided into four factors: One controlling on the firm factors such as human resource, control process, and industry experience. The second factors refer to controlling on audit team factors such as supervision, planning, and performance the service, client experience and professionalism. Furthermore, studies by Oliver (1999) suggests that detecting the material misstatements is influenced by how well the quality control system on the audit firm influence the audit team in performing their services. Bitner and Hubbert, (1994) developed a model in which audit fees are cross-subsidized by non-audit work: Competitive pressures in the audit market might then compel auditors to discount their audit fees, so that higher non-audit profits would be associated with lower audit fees. Bitner and Hubbert, (1994) suggested that as an outcome to high service quality, auditor able to charge higher fees.

A firm is required to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and applicable regulatory and legal requirements. Quality control theory introduced by Oliver (1999) states that audit firms should have a high quality control on the firm's activities and also on the audit teamwork. Wooten (2003) suggests that the quality control is influenced by many factors such as the firm size, human resource control, industry experience and the audit team.

The system of quality control encompasses its organizational structure and the policies adopted and procedures established to provide the firm with reasonable assurance of conforming to professional standard. This quality control is the guidance to ensure the firms follow the professional standards.

2.6.2 Service Marketing Triangle Theory

The theory identifies three key players; audit firm, auditors, and clients, that are essential to ensure the success of a service offering. Positive interaction among them is essential to ensure a delivered quality service. Three types of marketing; external marketing, internal marketing and interactive marketing, are used to achieve this model (Botha & Brink, 2005).

External - making promise (audit firm-clients): The way an audit firm communicates to the client enables the audit firm to offer its services and sets the expectations of the service level that the client can expect from the audit firm. This communication can be in the form of television ads, a magazine ads or personal selling. Physical evidence such as the appearance of staff in service marketing also plays a role in communicating the quality of service. Interaction, keeping promises (clients-auditors): This is generated when the clients and auditors come into contact and the service is performed. Clients contact auditors to ensure that the best service is delivered to the clients. Internal - enabling promises (auditors-audit firm): Training auditors and giving them the necessary tools and skills to perform the jobs at the highest level so that the clients receive a satisfactory service. Without this internal marketing, the clients might not receive the expected service which may result in a negative brand image and loss of clients (Botha & Brink, 2005).

2.6.3 Agency Theory

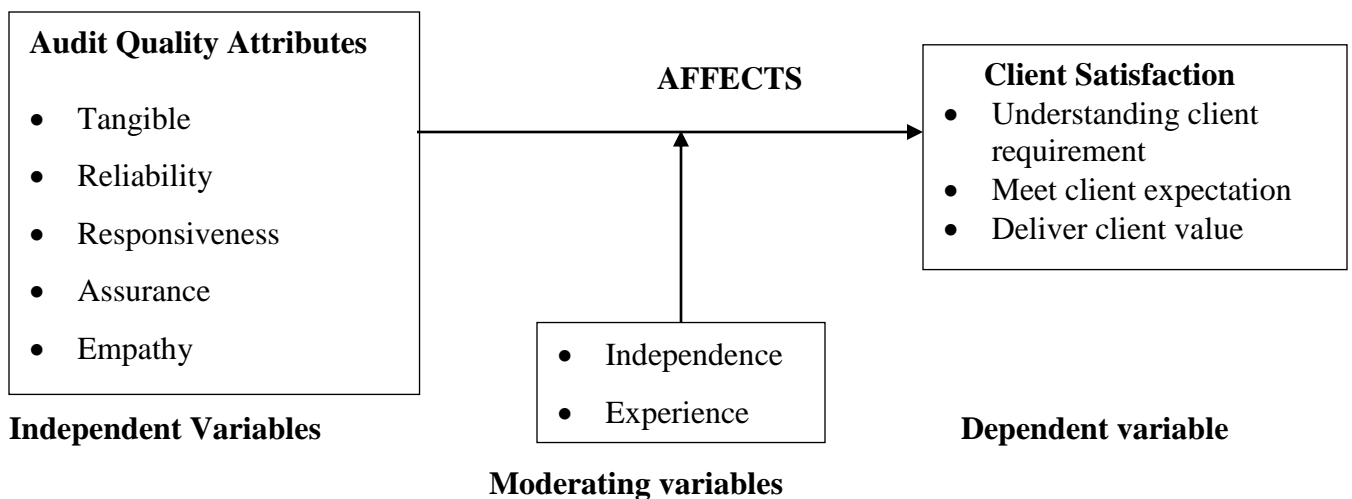
Auditing plays a vital role in reducing both: information asymmetry by empirically confirming the validity of financial statements and agency problems. The principal-agent conflict illustrated in agency theory, where principal (owner) lack reasons to believe their agents (managers) because of information asymmetries and contradictory motives. Information asymmetry deals with the study of decisions in transactions where one party has more or superior information than other. The contradictory motives such as financial rewards, labor market opportunities, and associations with other parties that are not directly related to principals can, for example, consequence for agents to be more optimistic about the economic performance of an entity rather than a performance of whole company. Differing motivations and information asymmetries decrease reliability of information, which cause breach of trust that principals will have on their agents. Therefore auditors as a third party used to try to align the interests of agents with principals and to let principals to gauge and manage the behavior of

their agents and strengthen trust on agents. This, however, brings new concept of auditors as agents, which leads to breach of trust, threats to objectivity and independence (The Institute of Chartered Accountants in England & Wales, 2005).

When auditors perform an audit they are acting as agents for principals and this liaison therefore arising similar issues of trust and confidence as the director-shareholder relationship, prompting questions about who is auditing the auditor. Agents (either directors or auditors) may be trustworthy without further incentives to align interest or monitoring strategies such as audit or increased regulation. However, the simple agency model would recommend that agents are untrustworthy because managers, auditors will have their own interests and motives. Independent auditor from the board of directors is of huge importance to shareholders and key factor to deliver high audit quality. However, an audit obliges a close working relationship with the board of directors of a company. The fostering of this close relationship has led question mark on the independence of auditors and ultimately question mark on audit quality (The Institute of Chartered Accountants in England & Wales, 2005).

2.7 Conceptual Framework

Figure 2.1 Conceptual Framework



Source: Research Data 2014

The study sought to establish the relationship between independent variables of tangibility, reliability, responsiveness, assurance and empathy to the dependent variable of client satisfaction. It further analyzed the moderating factors of independence and audit firm experience. A well tailored questionnaire was designed to bring out the independent variables which were then correlated to the client satisfaction.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter defines the design of the study and the research method, which was used to get responses from the target population. It further highlights data collection procedures including data collection instruments that were used. The chapter concludes with highlighting how data was analyzed.

3.2 Research design

The research design was descriptive. It is often used to study the general condition of people and organizations as it investigates the behavior and opinions of people usually through questioning them Cooper, (2003). Descriptive research is the process of collecting data in order to answer questions concerning the current status of the subjects under study. The design was appropriate for the study because the study came up with findings that showed the relationship between the audit quality attributes and client satisfaction for the listed companies in Kenya.

3.3 Population of the study

The population of interest in this study consisted of all the 60 listed companies at the Nairobi Securities Exchange as at 31st December 2013. A complete enumeration of all items in the population is known as ‘Census Inquiry’. The researcher undertook a census study of all the 60 quoted companies at the Nairobi securities exchange as at 31st December 2013 (Appendix IV). In the census inquiry, all the items were covered, thus no element of chance was left and highest accuracy was obtained. The researcher targeted the chief accountants from the targeted organizations.

3.4 Data collection

Primary data was collected by use of “drop and pick later” questionnaire and in some instances the researcher discussed the contents of the questionnaire with the respondent and left to them to fill it at their own time. However where the company’s head office was located outside Nairobi, questionnaires were send and responses received via mail. Any clarification was sought by telephone calls. Respondents were required to evaluate the performance of their

external auditors on the stated audit quality attributes by indicating scores along a 5 point Likert scale ranging from ‘strongly disagree’ to ‘strongly agree.’

