

**FACTORS AFFECTING THE EFFECTIVENESS OF EXTERNAL AUDIT  
FUNCTION AMONG DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVE  
SOCIETIES IN NAIROBI COUNTY.**

By

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**DECLARATION**

I declare that this proposal is my original work and has not been previously published or submitted elsewhere for a ward of a degree. I also declare that this contains material written or published by other people except where due reference is made and author acknowledged.

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## **ABSTRACT**

The practice of auditing firms has been growing. Many audit firms have come forward to provide audit services. There are concerns that have been raised regarding the conflict of interest between the official role of the auditor and other client services, the emergence of global accounting failures has brought great frustration to investors and other shareholders. Based on these observations, the aim of this research will be determine the factors affecting effectiveness of external auditing in SACCOS in Nairobi County. In order to attain those objectives, the study sought to establish the effect of audit committee, professional/technical skills,the independence of the auditors and effect of audit fees and audit committee on external auditing in SACCOS. The research study used descriptive research design. The population of study constituted of external auditors among selected SACCOS in Nairobi County. The study used a census sampling method. Findings revealed that there is a significant influence of audit fees, audit committee, professional skills competence and independence of external auditors on effectiveness of external audit function. Audit committee had a negative and insignificant effect on effectiveness of external audit function in DT-SACCOS in Nairobi County. Audit fees had a positive and significant effect on effectiveness of external audit function in DT-SACCOS in Nairobi County. Professional skills competence had a positive and significant effect on effectiveness of external audit function in DT-SACCOS in Nairobi County. Independence of external auditors has a positive and significant effect on effectiveness of external audit function in DT-SACCOS in Nairobi County. The study recommended that SACCOS need to invest in their external audit function so that they may be at par with their accounting records.

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## **DEDICATION**

My sincere gratitude is extended to my most cherished family for giving their best support towards the success of my academic goal.

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**LIST OF ABBREVIATIONS/ACRONYMS**

**CEO** Chief Executive Officer

**CPA** Certified Public Accountants

**IFRS** International Financial Reporting Standards

**INEDs** Independent Non-Executive Directors

**NED** Non-Executive Director

**US** United States

## **OPERATIONAL DEFINITION OF TERMS**

- Accounting Skills**     The specific skills needed to manage financial resources in terms of money that should be available to facilitate and fund various projects in the organization (Mia & Chenhall, 2018).
- Auditing**             Refers to the systematic review of the books, accounts, documents and vouchers of an organization to determine how well the financial statements reflect the correct view of concerns (Tomala, 2019).
- Cost of Auditing**     Amount that auditing firm charges based on the auditing services provided to an organization (Glover, 2018).
- Ethical Practices**     The application of the code of conduct for professionals practices, financial managers have certain responsibilities and expectations from the public that is, they must carry themselves professionally and honestly when handling customer finances (Seifert, 2018).
- Support Network**     Constitutes the services that the auditing firms provide way after they have carried out the auditing services (Feldesman, 2018).

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

The deposit taking saccos have emerged to be the fastest growing subsector in the financial system and the economy of the world as a whole, through playing the crucial role of pulling together savings for on-ward leding to the resource users. As all the other sectors this sector is regulated by the saccos regulatory authority and is required to conduct audits every financial year to ascertain that the financial records as well as the funds have been put to the right use to maximize the members benefits as well as ensure members deposits and savings have been protected. Its against this backdrop that the deposit taking saccos are required to engage an external auditor to provide assurance that they are operating within the requisite legal frame work as well as that the mission and vision of the organisation are achieved.

Status of high-quality external audited financial reports in deposit taking cooperative societies is an issue of interest especially where funds of the SACCOS are involved. High standards of external audit is defined as the market reviews whether it is possible for the financial statements to include false information and for the auditor to find and disclose misinformation (Alila & Obido, 2017). Lack of efficiency in auditing is one of the leading causes of corporate and financial scandals occurring worldwide (Al-Qublani, Kamardin, & Shafie, 2020). External quality audit has a significant function in strengthening credibility about providing financial statements that are characterized by reliability and credibility required for improved outcomes in deposit taking SACCO's financial performance (Cameron, 2018).

Internationally, especially in Korea, research done by Fargason and Scott (2019), showed that the ability of an external auditor is supposed to have a constructive relationship

with the quality of the audit. The relationship is closer especially in small companies. The research reveals that having long period of services in auditing improves quality of audits provided by auditors because auditors acquire sufficient knowledge in this field within a specified duration. The research revealed that auditor's skills grew significantly over time with customer engagement. Other research by (Chenhall & Morris, 2017) revealed that best external auditing is attained through forceful audit rotation. It is proved that the recently rotated auditors are prone to provide opinion about a going concern on a financially challenged firm in the early stages of audits.

Regionally, Mawutor, LaFrancis, & Obeng (2019) did a study on assessing the factors affecting audit quality based on selected firms that were listed on Ghana Stock Exchange. The findings drawn from the study revealed that the logarithm associated with audit fees together with the presence of audit committee and auditor size were considered relevant in affecting leverage about firms thus quality of audits done. Therefore, the audit firm size was found to have negative effects on quality of audits yet the firms that did not have audit committee were found to experience poor audit quality. Therefore, logarithm regarding audit fees was found to be having positive relationship with quality of audits. This implied that fees from auditing has to be controlled by Institute of Chartered Accountants-Ghana and also taking steps against companies offering auditing services that are not adhering to proper standards of audits.

Locally, a study by Serem, Fwamba, & Benedict (2020) focused on audit fees and their effect on financial performance of SACCOS in North Rift. The results of the study showed that quality of external audits had a positive effect on financial performance of DT SACCOs in Nairobi County. The recommendations drawn from the study requires that the regulating authorities should come up with very strict rules about charges of audit and also focusing on overseeing the process of implementation.

### ***1.1.1 The Effectiveness of External Audits***

External audit practices constitute useful tools to improve resource management in financial institutions. That is to carry out external audit practice that promotes proper utilization of resources, promoting accountability by improving on recommendations provided from audit reports and lastly promoting efficiency in financial institutions (Sridhar, 2016). In addition, the external audit function has been identified as a tool to ensure the effective functioning of the internal control system

The external auditor undertakes crucial tasks in an organization. According to Ongore (2001), the financial statement meant for users focuses on processes of auditing on specific functions such as; accurate financial statements, firms should be against cases of fraud; companies are expected to operate in accordance with the rules; companies are expected to be fairly treated; and companies have to possess a positive attitude of commitment to environmental and social issues.

Kauffman (2017) pointed out that the best experience in auditing is associated with the duration that auditor has worked as a professional auditor, the number of engagements the auditor has undertaken. Technically, the audit prowess grows with more knowledge in performing the audit functions. Higher experience results in advance quality audits, therefore, an auditor with more experience in particular field has a greater ability to create specific practical cases associated with auditor's experience.

Consequently, an Iranian study by Salehi (2010) on the effectiveness of external audit established that audit is an important part of the capital market framework. This is because it not only reduces the cost of information exchange between managers and shareholders but also provides a signaling mechanism to the markets that the information which management is providing is reliable.