3.5 Data analysis

Prior to Pearson correlation analysis, Data was analyzed on the basis of descriptive statistics. Descriptive statistics described data on variables with single numbers. Arithmetic mean, maximum, skewness, kurtosis and the standard deviation were the main descriptive statistics applied in data analysis.

Pearson correlation was then be performed to establish the significance differences between the independent variables of audit quality attributes (responsiveness, assurance, empathy, tangibles, and reliability) and the dependent variable of client satisfaction, where quality attributes was regressed against the client satisfaction. t – test was used to test for the significance of each predictor variables (Audit quality attributes) in the model. The null hypothesis (i.e. the model lacking explanatory power) was rejected when the significance value t – statistic was less than 0.05 (significance level).

The Regression Equation

$$ACS_{af} = \alpha + b_1Tang + b_2Relia + b_3Resp + b_4Assu + b_5Emp + \epsilon$$

Where:

ACS_{af} = Audit client satisfaction over audit firms

Tang = Tangibles (the appearance of physical facilities, equipment, personnel, and communication material)

Relia = Reliability (ability to perform the promised service dependably and accurately)

Resp = Responsiveness (willingness to help customers and provide prompt service)

Assu = knowledge, trust and courtesy of employees

Emp = The caring, individualized attention that a firm provides its customers.

ϵ = Error term

3.6 Data validity and reliability

The researcher looked at content related validity. This was through consultations with the researcher’s supervisors and colleagues. The test of content validity was established through

inter judge with two research consultants. Each rated the questions on a two point rating scale of Relevant (R) and Irrelevant (IR). The computation of CVI (Content Validity Index) was done by summing up the judges rating on either side of the scale and dividing by two to get the average.

The formula is:

$$CVI = [n/N]$$

Where; n = Number of items rated as relevant.

N = Total number of items in the instrument.

The CVI for the questionnaire obtained was 0.889 (Appendix VI). The result proved that the instrument was valid since it was above 0.7. Amin (2004) observes that in a survey, the least CVI recommended in a survey study should be 0.7 (or 70%).

Reliability analysis was used to assess internal consistency among the variables of study. The reliability of the study measures was assessed by computing Cronbach's Alpha coefficient for all items in the questionnaire and the overall assessment was given (Sekaran and Bougie, 2010). The Cronbach's alpha coefficient ranges between 0 and 1 with higher alpha coefficient values being more reliable. A questionnaire with a good internal consistency should have high alpha coefficients.

Pilot study was carried out to determine the reliability of the instruments. The reliability of qualitative data was established by the researcher's statement of position, triangulation, and an audit trail. The questionnaire was subjected to peer review (by groups of students and the researcher) so that they are content analyzed to ensure reliability. This is because Guba and Lincoln (1989) suggest that reliability in the traditional sense is better expressed as "dependability" or "consistency" in qualitative research.

Quantitative data from questionnaire, established that reliability after a pilot study was carried out on 5 chief accountants from five listed companies on the Nairobi Securities Exchange.

Reliability Analysis Scale (Alpha co-efficient) was established to measure reliability using SPSS (12.0). The instruments were found to be valid in this study at 0 .9110 and there were few adjustments to improve them. The researcher used Alpha co-efficient because of it being easy and automatic to apply for it fitted a two or more point rating scale. Five questionnaires of the pilot study based on the Likert five-point scale, were distributed to chief accountants in five listed companies on the Nairobi Securities Exchange.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The main objective of this study was to determine the relationship between audit quality attributes and client satisfaction for companies listed at the Nairobi securities exchange. A total of 60 questionnaires were sent out, of which 49 were returned and 41 were satisfactorily filled and considered for analysis, this formed 84 percent response rate. In order to achieve the study objective, the entire set of data for audit quality attributes and client satisfaction was analyzed using the statistical package for social scientist (SPSS). The chapter starts with the analysis of results and concludes with giving the summary and interpretation of the findings.

The researcher assessed the validity (reliability) by reviewing the interrelationship among dependent variable (client satisfaction) and the independent variables (Audit tangibility, Audit reliability, Audit responsiveness, Audit assurance and Audit Empathy) and after that the t-test was explored to test the hypotheses. Durbin-Watson statistic was used to test for the presence of serial correlation among the residuals and Collinearity Diagnostics was tested for possible multicollinearity among the above mentioned explanatory variables.

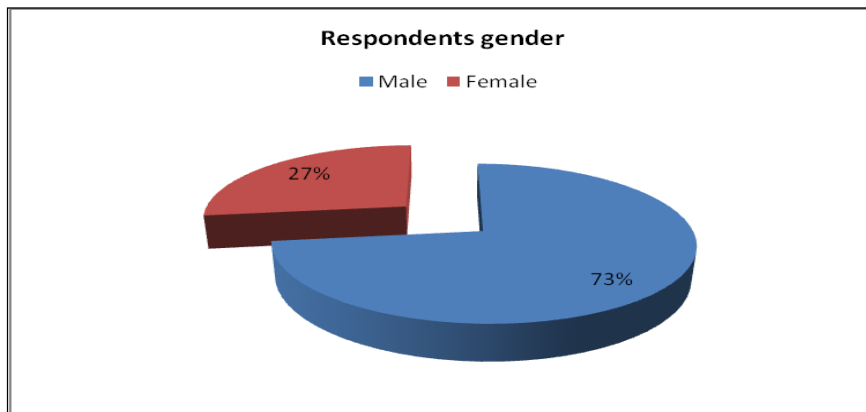
4.2 Background Information of the Study Respondents

This section presents a brief description of the demographic characteristics of the sampled respondents involved in this study. Such a description is considered to be very important in providing a better understanding of the respondents included in the study and therefore provide a good foundation for a detailed discussion of the results based on the stipulated objectives of the study. The demographic characteristics included gender, age bracket, level of education and years of service.

4.2.1 Respondents Gender

The respondents were asked to state their gender and age. It was found out that 73 percent of the respondents were male while 27 percent were female. This confirms that most senior positions in finance in the listed companies are held by men, as the study targeted chief accountants. This is represented in the figure below:

Figure 4.1 Respondents gender

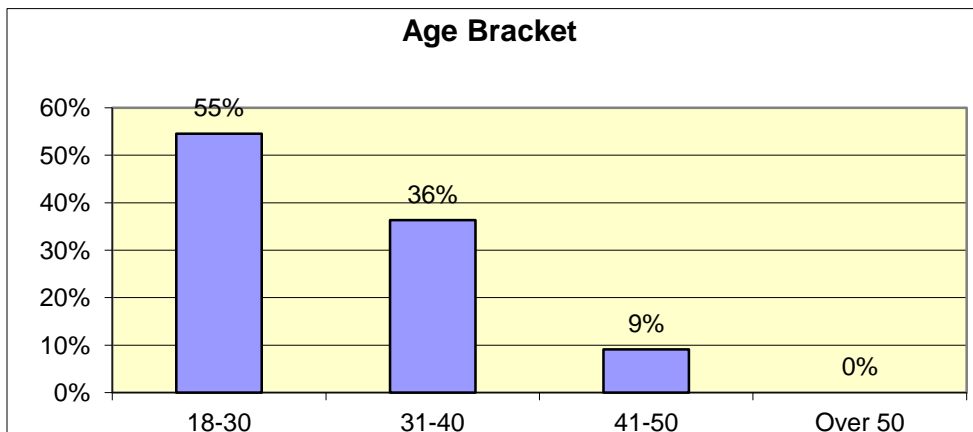


Source: Research Data 2014

4.2.2 Respondents age bracket

The researcher was interested to know the distribution of the age brackets of the respondents from the listed companies, the result was as indicated below;

Table 4.1 Respondents age bracket



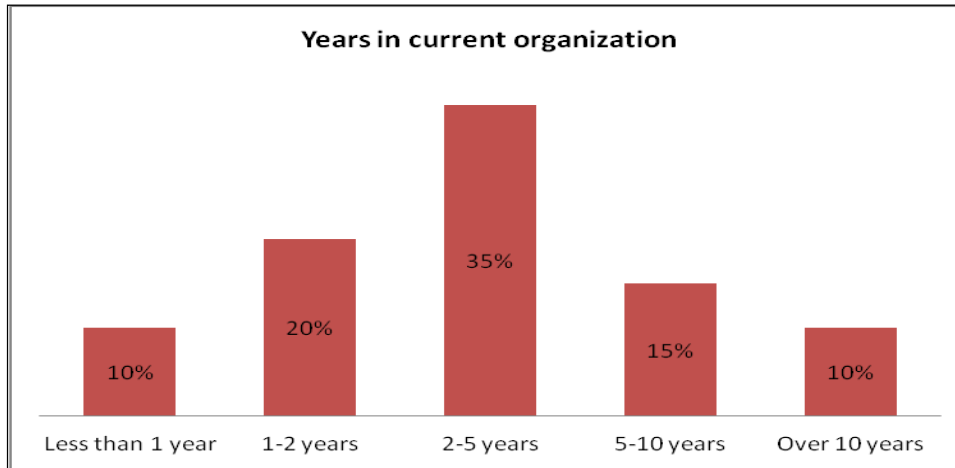
Source: Research Data 2014

The study found 55 percent of the respondents were aged between 18-30 years old, 36 percent aged between 31-40 years old and 9 percent between 41-50 years old. The researcher revealed that most of the respondents were youth below 40 years, who clearly understands the dynamics of audit quality in the changing environment, the study further revealed that most senior management positions in the corporate world are held by the youth below the age of 40 years old who are male.

4.2.3 Respondents duration in current organization

The researcher sought to establish the duration the respondents had been in their current organization and the findings are presented in the table below;

Table 4.2 Respondents duration in current organization



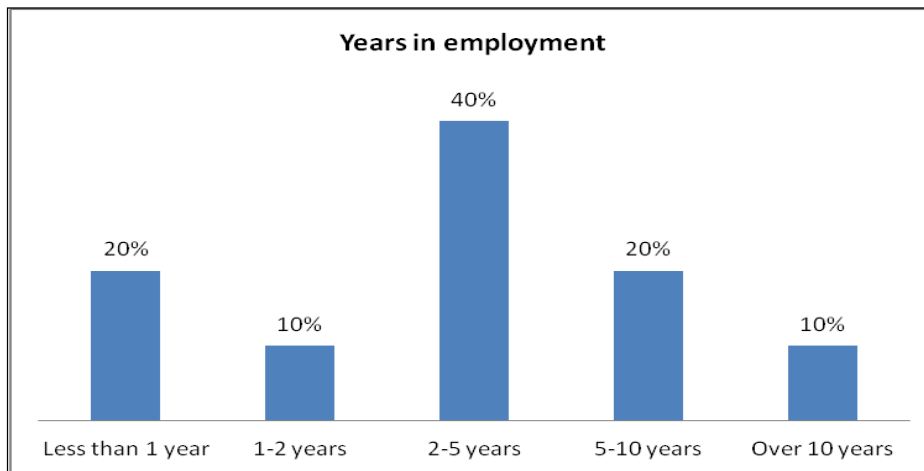
Source: Research Data 2014

Most respondents had been in their current organization for between 2-5 years at 35 percent, 20 percent had been there for between 1-2 years, 15 percent had worked for between 5-10 years while 10 percent had worked for over 10 years and less than 1 year respectively. The findings supported the fact that most of the chief accountants were youth below the age of 40 years, who by virtue of their age could only have worked for less than 10 years.

4.2.4 Respondents years in employment

After establishing the number of years in the current organization, the researcher was also interested to know for how long the respondents had been in employment and the results are presented below;

Table 4.3 Respondents years in employment



Source: Research Data 2014

Majority, 40 percent indicated to have worked for between 2-5 years, 20 percent had worked for below 1 year and between 5-10 years respectively while 10 percent had worked for between 1-2 years and over 10 years respectively. When the researcher inquired on the duration the respondents had worked cumulatively in employment, the results supported the findings on the age group of the respondents, given majority of them were below the age of 40 years, it was obvious for them to have worked for less than 10 years.

4.3 Evaluation of the audit quality attributes and client satisfaction

The general objective of the study was to evaluate the relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi Securities Exchange. To achieve this objective, the respondents were asked to indicate the extent to which they agree to the various factors of the audit quality attributes. The audit quality attributes include; audit tangibility, audit reliability, audit responsiveness, audit assurance and audit empathy.

4.3.1 Audit tangibility and client satisfaction

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.4 below.

Table 4.4 Audit tangibility and client satisfaction

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The audit firm is equipped with the latest information technology	6%	0%	17%	67%	11%

The physical facilities are visually appealing	0%	6%	22%	39%	33%
The employees are well dressed and appear neat to show professionalism	0%	11%	6%	39%	44%
My audit firm does inform my organization exactly when services will be performed	0%	0%	6%	61%	33%
My audit firm has proper documentation of the audit work performed	0%	0%	17%	44%	39%
Reports prepared by my audit firm are easily understood by my organization	0%	0%	0%	61%	39%

Source: Research Data 2014

The respondents expressed confidence with the audit tangibility and agreed that it has an effect on how they perceive satisfaction of the audit services. Seventy eight percent of the respondents agreed that their audit firm is equipped with the latest information technology, thus they can be able to adequately deliver on their services, even though a good number of the respondents expressed confidence with appealing of the physical facilities, 22 percent which is a high number, were neutral on the issue, audit firms should therefore make their facilities more appealing. The respondents expressed dissatisfaction with the dressing of employees, 11 percent expressing dissatisfaction; same to 17 percent were dissatisfied with documentation of the audit work performed.

4.3.2 Audit reliability and client satisfaction

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.5 below.

Table 4.5 Audit reliability and client satisfaction

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The audit firm delivers services within a certain time frame as promised	0%	0%	17%	61%	22%
The audit firm is dependable in providing its/their services	0%	0%	33%	56%	11%
My audit firm provides timely services	0%	0%	17%	50%	33%

My audit firm provides prompt services	0%	0%	17%	56%	28%
The engagement partner is highly competent	0%	0%	28%	61%	11%
The engagement partner has high ethical standards	0%	0%	17%	56%	28%
The engagement partner is actively involved in the engagement beginning with the initial planning and throughout the audit process	0%	0%	17%	72%	11%
The engagement partner has financial statement users' best interest at heart	0%	0%	22%	72%	6%
The engagement partner is keen to understand what is happening within the client's organization	0%	0%	17%	56%	28%

Source: Research Data 2014

On average most of the respondents expressed satisfaction with audit reliability, 83 percent expressed confidence that the audit firm delivers services within a certain time frame as promised, 77 percent said the audit firm is dependable in providing its/their services, even though the remaining 33 percent were neutral on the issue, which mean the audit firm should improve and provide dependable services, despite a slight lack of confidence in providing dependable services, 83 percent of the respondents felt that audit firm provides timely services and 84 percent expressed confidence in the promptness of the services. When asked about the engagement partners, 28 percent of the respondents remained neutral while 72 percent expressed confidence in their competence, this is one area that the audit firms should work on more as the engagement partner is the engine of the audit services which the client should first have confidence with. Even though they lack full confidence in the engagement partner, they feel that the engagement partner has high ethical standards at 84 percent and that the engagement partner is actively involved in the engagement beginning with the initial planning and throughout the audit process, even though they don't have full financial statement users' best interest at heart and lastly 84 percent expressed confidence that the engagement partner is keen to understand what is happening within the client's organization

4.3.3 Audit responsiveness and client satisfaction

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.6 below.