Locally, there are a number of factors that hinder the effectiveness of external audit. Cases of fraud, misappropriation of funds and poor management of these SACCOs is rampant (Njoroge, 2016). The regulator, SACCO Society Regulatory Authority (SASRA) has made notable improvement in regulation. By coming up with various policies that ensure regulation of auditors in deposit taking SACCOs based on duration of an auditor dealing with one firm and the experience of the auditing firm. A study by (Maina & Kibanga, 2016) focused on factors that affect independence of auditors in Nairobi. The study established that one of the main factors affecting the independence of auditors was audit fee. Consequently, Gaitho (2017) did a study on the assessment of platform of supporting external audits for strategic mobilization of funds in SACCOs.

Agmas, Mekonnen, & Shibru (2016) conducted a study in Ethiopia based on efficiency of external audit engagement and its determinants in the country's share companies registered by the Federal Office of Auditor. The study established that external audit is an important factor to be considered in the performance of the analyzed companies. However, the independence of auditors compromises the effectiveness of external audit this is majorly due to disagreement with the management on fees and other factors.

### ***1.1.2 Factors Affecting Audit Function***

Large audit companies usually have very high popularity consequently they are inspired to elevate out a better audit works and also keep away from dropping their reputation. These large companies additionally have the capacity to retain their great personnel and also entice more specialised and expert personals. According to Dang (2004), the audit association measurement limitation, as an alternative to measuring audit quality, is based totally on two major assumptions.

According to Iskandar et al. (2010), audit firm's reputation is a mixture of elements which are related. These factors encompass compliance with professional standards, codes of

conduct and ethics, professional journey of audit crew members, journey in client activity, the period of the work of the expert audit firm, the dimension of the audit firm, engagement with an worldwide audit firm, evaluating the extent of the customer's delight and the continuation with them in auditing process. Carcello & Nagy (2004) reputation of the audit association refers to circulation of the audit corporations name in the market as it provides high-quality audit offerings by giving credibility to the audited financial reports, auditor need to act in a manner steady with the recognition of the career and chorus from any misconduct that negatively impacts the audit association reputation.

The auditor's independence is one of the key pillars that are closely associated to audit quality, which in turn requires auditing companies to improve professional performance. The auditor's independence may additionally be viewed intellectually or intellectually, in the experience that the auditor should be unbiased in his or her opinion and opinion in the financial statements. He must categorical his opinion on the monetary statements fairly and honestly, and not permit any important concerns that have an effect on his opinion. (Abu Daghim, 2001).

Auditors need to be independent from events that would possibly have a financial hobby in the enterprise being audited. The auditor ought to be neither one of the shareholders, partners, or one of the employees in the employer audited. Independence of mind is the experience of the auditor's independence mentally and professionally by way of the absence of any stress or intervention by using a higher authority or a precise physique on the auditor's role in checking the integrity of the books and the accuracy of the presentation of the financial statements of the business consequences and the economic position and money flows of the audited company.

### ***1.1.3 Types of Audit***

Generally there are three types of audits namely compliance audit which deals with law issues i.e looks at the society to find out if it is compliant. Financial statement audit which looks at financial statements produced by the society if it prepared following IFRS. Operational audits reviews efficiency of a particular section and efficiency of the society (Whittington & Pany, 2004, p. 11).

The final goal of any audit procedure is to provide a report which shows the financial statement of a company produced shows a true and fair view of the company status or otherwise. According to Whittington and Pany (2004), audit procedures involves an auditor getting to understand operations of the organization, business that is been carried out and risks that the organization is facing.

Risk refers to the measured level of exposure faced by an organization showing likelihood of a beneficial or non-beneficial event occurring. In an organization some of the risks faced includes and not limited to loss of property/money, fraudulent activity taking place, etc. Audit processes help an organization to identify risks they are facing and reduce it to the minimum and manageable level. Whittington and Pany (2004) introduced some of the risk's concepts such as, Business risk, Information risk, Audit risk, Inherent risk, Control risk and Detection risk

Audit evidence refers to all information, finds and data the auditor was able to collect in support of the conclusions which the auditor reached. Evidence collection is guided by the level of risk which an organization faces e.g. if the risk is high, the auditor will have to carry out an extensive audit procedure by increasing the coverage. According to Whittington and Pany (2004), evidence need to be collected for each financial statement assertion sufficiently to support their opinion.

## 1.2 Statement of the Problem

Financial institutions such as SACCOs are yet to fully embrace external auditing practice meant to ensure accountability of SACCO funds (Maina, 2017). The recent collapse of SACCOs in Nairobi County is alarming. This is majorly attributed to fraud, mismanagement and illegal activities that have drawn attention to issues of audit quality from public bodies concerned with regulations (Serem, Fwamba, & Benedict, 2020).

Locally, scandals caused by financial audits have been encountered in SACCOs Sub-sector. It was established that there was a revocation of 7 operating licenses of SACCOS by SASRA during their operating period 2014 to 2017 (Buluma, Kung'u, & Mungai, 2017). The regulatory body also rejected annually generated financial reports of SACCOs such as Military, Idongali, Ainabkoi and Moi University with sole reason of failure attributed to compliance with International Financial Regulation Standards (IFRS).

As much as there appears better improvement in financial performance of deposit taking SACCOs in Nairobi County, the research about effectiveness of external audit is considered scarce subject of discussion. Most of the studies done have focused on how internal audit affects performance of SACCOs. There are occasions of mixed outcome from various empirical journals addressing auditing in organizations and few or no substantial research accessed to show evidence that are conclusive enough to affirm the position of external audits.

A study by Maina and Bibanga (2016) focused on an analysis into the practices of investment regarding the Audited Reserve funds in the SACCOS in Nairobi while Morara and Mureithi (2017) addressed Audit Constraints that are facing SACCOS in Kenya's. Further studies by Munyiri (2016) focused on the Enforcement of Ethical Values in Auditing in Financial Institutions in Kenya; Characterization of Productivity by SACCOS and lastly

Gaitho (2017) did a study on the evaluation of support platform of external audits for Fund Mobilization Strategies of Savings and Credit Cooperative Societies.

Mohamed & Hussain (2005) conducted a study in Oman. The study asserted that the development of audit committees in 1970s was due to unexpected corporate failures arising from misconduct. Additionally, with audit committees now the norm in developed countries and increasing number of emerging economies, the role of audit committees has developed from being seen as means of strengthening the external financial reporting process to being seen as means of detecting and preventing corporate misconduct and failures. The proposed study will focus on SACCOs in Nairobi County; thus the study created a conceptual and contextual gap.

Despite considering external audit function as important, Okoth, (2018) argues that the quality reports from audit departments is considered to be of utmost relevant. The adequacy of the report, the objectivity of the opinions, the timeliness of the report and the clarity of the reports are important characteristics of quality audit reports that are still not being attained in most SACCOs in Nairobi County. Mishandling of financial resources through wastages in SACCOS has increasingly being felt against the overseeing authority that is insisting on compliance with quality audit reports. Therefore, it was necessary to conduct this research to address factors that affect the effectiveness of the external audit in deposit taking SACCOS in Nairobi County and to fill the gaps created by prior studies done.

### **1.3 Research Objectives**

The study focused on general and specific objectives as indicated;

#### ***1.3.1 General Objectives***

The general objective of the research was to analyze factors affecting the effectiveness of external audit function among deposit taking Savings and Credit Cooperative Societies in Nairobi County.

### ***1.3.2 Specific Objectives***

- i. To assess the effect of audit committee on effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County.
- ii. To establish the effect of professional skills on the effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County.
- iii. To examine the effect of independence of auditors on effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County.
- iv. To assess the effect of audit fees on effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County.

### **1.4 Research Questions**

- i. How does audit committee affect effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County?
- ii. How does professional skills affect the effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County?
- iii. What effect does independence of auditors have on effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County?
- iv. To what extent does audit fees affect effectiveness of external audit function among deposit taking savings and credit cooperative societies in Nairobi County?

### **1.5 Significance of the Study**

The study will be useful to the following groups;

### ***1.5.1 Policy Makers in Savings and Credit Corporative Societies***

The parties making polices have the chance to benefit from this analysis considering that once recommendations are provided at the end of this exercise for implementation purposes, it will help in facilitating proper ways through which management may make proper choice regarding desirable qualities among the auditors. Because of this, it will be advantageous for organizations particularly the Sacco to promote accountability needed on financial audited reports.

### ***1.5.2 Other Financial Institutions***

This analysis will be of great importance to the directors of other financial institutions. Therefore, through consolidating numerous opinion and contribution from the respondents, their contribution will help provide knowledge on proper ways they believe external auditors could be selected when they are expected to provide significant external audit reports.

### ***1.5.3 Regulating Authorities***

The research work is considered important to the cooperative ministry. The goal of the authority is to safeguard its citizens from extreme exploitation and bad practices from people entrusted with coming up with financial reports. In most instances, the authority is compelled to intervene sometimes on purchaser rights and protection. From the research the authority is expected to identify the successful enforcement of regulations in audit and also establish deficiencies in the external auditing systems so that they can develop solutions directed towards improved level of effective audits in SACCOS to fulfill the public expectations.

#### ***1.5.4 Investors***

Large and small scale investors have faith on the audited financial statements. The research will help the investors to assess the strength of financial reports from SACCOS for the purpose of making reasoned decision in investments.

#### ***1.5.5 Stakeholders in Credit Cooperative Societies***

The stakeholders, especially all people who directly or indirectly are devoted to the SACCOs will take up the opportunity to make use of this research work. The study will facilitate to bring about compliance strategies of accounting structures and the way they will be undertaken in the SACCOs. This implies that it is going to be for the advantage of alternative audit organizations to understand varied tactics in meeting compliance requirements standards.

#### ***1.5.6 Other Scholars***

The study focused on important literature that addressed components associated with external audit. As a result, other scholars stand an opportunity to access wide literature coverage on the subject of external audits. For that case, aspects that have not been addressed in this exercise will give other researchers a chance to continue undertaking additional research over the current study being undertaken.

### **1.6 Scope of the Study**

The motive of this study was to conduct an analysis on elements affecting the effectiveness of external audit feature in SACCOs in Nairobi County. The study was based on deposit taking SACCOs in Nairobi County. The study sought out to goal finance and accounts body of workers expected to address the problem of exterior audit. The study addressed the impact of audit committee, professional skills, audit expenses and independence of auditors. The study was carried out in a period of eight months from March 2021 to October 2021.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The chapter provided the introduction, theoretical literature, empirical review, conceptual framework detailing the factors that affect the effectiveness of external audit function on deposit taking savings and credit cooperative societies in Nairobi County. Additionally, the chapter also highlighted the operationalization of variables.

#### 2.2 Theoretical Review

This section outlined the theories on which the study was based on. Scholars believe that theories form foundation for various parameters used in the study (Eden & Ackermann, 2018).

##### 2.2.1 Theory of Inspired Confidence

The theory was formulated by Limperg (1932). The theory supports the need and provision of audit services. According to the theory the demand for audit is a result of the involvement of stakeholders who are external to the company which calls for management accountability in exchange for their investment in the company.

The proponent of theory of inspired confidence was Limperg (1932) who indicated that management accountability is accomplished by virtue of providing regular financial reports. Since the management may provide prejudiced information, which the external stakeholders have no direct way of verifying, external audit of information becomes necessary at a fee from external auditors.

According to (Okpala, 2015), the demand for audit services is direct consequence of the participation of stakeholders in the enterprise who demand for accountability from the administration in return for their investments in the company. This suggests that the auditor is

appointed in the hobbies of both the third parties and the administration to unravel the hassle of assurance .The auditor accomplishes the expert project through his judgment in structure of reports. Recently, the focus of auditors has been to grant reasonable assurance and verify the reality and fairness of the financial statements, although detection of fraud as the auditor's obligations has not reduced.

The theory provided a link between the societal needs for reliable financial statements from hired auditors intertwined with the practical prospects for auditing to fulfill the needs, it also incorporates the variation of the needs over time. This calls for external auditing to be conducted in such a way that it inspires confidence in public financial information despite audit costs involved. Theory on inspired confidence was used in the current study to support the need for effective external audits that strive to satisfy SACCOs' public expectations despite the magnitude of audit fees that was involved to get quality audit reports.

### ***2.2.2 Agency Theory***

The agency theory was created by Jensen and Meckling in 1976. The principle gives the relationship between agents and principals. Further, Lan and Heracleous (2017) contributed to the theory through giving advice on philosophy of companies to basics, identify who is the principal, re-determining the function of the board, and redefining the function of the board.

In SACCOs, shareholders are the primary principals whilst SACCO executives are agents. The choice making authority is carried out by using the shareholders to the executive of the SACCOs. Differences on views and variations in predominant needs and interests are in all likelihood to occur between shareholders and managers thinking about shareholders omit economic selections to the management (Frigo, 2016).

Jensen & Meckling (1976) indicated that greater data is on hand to agents than to the principal. This asymmetry of information influences the shareholder's ability to establish how a lot the executives have fulfilled their hobby in SACCO. Shareholders are no longer in

a position to establish whether or not administration actions are with activity considering shareholders might also now not get admission to all facts accessible at the time of decision-making. Therefore, shareholders need to incur monitoring prices via auditors to reduce these asymmetry details.

Boockholdt (2019) factors out that there is a ethical threat in a state of affairs in which they can increase their wealth; agents may also face the project of struggle the interests of their principals. Since principals do now not have access to all handy statistics at the time the decision is made by the agent, they cannot decide whether the movements of the consultant are in the fine interests of the company. To limit the hazard of behavioral hazards, principals and retailers have interaction in performance administration agreements, which include the establishment of monitoring mechanisms such as auditing. The enterprise theory in members of the family to auditing is one of the most important ways to monitor battle decision and limit organizational costs. Audit is vital because it increases self assurance and strengthens the believe in economic statistics provided to shareholders by management. The accountability is exceptional as it offers readability of financial records which is massive thought in desirable governance (Gatewood, 2017).