Table 4.6 Audit responsiveness and client satisfaction

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The audit firm is skilful in devising accounting treatments that generate results management wishes to obtain	0%	0%	28%	67%	6%
The audit firm is willing to provide detailed cost information	0%	0%	17%	56%	28%
The audit firm is willing to be flexible when scheduling the timing of audit visits.	0%	0%	17%	56%	28%
The audit firm's offices are geographically close to the client	6%	6%	6%	56%	28%
The engagement partner is easily contactable (e.g. by phone)	0%	11%	22%	61%	6%
There is a 'good fit' between the personality of the engagement partner and the finance director	0%	0%	0%	61%	39%
The relationship between the engagement partner and finance director is relatively informal	0%	0%	33%	50%	17%
Audit team staff create the minimum of disruption so far as practically possible.	0%	0%	22%	67%	11%
The audit team develops stringent time budgets for each audit area and expects people to meet them.	0%	0%	22%	50%	28%

Source: Research Data 2014

Quite a good number of the respondents were satisfied with the audit firms responsiveness, 74 percent of the respondents indicated that the audit firm is skilful in devising accounting treatments that generate results management wishes to obtain, 84 percent agreed that the audit firm is willing to provide detailed cost information, the audit firm is willing to be flexible when scheduling the timing of audit visits and the audit firm's offices are geographically close to the client respectively, this is a positive gesture of the audit firms towards fulfilling their clients expectations. Respondents were not happy with how they were not able to contact the engagement partner, it seems the engagement partners are not available at the clients service, and this can be a set back on the site of the audit firms if not well addressed, 11 percent were not satisfied while 22 percent remained neutral on the issue, this respond contradicted when the respondents expressed confidence 100 percent that there is a 'good fit' between the personality

of the engagement partner and the finance director, despite that 33 percent were neutral on the formality of the relationship between engagement partner and the finance director. While undertaking their work, audit team staff create the minimum of disruption so far as practically possible and that the audit team develops stringent time budgets for each audit area and expects people to meet them, this may affect the output and satisfaction of the client.

4.3.4 Audit assurance and client satisfaction

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.7 below.

Table 4.7 Audit assurance and client satisfaction

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The audit firm has employees who are technically competent to perform the service	0%	0%	17%	72%	11%
My organization is able to trust the employees of the audit firm	0%	0%	22%	61%	17%
My organization experienced confidentiality on transactions with the employees of the audit firm	0%	0%	6%	61%	33%
Employees of the audit firm are polite	0%	0%	11%	61%	28%
The employees of my audit firm knows the needs of my organization	0%	0%	11%	61%	28%
It contributes to greater trust and a sense of control	0%	0%	22%	50%	28%
My audit firm visits my organization at times convenient to us	0%	0%	22%	50%	28%

Source: Research Data 2014

When asked about the audit assurance, 83 percent said that the audit firm has employees who are technically competent to perform the service, 78 percent agreed that their organizations are able to trust the employees of the audit firm, thus is a positive gesture as it improves the clients satisfaction aspect, a whopping 94 percent agreed that their organizations experienced confidentiality on transactions with the employees of the audit firm, they have assurance in the

audit firm, 89 percent agreed that employees of the audit firm are polite and that the employees of my audit firm knows the needs of their organizations respectively. Seventy eight percent indicated that the audit firm contributes to greater trust and a sense of control and that the audit firm visits their organizations at times convenient to them.

4.3.5 Audit empathy and client satisfaction

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.8 below.

Table 4.8 Audit empathy and client satisfaction

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The engagement partner is pro-active and contributory	0%	0%	11%	83%	6%
The engagement partner provides the client's finance director with individual attention.	0%	6%	22%	39%	33%
My audit firm does have my organization's best interest at heart	0%	6%	28%	33%	33%
My audit firm does provide my organization with individual attention	0%	0%	28%	39%	33%

Source: Research Data 2014

Similarly most respondents were satisfied with the audit empathy expressed by the audit firms, 89 percent agreed that the engagement partner is pro-active and contributory. Even though 72 percent agreed that the engagement partner provides the client's finance director with individual attention, 6 percent disagreed and 22 percent remained neutral, the audit firm should address the issue with more attention as it can affect the clients satisfaction greatly, similar to having the organizations best interest at heart, where 66 percent were satisfied, 28 percent were neutral and 6 percent expressed dissatisfaction, the audit firms should provide organizations with individual attention to win the hearts of the 28 percent who are neutral on the issue.

4.3.6 Audit firm independence and client satisfaction

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.9 below.

Table 4.9 Audit firm independence and client satisfaction

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The audit firm conducting the audit provides no non-audit services to the firm	0%	6%	11%	72%	11%
The audit firm employs individuals independent of the audit firm to conduct client service reviews	0%	6%	6%	67%	22%
The audit fee paid by the client does not represent more than 10% of the total audit fees controlled by the engagement partner	6%	0%	11%	50%	33%
The audit fee paid by the client does not represent more than 25% of the total audit fees controlled by the engagement partner	0%	0%	11%	50%	39%
The audit fee paid by the client does not represent more than 50% of the total audit fees controlled by the engagement partner	0%	0%	11%	61%	28%

Source: Research Data 2014

Independence was one of the factors tested by the researcher to establish its effect on the satisfaction, even though the respondents were satisfied, a good number decided to remain neutral on the issue, with 6 percent expressing dissatisfaction that the audit firms do provide non-audit services to the clients and that the audit firm does not employ individuals independent of the audit firm to conduct client service reviews.

4.3.7 Audit firm experience and client satisfaction

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.10 below.

Table 4.10 Audit firm experience and client satisfaction

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The engagement partner has been performing the audit for the past three years	0%	0%	6%	61%	33%
The manager of the audit firm has been performing the audit for at least two years.	0%	0%	11%	50%	39%
The senior manager has been performing the audit for at least two years	0%	0%	11%	39%	50%

Source: Research Data 2014

Experience is a key factor of the audit firms if they have to satisfy their clients, 94 percent of the respondents agreed that the engagement partner has been performing the audit for the past three years, 89 percent agreed that the manager of the audit firm has been performing the audit for at least two years and similar number agreed that the senior manager has been performing the audit for at least two years.

4.3.8 Client satisfaction by audit quality attributes

The five point likert scale with strongly agree, agree, neutral, disagree and strongly disagree was used. The results are tabulated in table 4.11 below.

Table 4.11 Client satisfaction by audit quality attributes

Variables	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The audit firm conducts client service reviews	0%	0%	11%	72%	17%
The engagement partner arranges regular meetings with the client's key staff to identify issues of concern	0%	0%	28%	61%	11%
The engagement partner regularly identifies examples of added value to the client.	0%	6%	28%	33%	33%
The engagement partner and senior manager make regular visits to the audit site for technical review	0%	6%	22%	39%	33%
The audit team are willing to provide guidance on accounting principles	0%	0%	17%	39%	44%

There is frequent communication between the audit team and executive management	0%	0%	11%	44%	44%
There is frequent communication between the audit team and audit committee	0%	0%	17%	61%	22%

Source: Research Data 2014

Overall the clients were satisfied with the client's services, 89 percent expressed confidence that the audit firm conducts client service reviews, 72 percent agreed that the engagement partner arranges regular meetings with the client's key staff to identify issues of concern. A low confidence of 66 percent was expressed when asked if the engagement partner regularly identifies examples of added value to the client and 6 percent were dissatisfied with the issue. Seventy two percent agreed that the engagement partner and senior manager make regular visits to the audit site for technical review. Eighty three percent agreed that the audit team are willing to provide guidance on accounting principles, 88 percent agreed that there is frequent communication between the audit team and executive management while 73 percent agreed that there is frequent communication between the audit team and audit committee.

4.3.9 Effect of audit quality attributes on client satisfaction

After evaluating the frequency of the various audit quality attributes, the researcher gave the summary of the descriptive statistics, the results below evaluates mean, maximum, std. deviation, kurtosis and skewness.

Table 4.12 Effect of audit quality attributes on client satisfaction

N=41					
	Mean	Maximum	Std. Deviation	Kurtosis	Skewness
Audit Tangibility	5.6275	19.00	3.75785	-0.136	0.226
Audit Reliability	5.0000	21.00	1.12941	-0.676	0.891
Audit Responsiveness	5.0033	23.00	1.18743	-1.009	0.986
Audit Assurance	5.8675	21.00	1.11834	-0.74	0.846
Audit Empathy	5.6874	24.00	1.22650	-0.958	1.267
Valid N (listwise)					

Source: Research Data 2014

Measures of distribution such as skewness and kurtosis indicate how much a distribution varies from a normal distribution. In general, a skewness value greater than one indicates a distribution that differs significantly from normal symmetric distribution.