Financial reviews are an eye to which contributors can establish the performance of managers if they are making proper funding decisions for shareholders to develop wealth. These statements of funds furnished by the administration have to be honest and free of fraud. To produce great reports, auditors ought to evaluate purchaser overall performance and resist any demands via the management through focusing on independence of principality. The audit report, has to supply assurance that the monetary statements replicate the genuine sound and fair economic position of SACCOs.

### ***2.2.3 Institutional Theory***

According to Schneider Meyer & Rowan (1977), institutional theory originates from the view that an organization is structured to achieve social outcome. This theory stipulates that organizations have structured operations to ensure social accountability. According to Chenhall and Morris (2018), the roles of the internal auditors are focused on improving governance in an institutionalized context which acts as the basis for the adoption of the institutional theory. The external audit function is now very essential as a control tool within organizations and is key to effective risk management.

Kauffman (2017) asserted that the external audit function has contributed to organization's processes and sharing their recommendations with the management. The preferred qualities for good governance are proper professional skills, effectiveness, transparency, responsiveness and accountability. The audit is dependable in enhancing performance in any organization both public and private. The professional auditors are charged with the responsibilities of providing an effective ground for achieving corporate governance and reducing loss of members' savings through proper skillful practices while discharging audit roles.

According to (Chekavinskaya, 2017) the incompleteness and imperfection of information and specification of property rights in the audit business, the market mechanism of audit and the variety of other markets, the constant exchange and the transaction costs that arise in this case, which increase the importance of economic and social institutions are the signs that the methodology of the institutional economy should be applied in explaining the audit theory and practice. Uncertainty destroys any economic system that is already vulnerable to crises and economic imbalances. Audit firms are struggling for market dominance, which determines significant transaction costs, and firm rules and mechanisms of

enforcement (institutions) will help to reduce them, and therefore in the audit role of institutions should be properly evaluated.

This theory was used to show the extent which management support affects the performance of the external professional auditors in their work to enhance good governance and carrying out their roles in auditing and providing true financial reports for the SACCOs.

## **2.3 Empirical Review**

The empirical literature review dealt with prior research done such as scientific experimentations and research studies. Researches are pegged on experience and observation, not on the concept that they are systematic. Empirical review focused on the factors (audit committee, audit fees, professional skills and independence of auditors) affecting the effectiveness of external audit function on deposit taking savings and credit cooperative organizations in Nairobi county.

### ***2.3.1 Audit Committee and External Audits***

Ogoro and Simiyu (2015) studied the relationship between the traits of audit committees and its effectiveness in lowering the quantity of monetary statement restatements for State Corporations in Nairobi County. The study used the following audit committees indicators: independence of directors, committee size, assembly frequency, economic expertise, tenure and multiple directorships for 177 State corporations. The study used move sectional secondary facts gathered from the audited economic statements of the 177 State corporations in Nairobi County. The goals had been to find out if the audit committees meet the legislative necessities on audit committee traits and to determine the effect of audit committees' characteristics on their effectiveness. The sampling frame was once kingdom companies in Nairobi County consisting of 177 firm year observations for the year 2012 chosen the usage of purposive sampling. The logistic regression model used to be used to take a look at the impact of the traits of the committee on its effectiveness. The findings point

out that the most essential and influential traits of audit committees is more than one directorships and audit committee tenure as they are statistically tremendous in reducing the range of financial announcement restatements. The contemporary find out about assessed how audit committees have an effect on the effectiveness of external audit in SACCOs.

A local study by Riro (2008) examined the role of audit committees in Kenya's company governance. The learn about examined how audit committees in Kenya operate, how the committees relate to management, inside audit and the external auditors, their predominant achievements and challenges and why some listed corporations have no longer hooked up audit committees. The learn about heavily relied on essential records acquired from a questionnaire. The population comprised all the 48 companies listed at the NSE. Secondary records was once gathered from the annual reports of the respondents for the yr ended December 2004. The data was once analyzed the use of frequencies, percentages and means. From the analysis, the audit committees generally have a cordial relationship with the management, inside audit and the external auditors with 100 percent of the respondents indicating that the relationship is positive. The essential fulfillment was given as enhancing the independence of the inside audit characteristic and ensuring that its guidelines are implemented. The modern-day find out about assessed how audit committees have an effect on the effectiveness of exterior audit in SACCOs.

A Malaysian research by Mohammad and Ahmed (2017) posed that the pleasant of a monetary reporting machine is particularly dependent upon the mechanism of company governance, such as effectiveness of the audit committee, external audit, financial understanding and board structure. The find out about examined the relationship between audit committee traits and external auditors' characteristics (independent variables) and economic reporting pleasant (dependent variable). The find out about used a sample of firms from Bursa Malaysia, explicitly the pinnacle 100 performing firms according to the Bursa

Malaysia stock exchange. The evaluation of annual reviews proves that audit committee (independence, expertise, and diligence) have the prediction capability to monetary reporting quality. However, results indicated that enterprise management has good sized have an impact on on financial reporting quality, but on the other hand, large audit corporations do no longer have any vast effect on financial reporting quality. The contemporary study assessed how audit committees have an effect on the effectiveness of exterior audit in SACCOs positioned in Nairobi County.

A French research by Broye and Johannes (2021) reviewed a variety of empirical research accomplished on the effectiveness of audit committees. The learn about analyzed the main findings of 143 studies posted from 2007 to 2018. The assessment used to be organised around 4 fundamental issues, identified in relation to theoretical perspectives and methodological approaches. The determinants of audit committee effectiveness are frequently complex, and researchers play a central function in growing the appreciation of the a couple of implications of audit committee composition, its governance and its interactions with more than a few actors worried in the financial reporting process. The review concluded that audit committees have a essential role to play in as a ways as economic reporting of a variety of establishments is concerned. The present day study assessed how audit committees have an effect on the effectiveness of exterior audit in SACCOs positioned in Nairobi County.

### ***2.3.2 Audit Fees and External Audits***

Auditor's expenses refer to the amounts charged with the aid of the auditor due to the fact of performing an audit of a company's accounts. The quantity of the fees are determined in accordance to the settlement between the consumer and the auditor in accordance with the time that the audit will take, the kind of offerings required, and the extent of such transactions. There are a wide variety of things the auditor ought to think about when deciding the audit fee, such as the time required to plan and perform the audit, the range of

auditors and assistants performing the audit, the size of the audited company, the extent of the audit system and the complexities involved., the size and satisfactory of the audit firm, the variety of reports required of the customer, the nature of the company's work being audited and the extent of its need for specialised understanding and talents in the activity in which it operates. The determination of the prices of the audit method is a matter of superb importance to the auditor on the one hand and the patron on the different hand, due to the fact each celebration wants to equalize the value of audit services provided, but there is no scientific way to determine the auditor's costs fairly and reasonably. The audit prices are extra hard to determine at the beginning of the contract between the auditor and the customer, because the auditor does now not be aware of the nature of the audited company, the unique circumstances, the extent of the audit operations, the extent of the audit methods to be performed, and the time and effort required to function it (Carcello & Nagy, 2004).

Seifert (2018) examined the affiliation between auditing money and the firm's US public results, non-financial agencies from 2000 to 2008. The research adopted questionnaires for gathering information from a populace pattern of 2656 and 2881 companies. The research established that enchancement in operating overall performance is associated with discount on auditing expenses and vice versa. It concluded that auditors have a potential to undertake the position in setting up the monetary state of affairs of customers for the commercial enterprise implying that the necessary charges for auditing could be honest evaluation of how nicely a particular company is progressing. The study observed that extra “risky” purchasers require more full of life processes for auditing that lead to extended charges for generating auditing reports. The current find out about focused on SACCOs in Nairobi county, the prior study thus, creates a conceptual and contextual gap. The modern

learn about focused on how audit costs have an effect on the effectiveness of external audit in SACCOs.

Gatauwa (2018) did a research in Nairobi County on the hyperlink between impartial auditor's charges and overall performance of the association from 2009 to 2011. The lookup used descriptive research. There had been 23 companies used as sample population. The study adopted Tobin Q's rectangular and the total belongings to evaluate economic performance. The consequences showed that excessive audit fees serve as an indicator of the market. The findings showed that the audit charges and values of the enterprise are intently related. The outcomes of the study in addition showed that the perfect paid audit expenses are these charges paid to exceedingly valued auditing corporations which increase their strong values. The present day learn about focused on how audit costs affect the effectiveness of exterior audit in SACCOs.

A Ghanaian study by Owusu and Bekoe (2019) examined the understanding of exterior auditors on the dominant factors that impact audit expenses determination. By ability of a survey, the learn about explored from the perspective of exterior auditors the degree of significance audit companies connect to some identified factors in the dedication of audit fees. A self-administered questionnaire used to be used to accumulate information from expert auditors working with working towards auditing corporations certified and authorized through the Institute of Chartered Accountants, Ghana (ICAG). Using a complete of 339 valid responses, the find out about explored the dimensionality of the factors that have an effect on audit charges through employing the Exploratory Factor Analysis (EFA) procedure. The EFA consequences cautioned that audit expenses determinants can be grouped into 5 awesome elements (Audit company reputation, experience & expertise; Nature and scope of the audit; Market-wide factor; Client size; Client risk). The aspect 'Client risk' was once rated to be the most vital determinant of audit charges distantly observed by using the

'Nature and scope of the audit' factor. The 'Market-wide factor' was rated to be the least necessary issue in the willpower of audit fees. The contemporary study focused on how audit fees have an effect on the effectiveness of exterior audit in SACCOs.

A Spanish study by Gandia and Huguet (2020) examined the impact of audit fees on the value of debt. Based on the credence goods theory, they had a look at whether or not the impact of audits on the value of debt is affected with the aid of the type of audit (voluntary or mandatory) and the audit fees, as nicely as whether or not there is a combined effect of voluntary audits and audit fees, so that the effect of voluntary audits on the price of debt is affected by using audit fees. Using a pattern of Spanish SMEs, the learn about determined an asymmetric effect of audit prices on the fee of debt: higher audit costs are associated with a lower value of debt for voluntarily audited companies, while the affiliation is not enormous for mandatory audits. Results advise that, even though the type of audit and the audit prices do not have a direct effect on the credibility of audits, the combination of each factors has relevance for lenders, so that greater audit costs in the voluntary putting are positively valued by means of them. The cutting-edge study focused on how audit fees have an effect on the effectiveness of external audit in SACCOs.

Muamba (2015) did a research in Kenya on the hyperlink between impartial auditor's prices and performance of the company from 2009 to 2011. The lookup used descriptive research. There have been 23 organizations sold publicly to the designated sample population. The find out about adopted Tobin Q's square and the whole belongings to consider monetary performance. The effects showed that excessive audit prices serve as an indicator of the market. The findings confirmed that the audit prices and values of the organisation are closely related. The consequences of the study similarly exhibit that the highest paid audit fees are paid with the aid of high-quality auditing firms which develop

their sturdy value. The modern-day learn about centered on how audit costs have an effect on the effectiveness of exterior audit in SACCOs.

### ***2.3.3 Professional Competency Skills and External Audits***

Semiyu (2019) did a study on the stakeholders' Perception of Audit Performance Gap Organizations that had connections with external auditors that have high competency capabilities level, it was once evident that the performance is fantastic and this leads to more high-quality SACCO governance. Internal auditors' overall performance is hindered via factors such as inexperience, know-how and the essential qualifications. Consequently, Kirima (2016) indicated that interior auditors who are inexperienced in auditing operations act as a most important problem to reaching high performance. It is the duty of the chief auditor to pick out and recruit pretty qualified and professional auditors. The first-class of audit is notably possible only when the auditors are knowledgeable, capable and noticeably qualified. The auditors are required to have attained the minimum training skills and have a true expert standing in auditing. The modern study centered on how professional competency capabilities have an effect on the effectiveness of external audit in SACCOs.

A Tunisian study done by Thabet (2016) aimed to recognize auditors' skills, features and know-how contributing to business chance assessment ability. The find out about used a questionnaire to accumulate facts from practicing auditors listed on the Roll of the Tunisian Chartered Accountants Order. The members were asked to cite competencies and competencies that they consider as necessary in the step of chance evaluation and subsequent to fee the significance of 20 skills the usage of the Likert-scale. The consequences disclose two businesses of skills, qualities and expertise which were categorized as the most important. The first team gathers three technical skills: Subspecialty Knowledge, Academic Training and World Knowledge. The second team clusters 4 cognitive skills: Ability to understand what is relevant, Decision making ability, Problem fixing capacity and Assuming

responsibility. The present day learn about targeted on how professional competency capabilities affect the effectiveness of external audit in SACCOs.

A Zimbabwean study conducted by Jachi and Yona (2019) investigated the influence of inner audit function competence & staffing on transparency & accountability in the country's neighborhood authorities. The learn about adopted expert competence & staffing as the unbiased variables and transparency & accountability as the dependent variable. Survey information used to be received from management and inside audit personnel from neighborhood authorities in Zimbabwe the use of semi-structured questionnaires and focal point team discussions. Questionnaire responses were received from 182 respondents. Two focal point crew discussions were held one by one with thirteen senior managers and 8 Chief Audit Executives from nearby authorities in Zimbabwe. Regression and multivariate analysis have been used to test the hypothesis that interior audit feature professional competence & staffing is positively associated with transparency & accountability in Zimbabwe neighborhood authorities. The find out about hooked up that there is a significant nice relationship between inner audit function competency dimensions of qualification, ride and coaching and transparency & accountability in Zimbabwe nearby authorities. The present day learn about focused on how professionl competency abilities have an effect on the effectiveness of external audit in SACCOs.

An Indonesian study conducted by Yanti, Hasnawati, Astuti, and Kuntjoro (2018) provided empirical proof on the influence of technical expertise, expert skepticism, persistence, critical thinking abilities and communication capabilities on the capability to notice fraud by means of an exterior auditor. The learn about also examined the position of moral competence on the relationship between technical competence with fraud competencies as moderating variables. Samples used had been auditors working in the public accounting association placed in Jakarta. The lookup information was once acquired through a

questionnaire. The find out about pattern was once numbering 342 auditors from all ranges of the hierarchy in 13 KAP (junior, medior, senior, supervisor, accomplice associate and partner). Technical competence is measured the use of indicators of the level of education, professional certification, job stage employment as auditor until today. Results of the find out about published that technical competence, professional skepticism, persistence, necessary thinking skills, communication competencies have been empirically demonstrated to have a superb effect on fraud-detection skill. One advice for IAI and IAPI is balancing technical and soft skills, and moral competence on designing superior expert education materials. KAP ought to word this things in the recruitment process. The modern learn about centered on how expert competency abilities have an effect on the effectiveness of exterior audit in SACCOs.