Tangibles had an average score of 5.6275 and the maximum value is 19.00. The standard deviation is 3.75785 indicating the spread of gaps away from the mean. The distribution is positively skewed with a skewness of 0.226 which indicates that the figures are deviated more to the right. The kurtosis value is -0.136 which mean that there is clustering somewhere away from the mean.

The mean was 5.0000 which means that clients are satisfied with the quality of services as depicted by the reliability dimension. The standard deviation is 1.12941 which means that the gaps are spread away from the mean. The maximum gap is 21.00. The distribution is positively skewed with a value of 0.891 indicating the gaps are deviated to the right of the mean and the gaps are clustered away from the mean with a kurtosis value of -0.676.

Averagely clients are unsatisfied with the level of services in terms of responsiveness by audit firms. The average value was of 5.0033, the maximum value was 23. The standard deviation of the responsiveness dimension is 1.18743 which indicates that the gaps are not very widely deviated from the mean. The deviation is to the right with a positive skewness of 0.986. The gaps are also clustered at a point different from the mean of the distribution because the kurtosis value is -1.009.

The average gap for audit assurance is 5.8675 depicting satisfaction. The maximum gap is 21. The standard deviation is 1.11834 showing little deviation from the mean which is spread towards the right as the distribution is positively skewed with a value of 0.846 and the gaps cluster at some point away from the mean with a kurtosis value of -0.74.

The average gap score for the empathy dimension is 5.6874. The maximum gap for this distribution is 24. It has a standard deviation of 1.22650 which means that the gaps are deviated from the mean but not very much. They are deviated to the right because the

distribution is positively skewed with a value of 1.267 and clustered at a value away from the mean with a kurtosis value of -0.958.

4.4 Relationship between audit quality attributes and client satisfaction

The researcher sought to find out the relationship between the client satisfaction and the audit quality attributes of audit tangibility, reliability, responsiveness, assurance, empathy and the independent variables and audit independence and audit firm experience as moderating variables using 0.05 significance level, the findings are presented in table 4.13 below;

Table 4.13 Relationship between audit quality attributes and client satisfaction

N=41 Sig = 0.05

	Audit tangibility	Audit reliability	Audit responsiveness	Audit assurance	Audit empathy	Audit firm independence	Audit firm experience	Client Satisfaction
Audit tangibility	1							
Audit reliability	.929(*) .022	1						
Audit responsiveness	.954(*) .012	.996(**) .000	1					
Audit assurance	.946(*) .015	.995(**) .000	.999(**) .000	1				
Audit empathy	.960(**) .010	.980(**) .003	.982(**) .003		1			
Audit firm independence	.978(**) .004	.971(**) .006	.989(**) .001	.988(**) .002	.967(**) .007	1		
Audit firm experience	.995(**) .000	.891(*) .043	.921(*) .026	.910(*) .032	.938(*) .018	.953(*) .012	1	
Client satisfaction	.985(**) .002	.977(**) .004	.987(**) .002	.980(**) .003	.991(**) .001	.986(**) .002	.966(**) .007	1

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

Source: Research Data 2014

The results established that audit reliability and audit tangibility were positively related at 0.929 with a significance level of 0.022, this implies that the physical equipments and staff of the audit firm directly affects how the clients feel comfortable with their services in terms of reliability. Audit responsiveness was positively related to audit tangibility at 0.954 p-value and

sig. of 0.12, this shows that the physical facilities and staff of the audit firm is seen to be directly related to their willingness to help clients and provide prompt service, for audit responsiveness and audit reliability they were positively related at 0.996 at sig. 0.000, this implies that the audit firms that are willing to help and responds to clients promptly are relied upon by the clients. Audit assurance and audit tangibility were positively related at 0.946 with sig. of 0.015, this shows that the ability of the client to inspire trust and confidence to the client directly influences the ability of the audit firm to deliver on the promise. For audit assurance and audit reliability, they were positively related at 995 with sig. of 0.000, this shows that the ability of the audit firm to deliver on promises directly impacts on the trust the clients develops in the audit firms. For audit assurance and audit responsiveness they were positively related at .999 with sig. of 0.000, this shows that how fast the audit firm responds to the client’s needs, has an impact on the trust and confidence that the clients develops towards the audit firm . The relationship between all the measurers of variables was found to be significant as for all the variables, the significance level was below 0.05, further all the measures of variables were positively related to one another as depicted by the positive signs of the Pearson correlations, this implied that all the variables had complimentary impact on the client satisfaction.

4.5 Effect of audit quality attributes on client satisfaction

In order to determine and confirm the effects of audit quality attributes (audit tangibility; audit reliability; audit responsiveness; audit assurance and audit empathy on the dependent variable (client satisfaction), regression analysis was done and results summarized in Table 4.14 below.

Table 4.14 Regression result for audit quality attributes and client satisfaction

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	14.99	0.319		0.694	0.334
Audit Tangibility	-0.291	0.12	-0.305	0.000	0.019
Audit Reliability	0.078	0.204	0.046	0.784	0.704
Audit Responsiveness	0.497	0.216	0.336	0.000	0.026
Audit Assurance	0.243	0.193	0.19	0.481	0.208
Audit Empathy	0.351	0.227	0.17	1.633	0.321

Source: Research Data 2014

The researcher sought to test the hypotheses by regressing quality attributes against the client satisfaction where t – test was used to test for the significance of each predictor variables (Audit quality attributes) in the model. The null hypothesis (i.e. the model lacking explanatory power) was rejected when the significance value t – statistic was less than 0.05 (significance level). From table 4.14 above it can be formulated in a regression equation, the influence of audit tangibility, audit reliability, audit responsiveness, audit assurance and audit empathy on the client satisfaction as follows:

$$Y = 14.990 - 0.291 X_1 + 0.078 X_2 + 0.497 X_3 + 0.243 X_4 + 0.351 X_5 + 0.319$$

4.6 Discussion of Study Findings

4.6.1 Relationship between audit tangibility and client satisfaction

Ho1: There is no significant relationship between audit tangibility on client satisfaction. The t value and significance levels were 0.000 and 0.019 against the significance level of 0.05 respectively which indicates that the independent variable of audit tangibility explained a highly significant proportion of the variation in the dependent variable, client satisfaction. Therefore the first hypothesis was rejected.

The findings is supported by a study done by Ismail et al. (2006), which used SERVQUAL model in auditing sector and found that public listed companies in Malaysia were only satisfied with tangible dimensions and customer loyalty partially mediated the relationship between reliability and customer satisfaction.

4.6.2 Relationship between audit reliability and client satisfaction:

Ho2: There is no significant relationship between audit reliability and client satisfaction

The study established a t – value of 0.784 against the significance level of 0.05 which indicates that there is no significant relationship between audit tangibility and client satisfaction; it shows that audit reliability is not a great attribute that needs much attention from the audit firms in order to win and maintain their clients.

This study is supported by Bongsu (2004) study, in her studies on small medium enterprises (SME's) focused on quality of audit service and equated it with customer satisfaction. She found the SMEs were not satisfied with all five dimensions (reliability, responsiveness, assurance, empathy and tangibles).

4.6.3 Relationship between audit responsiveness and client satisfaction

Ho3: There is no significant relationship between audit responsiveness and client satisfaction. The findings showed that responsiveness has a significant impact on client satisfaction, the t-value was found as 0.000 which was way below the significant level of 0.05, this shows that audit firms have to put more emphasis on audit responsiveness towards their clients.

This finding were not supported by Menon and Williams (1994) findings, who were able to identify responsiveness as an audit quality attribute that is unlikely to affect client satisfaction, the findings are further contradicted by Krishnan (2003) and Balsam et al. (2003) who found that responsiveness does not affect client satisfaction for the big 4 audit firms.

4.6.4 Relationship between audit assurance and client satisfaction

Ho4: There is no significant relationship between audit assurances on client satisfaction. The t value was 0.480 which was higher than significance level of 0.05, this indicates that the independent variable, audit assurance, explain a non - significant proportion of the variation in the dependent variable (client satisfaction). Therefore the fifth hypothesis has been accepted, meaning that audit assurance does not affect client satisfaction.