Onyandoro (2018), carried out a study on the impact of competence and staffing of inner audit feature on transparency and accountability and stated that there is need to uphold interior audit function competency by way of growing an enabling surroundings to 10support inner audit features and beautify their effectiveness in upholding corporate governance. Internal manage quality is truely linked to IAF competence, inner audit first-class assurance level and reviewed internal audit software and consequences by way of the audit committee. Competence of inner audit team of workers is one of the determinants of inner audit performance.

In organizations, the challenge of detecting fraud can be challenging. Internal auditors have a major function in uncovering fraud in organizations. Ashton (2013) noted that “while journey and ability are undeniably essential in the detection of fraud, positive man or woman characteristics might also be predictive of the capability to detect fraud. The efficacy of internal auditors ought to be associated to their personal traits. It used to be concluded that there have been common qualities that were evident in the fraud detectors. The characteristics

covered perseverance, diligence and integrity.” The modern-day learn about focused on how expert competency abilities affect the effectiveness of external audit in SACCOs.

Oyoo (2016) targeted the contrast of Financial Performance of Savings and Credit Co-operative Societies before and after the Deregulations of Professionalism observed that auditors made representations to administration and participants of the audit committee, using logical consultation, conversation and choice making for users, management to the customers and to oversee others with the aid of giving realistic feedback, working certainly and ethically, working in a group environment, interacting with others, and preserving presence in professionalism. The contemporary learn about centered on how professional competency abilities affect the effectiveness of external audit in SACCOs.

#### **2.3.4 Independence of External Auditors and External Audits**

Gachare (2016) did a study on practices of investments money reserved in financial savings and credit cooperative societies in Nairobi County. It was installed that independence and authority of interior audit are factors which allow IAF to raise out its things to do barring intrusion and supply actual comments to the administration on how to develop, improve and promote manage policies. The auditor independence capability the IAF is capable to air its views except being influenced or forced by using administration and/or events associated to the organization.

Maina and Kibanga (2016) performed a lookup on the factors affecting independence of auditors in financial institutions in Nairobi County, indicated that internal auditors’ lack of independence limits their performance. The choices of interior auditors were tremendously influenced by using management which influences their performance and effects in alteration of auditing procedures in the organization. The have an effect on of management on interior auditors leads to negative performance by using inside auditors. The cutting-edge learn about

targeted on how independence of external auditors affected the effectiveness of the exterior audit feature in SACCOs.

Gaitho, (2017) focused on the comparison of Support Platform of external audits for Fund Mobilization Strategies of Savings and Credit Cooperative Societies. To institutionalize backyard auditor's independence worldwide expert exercise of external auditing (IPPIA) requires that the lead auditing authority to functionally record great hierarchy in their company that allows outside audit attribute to impartially execute its obligations. This helps external auditors' success of purposeful independence in terms of approval of audit constitution; chance notably based totally on external audit plans, outdoor audit rate vary and resources, receiving guidelines and communicate, making inquiries of control and composition of human capital. The present day study targeted on how independence of exterior auditors affected the effectiveness of the exterior audit function in SACCOs.

Owino (2017) focused on the competitive Strategies adopted by Savings and Credit Cooperatives in Mombasa County in Nairobi County. The research findings revealed that for a minimal external auditors realistic reporting must be to a level possessive of enough authority to stick to their independence, to make positive large purposeful scope, sufficient notion on engagement communications and adequate action on audit pointers, to build appropriate stage of independence for exterior audit effectiveness, the chief audit authority ought to report administratively to the senior executives and functionally to the board. The contemporary study focused on how independence of exterior auditors affected the effectiveness of the external audit function in SACCOs.

The analysis done by Morara and Mureithi (2017) focused on the audit constraints that faced by way of SACCOs in Nairobi. The learn about mounted a case of substantial and exquisite association amongst exterior audit stage of reporting or organizational attention and its effectiveness. External audit features should be accorded sufficient authority to allow goal

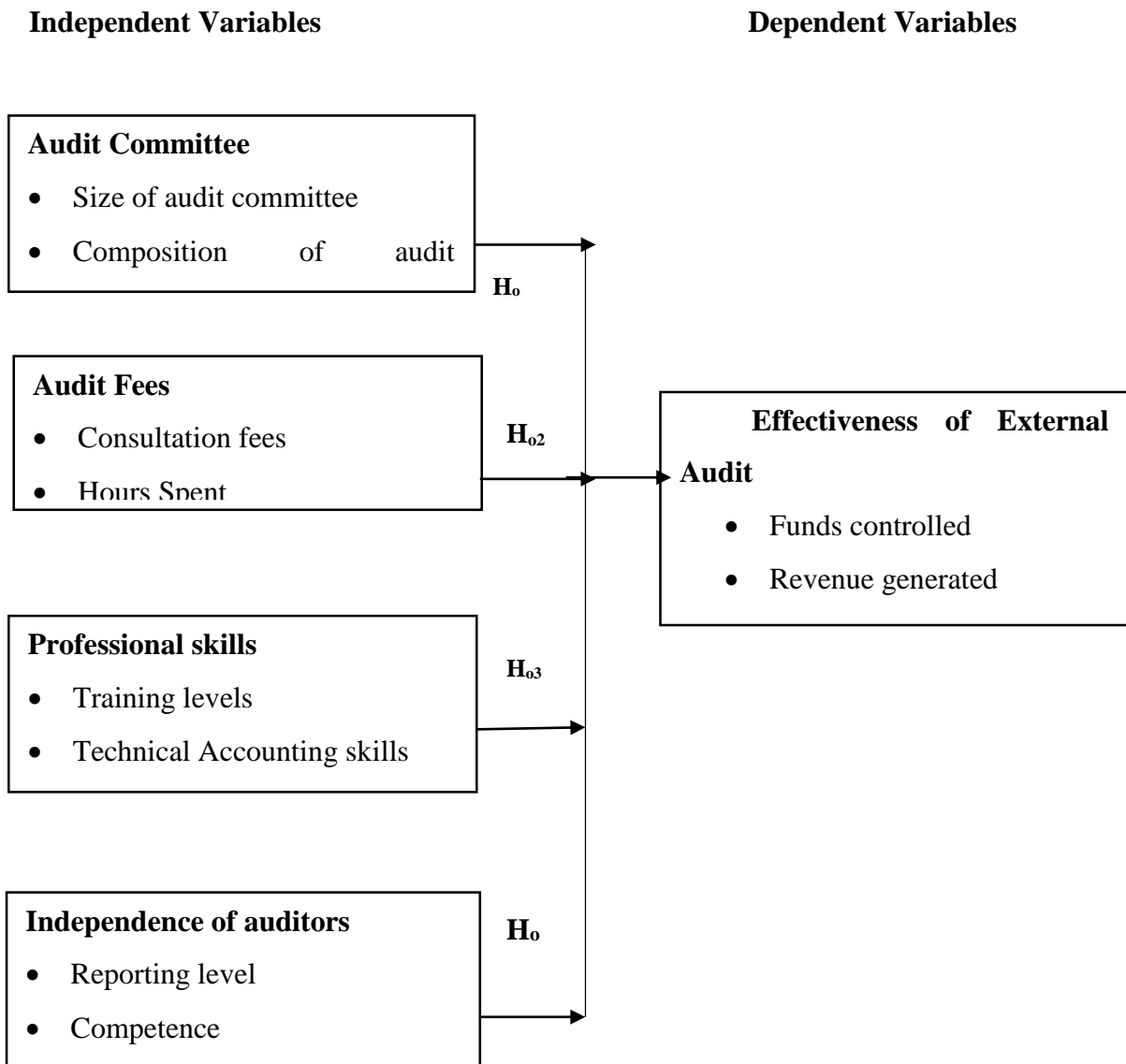
execution of their mandate even though their employment status need to forestall their way. Consequently, a German study by Delaney (2006) asserted that the position of an external auditor in the supervisory procedure requires requirements such as independence, objectivity and integrity to be achieved. Even though the regulator and exterior auditor function similar functions, namely the verification of economic statements, they serve particular interests. The regulator works toward safeguarding monetary stability and investor interests. On the different hand, the exterior auditor serves the non-public interests of the shareholders of a company. The economic audit remains an vital issue of corporate governance that makes administration guilty to shareholders for its stewardship of a company. The exterior auditor may additionally however, have a commercial hobby too. The debate surrounding the function of exterior auditors focusses in unique on auditor independence. The find out about additionally noted that auditors or audit companions must be circled however but no longer seperated from consultancy work in spite of protests that there is a hyperlink to compromising the independence of auditors. The contemporary learn about focused on how independence of exterior auditors affected the effectiveness of the exterior audit feature in SACCOs.

Mburu (2018) did a study on the company governance and expert audit practices. A case find out about of the Kenya union of financial savings and savings coops ltd. It was discovered that independence and objectivity can beautify audit effectiveness through outdoor audit reporting administratively to the CEO and functionary to efficaciously senior authority internal the corporation which includes the audit committee. The exterior audit reporting stage as widespread requirements in influencing exterior audit independence and in the long run external audit effectiveness. The contemporary study targeted how independence of exterior auditors affected the effectiveness of the exterior audit function in SACCOs.

## **2.4 Conceptual Framework**

The conceptual framework model is developed from literature review and it sheds light on the interrelationship among the key variables in a study. In a conceptual framework, it is assumed that when the independent variable is manipulated it causes an effect on the dependent variable (Cooper & Schindler, 2014). The dependent variable synonymously used with criterion variable is expected to be affected by manipulation of an independent variable. According to Kothari, (2004), a dependent variable is one that depends upon or is a consequence of the other variable, while the variable that is precursor to the dependent variable, is termed as the independent variable. The independent variables in the study were audit committee, audit fees, professional competence skills and independence of auditors while the dependent variable was effectiveness of external audit function.

**FIGURE 2.1**  
**Conceptual Framework**



The conceptual framework depicts the following hypothesised relationships between the independent and dependent variables;

**H<sub>01</sub>:** There is no significant effect of audit committee on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

**H02:** There is no significant effect of audit fees on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

**H03:** There is no significant effect of professional skills competency on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

**H04:** There is no significant effect of external auditors' independence on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

## **2.5 Measurement of Study Variables**

Operationalization of study variables ensures that variables are strictly defined into measurable factors allowing for their measurement empirically and quantitatively (Saunders & Tossey, 2015). Operationalization of the study variables is important as it allows the researcher to measure the variables quantitatively and thus enables the testing of the formulated hypotheses (Cooper & Schindler, 2014). The variables of this study include factors (audit committee, audit fees, professional skills competency and independence of external auditors) affecting external audit effectiveness in SACCOs in Nairobi County. The measurement of the independent and the dependent variables is as shown in the operationalization Table 2.1 below.

**TABLE 2.1**  
**Operationalization of Research Variables**

<b>Variable</b>	<b>Operational Indicators</b>	<b>Measure</b>	<b>Scale</b>
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<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Responsibilities of audit committee</li> <li>• Composition of audit committee</li> </ul>	5- point Likert Type Scale	Interval Scale
<b>Audit Fees</b>	<ul style="list-style-type: none"> <li>• Consultation fees</li> <li>• Hours spent</li> <li>• Annual audit fee cost</li> </ul>	5-point Likert Type Scale	Interval Scale
<b>Professional Skills</b>	<ul style="list-style-type: none"> <li>• Training levels</li> <li>• Technical Accounting skills</li> <li>• Refresher Accounting course</li> </ul>	5-point Likert Type Scale	Interval Scale
<b>Independence of Auditors</b>	<ul style="list-style-type: none"> <li>• Threat cases</li> <li>• Reporting level</li> </ul>	5-point Likert Type Scale	Interval Scale
<b>Effectiveness of External Audits</b>	<ul style="list-style-type: none"> <li>• Funds controlled</li> <li>• Revenue generated</li> </ul>	5-point Likert Type Scale	Interval Scale

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The research methodology provided research design, target population, methodological approach to sampling, data collection instruments, research instrument

validity and reliability, data collection process and data analysis that further focuses on significance tests and model of analysis.

### **3.2 Research design**

Research design is an outline of how information with regards to the specific study variables will be collected. This includes the data collection instruments, administration of the instruments, organization and analysis of the data obtained (Schoonenboom & Johnson, 2017). The proposed study will use a descriptive research design. The descriptive design is well applicable where there is an identified problem and the research identifies matters which respondents will be required to shed more light within a specified period as noted by (Cooper & Schindler, 2014). According to Holborn and Langley (2015), descriptive research design forms a basis of data collection from huge quantities of cases making it more useful. Additionally, it adopts a cross section design which utilizes quantitative data to address the issue that give realities and ideas on connections among factors and their evident causes. The design was deemed appropriate as the study sought to assess the factors that affect effectiveness of external audit among deposit taking SACCOs in Nairobi County. Therefore, this design will help to show how the highlighted factors affect the effectiveness of external audit function in DT-SACCOs.

### **3.3 Target Population**

The population of study comprises of number of entities that possess characteristics that have similarities and can provide information for research purposes (Taherdoost, 2017). McBurney and Theresa (2010) defined population as the totality of subjects that adhere to a given number of specifications. The population of the proposed study will be 55 registered

SACCOs within Nairobi County. This is with regards to Sacco Societies Regulatory Authority (SASRA) as at 31<sup>st</sup> December 2020. The unit of analysis will be the SACCOs while the unit of observation will be either the accounts and finance staff of these SACCOs. Therefore, a total of 55 respondents was used in the study.