The findings contradicts McKeown, Mutchler and Hopwood, (1991) who found out that assurance greatly affects the client satisfaction, the issuance of a going concern opinion by the auditor is likely to be preceded by increasing probability of bankruptcy.

4.6.5 Relationship between audit empathy and client satisfaction

Ho5: There is no significant relationship between audit empathy client satisfaction. The t value of 1.633 and significance level of 0.178 which was higher than 0.05 which indicates that the independent variable, audit empathy, did not explain a significant proportion

of the variation in the dependent variable (client satisfaction). Therefore the sixth hypothesis has been accepted.

The findings is supported by Cheng et al, (2008), who found out that audit empathy, does not affect the client’s satisfaction.

4.6.6 Relationship between audit quality attributes and client satisfaction

Ho6 There is no significant relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi Securities Exchange.

The study found that the overall t-test was 0.694 against the significance level of 0.05. Only two out of five dimensions of audit quality attributes was statistically significant related to client satisfaction. It is audit responsiveness and audit tangibility which has a t-value of 0.000 respectively which was below 0.05 significance level. Audit reliability had a t-value of 0.784, audit assurance had a t-value of 0.480 and audit empathy had a t-value of 1.633 which were over 0.05 significance value. This may indicate those sampled companies are not quite pleased with this area. Specifically, we can conclude that audit firms needs to recognize and respond effectively to this area (audit tangibility and audit responsiveness), if they still want to retain customers in highly competitive environment.

4.7 Effect of overall audit quality attributes on client satisfaction

The researcher sought to establish the autocorrelation and serial correlation among the dependent and independent variables, the results are presented in table 4.15 below;

Table 4.15 Effect of overall audit quality attributes on client satisfaction

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.672	0.421	0.399	.	1.000	.	4	0	.	1.970

a Predictors: (Constant),

b Dependent Variable: Client Satisfaction

Source: Research Data 2014

The results of multiple regression analysis obtained multiple correlation coefficient (R) of 0.672 indicates multiple correlation (audit tangibility; audit reliability; audit responsiveness; audit assurance and audit empathy) with the client satisfaction. Adjusted R² value of 0.399 indicates the extent of the role or contribution of audit tangibility; audit reliability; audit responsiveness; audit assurance and audit empathy are able to explain client satisfaction variable as big as 39.9 percent.

The Durbin-Watson test is a widely used method of testing for autocorrelation. The Durbin-Watson Statistic was used to test for the presence of serial correlation among the residuals. The value of the Durbin-Watson statistic ranges from 0 to 4. As a general rule of thumb, the residuals are uncorrelated is the Durbin-Watson statistic is approximately 2. A value close to 0 indicates strong positive correlation, while a value of 4 indicates strong negative correlation (Durbin and Watson, 1971). Durbin-Watson should be between 1.5 and 2.5 indicating the values are independent (Statistica). The study found out the Durbin Watson value of 1.970, this implies that the independent variables and the dependent variable were uncorrelated in the model, thus there was no problem of collinearity and multicollenearity, and the model was found to be fit for further analysis.

CHAPTER FIVE

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary of the findings

Measures of distribution such as skewness and kurtosis indicate how much a distribution varies from a normal distribution. In general, a skewness value greater than one indicates a distribution that differs significantly from normal symmetric distribution.

Tangibles have an average score of 5.6275 and the maximum value is 19.00. The standard deviation is 3.75785 indicating the spread of gaps away from the mean. The distribution is positively skewed with a skewness of 0.226 which indicates that the figures are deviated more to the right. The kurtosis value is -0.136 which mean that there is clustering somewhere away from the mean.

The mean is 5.0000 which means that clients are satisfied with the quality of services as depicted by the reliability dimension. The standard deviation is 1.12941 which means that the gaps are spread away from the mean. The maximum gap is 21.00. The distribution is positively skewed with a value of 0.891 indicating the gaps are deviated to the right of the mean and the gaps are clustered away from the mean with a kurtosis value of -0.676.

Averagely clients are unsatisfied with the level of services in terms of responsiveness by audit firms. The average value was of 5.0033, the maximum value was 23. The standard deviation of the responsiveness dimension is 1.18743 which indicates that the gaps are not very widely deviated from the mean. The deviation is to the right with a positive skewness of 0.986. The gaps are also clustered at a point different from the mean of the distribution because the kurtosis value is -1.009.

The average gap for audit assurance is 5.8675 depicting satisfaction. The maximum gap is 21. The standard deviation is 1.11834 showing little deviation from the mean which is spread towards the right as the distribution is positively skewed with a value of 0.846 and the gaps cluster at some point away from the mean with a kurtosis value of -0.74.

The average gap score for the empathy dimension is 5.6874. The maximum gap for this distribution is 24. It has a standard deviation of 1.22650 which means that the gaps are deviated from the mean but not very much. They are deviated to the right because the distribution is positively skewed with a value of 1.267 and clustered at a value away from the mean with a kurtosis value of -0.958.

5.1.1 Audit tangibility and client satisfaction

The first objective was to establish the relationship between audit tangibility on client satisfaction. The t value was 0.000 against the significance level of 0.05 which implies that there was a significant relationship between audit tangibility and client satisfaction.

The findings contradicts Bungsu (2004) who found out that there is a positive relationship between customer loyalty and service quality but he found that SMEs were not satisfied with all the SERVQUAL dimensions especially on reliability dimensions.

5.1.2 Audit reliability and client satisfaction:

The second objective was to establish the relationship between audit reliability and client satisfaction. The study established a t – value of 0.784 against the significance level of 0.05 which indicates that there is no significant relationship between audit tangibility and client satisfaction; it shows that audit reliability is not a great attribute that needs much attention from the audit firms in order to win and maintain their clients.

However the finding contradicts a study by Saxby et al. (2004) study who sampled a total of 292 clients from manufacturing, construction, wholesale/retail, not-for-profit, health care, and other industries who were the clients of a large regional accounting firm and found out that the most important issues to the clients when they use services from accounting firms were reliability and assurance.

5.1.3 Audit responsiveness and client satisfaction

The third objective was to establish the relationship between audit responsiveness and client satisfaction. The findings showed that responsiveness has a significant impact on client satisfaction, the t-value was found as 0.000 which was way below the significant level of 0.05,

and this shows that audit firms have to put more emphasis on audit responsiveness towards their clients.

The findings is supported by the study by Dunn and Mayhew (2004) and Bongsu (2004) who found out that all the five audit quality attributes does not affect the client satisfaction, audit responsiveness being among the five audit quality attributes.

5.1.4 Audit assurance and client satisfaction

The fourth objective was to establish relationship between audit assurances on client satisfaction. The t value was 0.480 which was higher than significance level of 0.05, this indicates that the independent variable, audit assurance, explain a non - significant proportion of the variation in the dependent variable (client satisfaction).

The findings are contradicted by Chappell, Ota, Berryman, Elo, Preston and Jones (1996) whose findings indicated that assurance affects the client satisfaction. Carlson, Glezen and Benefield (1998) further confirm these results. Geiger and Raghunadhan (2001) explicitly speculated that going concern opinion might result in increased cost of capital to the client. Thus this study contradicted the previous studies that audit assurance affects client satisfaction.

5.1.5 Audit empathy and client satisfaction

The fifth objective was to establish the relationship between audit empathy client satisfaction. The t value of 1.633 and significance level of 0.178 which was higher than 0.05 which indicates that the independent variable, audit empathy, did not explain a significant proportion of the variation in the dependent variable (client satisfaction).

The findings is supported by Baotham et al, (2009), Moral Reasoning Sweeney, (1995), Beattie & Fearnley, (1995), Cheng et al, (2008), who both found out that audit empathy, does not affect the client's satisfaction.

5.1.6 Audit quality attributes and client satisfaction

The overall objective was to establish the relationship between audit quality attributes and client satisfaction for companies quoted at the Nairobi Securities Exchange. The study established that overall audit tangibility and audit responsiveness have significant and positive

impact on client satisfaction and audit reliability, audit assurance and audit empathy does not directly influence the client satisfaction.

The regression model summary indicates that the model explains 100 percent of the variability (dispersion) in the dependent variable, the t value and significance level indicates that the independent variables, audit quality attributes (responsiveness and tangibility) explain a highly significant proportion of the variation in the dependent variable, client satisfaction.

The coefficients and significance levels indicate that empathy has the lowest influence on the dependent variable, client satisfaction, (1.633). The direction of influence is positive. The R value indicates that model explain 18.7 percent of the variable in the dependent variable. Significance level in the above table indicates that the independent variables (reliability, empathy and assurance) explain insignificant proportion of the variation in the dependent variable (client satisfaction).

The Collinearity table displays statistics that help determine if there are any problems with collinearity. Collinearity (or multicollinearity) is the undesirable situation where the correlations among the independent variables are string. The study found out the Durbin Watson value of 1.970, this implies that the independent variables and the dependent variable were uncorrelated in the model, thus there was no problem of collinearity and multicollenearity.

5.2 Conclusion

The first objective was to establish the relationship between audit tangibility on client satisfaction. The t value was 0.000 against the significance level of 0.05 which implies that there was a significant relationship between audit tangibility and client satisfaction. The second objective was to establish the relationship between audit reliability and client satisfaction. The study established a t – value of 0.784 against the significance level of 0.05 which indicates that there is no significant relationship between audit tangibility and client satisfaction; The third objective was to establish the relationship between audit responsiveness and client satisfaction, the findings showed that responsiveness has a significant impact on client satisfaction, the t-

value was found as 0.000. The fourth objective was to establish relationship between audit assurances on client satisfaction; the t value was 0.480 which was higher than significance level of 0.05. The last objective was to establish the relationship between audit empathy client satisfaction, where the t value was 1.633 and significance level of 0.178 which was higher than 0.05.

The study therefore established that only two out of five dimensions (i.e., Responsiveness, Assurance, Empathy, Tangibles, and Reliability) were statistically significant related to client satisfaction. They are audit tangibility and responsiveness. Specifically, the researcher concludes that audit firms needs to recognize and respond effectively to this area (audit tangibility and audit responsiveness). If they still want to retain customers in highly competitive environment. From the empirical results, the researcher may infer that the client believe that no matter which audit firm they choose, it should have a certain degree of service quality guaranteed in the highly competitive battle field. This indicates that clients need more responsiveness and tangibility from their audit firms and less care about audit firms' empathy. This result makes sense since most of the field work is performed at the client's sites. So if an audit firm needs to stand out in a highly competitive environment, more concerns to their clients are greatly needed.

5.3 Recommendations

This research can be made as an input by ICPAK in policy improvement related to audit quality, especially in improving auditor understanding in area of client industry, the findings can also be used in drafting training material aimed at improving auditor's understanding of clients needs. The study can also be used by the audit firms since it gives a clear understanding of what the clients expects from the auditors especially in the area of tangibility and responsiveness.

5.4 Suggestions for further studies

For academic world, this research result is expected to become a valuable input in studies related to the theories of audit quality and client satisfaction. This Research has not yet expressed all variables that can influence audit quality and client satisfaction, then in order to

increase knowledge development, other researchers who are interested in similar problems are suggested to conduct a continuation research by adding variables like : auditor reputation, auditor size, auditor firm tenure, institute membership, auditor professionalism and auditor commutation.

The study was done on listed companies on how they perceive the audit firms. It is suggested that a similar study be done for other services e.g. banking industry, insurance companies', manufacturing companies and unlisted companies.

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APPENDICES

APPENDIX I: QUESTIONNAIRE COVER LETTER

AUDIT QUALITY ATTRIBUTES QUESTIONNAIRE

Egerton University
Department of Accounting, finance and management science,
Faculty of Commerce
P.O BOX 536-20115
EGERTON

Dear Participant

I am a Masters student at Egerton University, Faculty of Commerce. In order to fulfill the degree requirements, I am undertaking a management research project on “The analysis of audit quality attributes and client satisfaction for the quoted companies at the Nairobi Stock Exchange”.

To this end, I kindly request you that you complete the following short questionnaire regarding your perception of audit quality attributes of your audit firm.

Your response is of the utmost importance to me.

Should you have any enquiries or comments regarding this project, you are welcome to contact me directly on 0721-532584. E-mail: jmbakaya@yahoo.com

Yours Sincerely,

Joab Anyika Mbakaya

APPENDIX II: QUESTIONNAIRE

INSTRUCTIONS

Please answer all the questions honestly and exhaustively. All the information given will strictly be used for academic purpose/research only and will be treated with the utmost confidentiality.

SECTION A: BACKGROUND INFORMATION

This section of the questionnaire refers to background or biological information. Although I am aware of the sensitivity of the questions in this section, the information will allow me to compare group's respondents. Once again I assure you that your response will remain anonymous. Your co-operation is much appreciated.

Demographic Data

No.	Questions	Answer categories	Tick
1.	Gender	1. Male 2. Female	<input type="checkbox"/> <input type="checkbox"/>
2.	Age bracket	1. 18-30 years 2. 30- 40 years 3. 40-50 years 4. Above 50 years	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
3.	How many years have you been working in your current organization?	1. Less than 1 year 2. 1-2 years 3. 2-5 years 4. 5-10 years 5. Over 10 years	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	For how long have you been employed (in years)	1. Less than 1 year 2. 1-2 years 3. 2-5 years 4. 5-10 years 5. Over 10 years	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

SECTION B: AUDIT QUALITY ATTRIBUTES AND CLIENT STISFACTION

Perceptions: The following statements deal with the perceptions of service experienced from auditors. Please, show the extent to which these statements reflect your perception of audit quality of your external auditors.

The questions are ranked on a five likert scale ranging from 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree, please tick the number in the boxes that corresponds the likert scale.

A. AUDIT TANGIBILITY	1	2	3	4	5
1. The audit firm is equipped with the latest information technology					
2. The physical facilities are visually appealing					
3. The employees are well dressed and appear neat to show professionalism					
4. My audit firm does inform my organization exactly when services will be performed					
5. My audit firm has proper documentation of the audit work performed					
6. Reports prepared by my audit firm are easily understood by my organization					

B. AUDIT RELIABILITY	1	2	3	4	5
1. The audit firm delivers services within a certain time frame as promised					
2. The audit firm is dependable in providing its/their services					
3. My audit firm provides timely services					
4. My audit firm provides prompt services					
5. The engagement partner is highly competent					
6. The engagement partner has high ethical standards					
7. The engagement partner is actively involved in the engagement beginning with the initial planning and throughout the audit process					
8. The engagement partner has financial statement users' best interest at heart					
9. The engagement partner is keen to understand what is happening within the client's organization					

C. AUDIT RESPONSIVENESS	1	2	3	4	5
1. The audit firm is skilful in devising accounting treatments that generate results management wishes to obtain					
2. The audit firm is willing to provide detailed cost					

information					
3. The audit firm is willing to be flexible when scheduling the timing of audit visits.					
4. The audit firm's offices are geographically close to the client					
5. The engagement partner is easily contactable (e.g. by phone)					
6. There is a 'good fit' between the personality of the engagement partner and the finance director					
7. The relationship between the engagement partner and finance director is relatively informal					
8. Audit team staff create the minimum of disruption so far as practically possible.					
9. The audit team develops stringent time budgets for each audit area and expects people to meet them.					

	1	2	3	4	5
D. AUDIT ASSURANCE					
1. The audit firm has employees who are technically competent to perform the service					
2. My organization is able to trust the employees of the audit firm					
3. My organization experienced confidentiality on transactions with the employees of the audit firm					
4. Employees of the audit firm are polite					
5. The employees of my audit firm knows the needs of my organization					
6. It contributes to greater trust and a sense of control					
7. My audit firm visits my organization at times convenient to us					

	1	2	3	4	5
E. AUDIT EMPATHY					
1. The engagement partner is pro-active and contributory					
2. The engagement partner provides the client's finance director with individual attention.					
3. My audit firm does have my organization's best interest at heart					
4. My audit firm does provide my organization with individual attention					

	1	2	3	4	5
F. AUDIT FIRM INDEPENDENCE					
1. The audit firm conducting the audit provides no non-audit services to the firm					

2. The audit firm employs individuals independent of the audit firm to conduct client service reviews					
3. The audit fee paid by the client does not represent more than 10% of the total audit fees controlled by the engagement partner					
4. The audit fee paid by the client does not represent more than 25% of the total audit fees controlled by the engagement partner					
5. The audit fee paid by the client does not represent more than 50% of the total audit fees controlled by the engagement partner					

G. AUDIT FIRM EXPERIENCE	1	2	3	4	5
1. The engagement partner has been performing the audit for the past three years					
2. The manager of the audit firm has been performing the audit for at least two years.					
3. The senior manager has been performing the audit for at least two years					

Satisfaction: This section deals with the extent to which you are satisfied with the qualities possessed by your external auditor. Please, show the extent to which you are agree with the following satisfaction statements. Rankings are 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree.

H. CLIENT SATISFACTION	1	2	3	4	5
1. The audit firm understands customer requirement					
2. The audit firm meets customer expectations					
3. The audit firm delivers customer value.					
4. The engagement partner and senior manager make regular visits to the audit site for technical review					
5. The audit team are willing to provide guidance on accounting principles					
6. There is frequent communication between the audit team and executive management					
7. There is frequent communication between the audit team and audit committee					

THANK YOU FOR YOUR TIME

APPENDIX III: LETTER OF AUTHORITY TO COLLECT DATA

APPENDIX 1V: QUOTED COMPANIES

AGRICULTURAL

- 1 Eaagads Ltd Ord 1.25
- 2 Kapchorua Tea Co. Ltd Ord Ord 5.00
- 3 Kakuzi Ord.5.00
- 4 Limuru Tea Co. Ltd Ord 20.00
- 5 Rea Vipingo Plantations Ltd Ord 5.00
- 6 Sasini Ltd Ord 1.00
- 7 Williamson Tea Kenya Ltd Ord 5.00

COMMERCIAL AND SERVICES

- 8 Express Ltd Ord 5.00
- 9 Kenya Airways Ltd Ord 5.00
- 10 Nation Media Group Ord. 2.50
- 11 Standard Group Ltd Ord 5.00
- 12 TPS Eastern Africa (Serena) Ltd Ord 1.00
- 13 Scangroup Ltd Ord 1.00
- 14 Uchumi Supermarket Ltd Ord 5.00
- 15 Hutchings Biemer Ltd Ord 5.00
- 16 Longhorn Kenya Ltd

TELECOMMUNICATION AND TECHNOLOGY

- 17 AccessKenya Group Ltd Ord. 1.00
- 18 Safaricom Ltd Ord 0.05

AUTOMOBILES AND ACCESSORIES

- 19 Car and General (K) Ltd Ord 5.00
- 20 CMC Holdings Ltd Ord 0.50
- 21 Sameer Africa Ltd Ord 5.00
- 22 Marshalls (E.A.) Ltd Ord 5.00

BANKING

- 23 Barclays Bank Ltd Ord 2.00
- 24 CFC Stanbic Holdings Ltd ord.5.00
- 25 Diamond Trust Bank Kenya Ltd Ord 4.00
- 26 Housing Finance Co Ltd Ord 5.00
- 27 Kenya Commercial Bank Ltd Ord 1.00
- 28 National Bank of Kenya Ltd Ord 5.00
- 29 NIC Bank Ltd Ord 5.00
- 30 Standard Chartered Bank Ltd Ord 5.00
- 31 Equity Bank Ltd Ord 0.50
- 32 The Co-operative Bank of Kenya Ltd Ord 1.00

INSURANCE

- 33 Jubilee Holdings Ltd Ord 5.00
- 34 Pan Africa Insurance Holdings Ltd Ord 5.00

- 35 Kenya Re-Insurance Corporation Ltd Ord 2.50
- 36 CFC Insurance Holdings
- 37 British-American Investments Company (Kenya) Ltd Ord 0.10
- 38 CIC Insurance Group Ltd Ord 1.00

INVESTMENT

- 39 City Trust Ltd Ord 5.00
- 40 Olympia Capital Holdings Ltd Ord 5.00
- 41 Centum Investment Co Ltd Ord 0.50
- 42 Trans-Century Ltd

MANUFACTURING AND ALLIED

- 43 B.O.C Kenya Ltd Ord 5.00
- 44 British American Tobacco Kenya Ltd Ord 10.00
- 45 Carbacid Investments Ltd Ord 5.00
- 46 East African Breweries Ltd Ord 2.00
- 47 Mumias Sugar Co. Ltd Ord 2.00
- 48 Unga Group Ltd Ord 5.00
- 49 Eveready East Africa Ltd Ord.1.00
- 50 Kenya Orchards Ltd Ord 5.00

MANUFACTURING AND ALLIED

- 51 A.Baumann CO Ltd Ord 5.00

CONSTRUCTION AND ALLIED

- 52 Athi River Mining Ord 5.00
- 53 Bamburi Cement Ltd Ord 5.00
- 54 Crown Berger Ltd Ord 5.00
- 55 E.A.Cables Ltd Ord 0.50
- 56 E.A.Portland Cement Ltd Ord 5.00

ENERGY AND PETROLEUM

- 57 KenolKobil Ltd Ord 0.05
- 58 Total Kenya Ltd Ord 5.00
- 59 KenGen Ltd Ord. 2.50
- 60 Kenya Power & Lighting Co Ltd

APPENDIX V: CORRELATION RAW OUTPUT

Correlation output

			Audit Reliability	Audit Responsi veness	Audit Assuranc e	Audit Empathy	Audit Firm Independen ce	Audit Firm Experienc e	Client Satisfacti on
Audit Tangibility	Pearson Correlation Sig. (2- tailed) N	1 41	.929(*) .022	.954(*) .012	.946(*) .015	.960(**) .010	.978(**) .004	.995(**) .000	.985(**) .002
					Audit Tangibilit y	41	41	41	41
Audit Reliability	Pearson Correlation Sig. (2- tailed) N	.929(*) 41	1 41	.996(**) 41	.995(**) 41	.980(**) 41	.971(**) 41	.891(*) 41	.977(**) 41
Audit Responsiven ess	Pearson Correlation Sig. (2- tailed) N	.954(*) 41	.996(**) 41	1 41	.999(**) 41	.982(**) 41	.989(**) 41	.921(*) 41	.987(**) 41
Audit Assurance	Pearson Correlation Sig. (2- tailed) N	.946(*) 41	.995(**) 41	.999(**) 41	1 41	.975(**) 41	.988(**) 41	.910(*) 41	.980(**) 41
Audit Empathy	Pearson Correlation Sig. (2- tailed) N	.960(**) 41	.980(**) 41	.982(**) 41	.975(**) 41	1 41	.967(**) 41	.938(*) 41	.991(**) 41
Audit Firm Independenc e	Pearson Correlation Sig. (2- tailed) N	.978(**) 41	.971(**) 41	.989(**) 41	.988(**) 41	.967(**) 41	1 41	.953(*) 41	.986(**) 41
Audit Firm Experience	Pearson Correlation Sig. (2- tailed) N	.995(**) 41	.891(*) 41	.921(*) 41	.910(*) 41	.938(*) 41	.953(*) 41	1 41	.966(**) 41
Client Satisfaction	Pearson Correlation Sig. (2- tailed) N	.985(**) 41	.977(**) 41	.987(**) 41	.980(**) 41	.991(**) 41	.986(**) 41	.966(**) 41	1 41

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

APPENDIX VI: VALIDITY OF THE QUESTIONNAIRE

Judges	Relevant	Irrelevant
Judge 1	47	7
Judge 2	49	5

54

$$CV1 = 47+49 = 96/2 = 48$$

$$48/54 = 0.889$$