### **3.4 Sample and Sampling Techniques**

Sampling is a process used in statistical analysis in which a predetermined number of observations are taken from a larger population. The study adopted census technique where the entire population of 55 will be used. According to McMillan and Schumacher (2014), a study where all objects in the population take part in the research is referred to as census. Census technique is appropriate where a researcher needs to attain high levels of accuracy and reliability (Cooper & Schindler, 2014). Furthermore, the technique is preferable when the subjects in the population are few. Unlike other sampling methods, where a subset of target population is selected for inclusion and enumeration, a census method generally has no sampling errors (Rominger, 2018).

### **3.5 Research Instrument**

Primary data was collected using a structured questionnaire. The administration of these questionnaires will be through online means; emails and drop-pick method. This was deemed appropriate due to the covid-19 protocols that have been established by the Kenyan Government (Cooper & Schindler, 2014). The questionnaire was organized into two areas. The first segment focused on the demographic information of the respondents. The second segment was on the effectiveness of external audit functions. The structured questionnaire was deemed appropriate as it was convenient to use unlike direct observation and it clarifies issues that are not easily detectable like internal feelings, personal sentiments, values, interests (Lyon, 2015).

### **3.6 Pilot Study**

The main aim of the pilot test was to refine the questionnaire so respondents have no problems in addressing the inquiries and subsequently get rid of problems associated with recording the information. Also, pilot examination permits the analyst to evaluate the legitimacy and unwavering quality of the information collecting instrument. Initial analysis utilizing the pilot test information can be attempted to guarantee that the inquiries posed in the questionnaire give data on the investigation factors (Saunders, Lewis and Thornhill 2012). The pilot sample goes from 1% to 10% depending on the pre-decided sample size (Mugenda & Mugenda, 2003). The current examination will utilize 10% of the sample size for pilot testing. Given that the sample size is 55, 6 polls that represents 10% of the sample size will be piloted by giving them to respondents who won't be used for the final sample. These 6 polls will be DT-SACCOs that are based in Kiambu County.

### **3.7 Validity and Reliability of Research Instrument**

Validity is the precision and significance of inductions, which depend on the research results (Saunders, Lewis and Thornhill, 2012). Both construct and content validity were assessed for validity of the research instrument. The study will use the Keser-Meyer-Olkin and Sphericity test to measure construct validity. The questionnaire will be examined by different project supervisors for relevance to ensure content validity.

Reliability measures the consistency of the specified items (Cronbach, 1951). Reliability will be assessed using the Cronbach alpha where values above 0.7 are deemed appropriate (Cronbach, 1995). Consequently, (Sekaran, 2006) highlights that the Cronbach alpha values close to 1 show high reliability. The pilot data collected will be tested for validity and reliability. The data will be coded into SPSS and the construct validity and reliability statistics obtained.

### 3.7.1 Reliability Results

In order to ascertain the validity and reliability of the research instrument the Cronbach alpha was used. The following were the results obtained.

**TABLE 3.1**  
**Cronbach Alpha Summary Statistics**

<b>Variable</b>	<b>Cronbach alpha</b>
Audit Committee	0.727
Audit Fees	0.748
Professional Skills Competence	0.798
Independence of External Auditors	0.802

From the table above, all the variables assessed were reliable. The Cronbach alpha values were tending to one (Sekaran, 2006). The researcher collected data based on each of the constructs.

### 3.8 Data Collection Procedure

Data collection is the process of acquiring information from a given number of subjects with regards to the investigation being carried out. The various techniques adopted for data collection vary with respect to the research design adopted (Kothari, 2012). The current study used structured questionnaires to obtain primary data. These questionnaires will be administered online and drop and pick method. Follow-up on the responses will be done using scheduled phone calls. Covid-19 protocols will be observed during the data collection process.

### 3.9 Diagnostic Tests

The study conducted various diagnostic tests to assess the regression model that was adopted. These include; normality, multicollinearity and heteroscedasticity tests.

### **3.9.1 Multicollinearity**

Multicollinearity happens when at least two independent variables in a multiple regression model are exceptionally correlated. The current study tested for multicollinearity utilizing the variance inflation factor (VIF). If the value of the VIF obtained will be greater than 10 then multicollinearity is present. On the other hand, if the value obtained will be  $VIF \leq 10$  then multicollinearity is absent Bryman and Bell (2013). If the variables will be found to be highly correlated, they will be removed.

### **3.9.2 Heteroscedasticity**

Heteroscedasticity refers to a situation where observations are given equal weight which leads to discrimination of standard errors (Williams, 2016). This may lead to incorrect inferences in hypothesis testing. The study will adopt Breusch-Pagan test to check for heteroscedasticity on the data obtained. This will be tested at 0.05 significance level based on the rule of the thumb. If the p-value obtained would be  $>0.05$  then it will be concluded that heteroscedasticity does not exist. Consequently, if the p-value obtained will be  $<0.05$  then heteroscedasticity exists.

### **3.9.3 Normality test**

The normality indicative test is done to guarantee that the information acquired from the sample is from a normally distributed population. The test permits one to make precise statistical surmising from testing a given hypothesis (Field, 2009). The proposed study will adopt the Jarque-Bera test measurement (Bera & Jarque, 1982) to test for the normality of the residuals. The general guideline is that the information gathered is normal. Assuming the p-value got will be over the significance level 0.05, the sample information is normal; the null hypothesis won't be dismissed. In the event that the p-value acquired will be less than the pre-specified 0.05, then, the sample information is not normally dispersed; the null hypothesis will be rejected.

### **3.10 Data Processing and Analysis**

Data analysis includes quite a number of related operations which have an effect of creating summaries of data collected; sorting them out in a way that they effectively answer research questions developed Kothari (2012). Prior to the analysis, the data obtained from the questionnaires would be coded, cleaned and checked for accuracy. Both descriptive and inferential statistics for the data obtained will be analyzed. The descriptive statistics would be done using Statistical Package for Social Sciences (SPSS) and will be presented by means, standard deviation and frequency tables.

The inferential statistics will be tested using a multiple regression model. The regression analysis will bring out the effect of the three external audit factors making up the independent variables and their effect on effectiveness of external audit as the dependent variable.

The following comprises of the regression model.

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon:$$

Where

Y = external audit;

X<sub>1</sub> = audit committee;

X<sub>2</sub> = audit fees;

X<sub>3</sub> = professional skills competency,

X<sub>4</sub> = independence of external auditors

$\alpha$  = constants term, i.e. the external audit function does depend on variables under study

$\beta_1, \beta_2, \beta_3$  = regression coefficients of X<sub>1</sub>, X<sub>2</sub>, X<sub>3</sub> and  $\varepsilon$  = error term

## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

The chapter gives the consequences and interpretations of the study, which is guided through the set research objectives. Data analysis was performed the usage of descriptive, and regression analysis. Descriptive evaluation used to be used to address the profile of respondents and regression analysis used to be used to determine the effect of elements that affect effectiveness of exterior audit function in savings and credit cooperative societies in Nairobi County. Finally, the analysis of variance (ANOVA) test was done to compare the relationship between the factors (audit committee, audit fees, professional skills competency and independence of external auditors) affecting effectiveness of external audit (dependent variable).

#### **4.2 Response rate**

The response rate is measured by how well the targeted sample size was achieved. It was expressed as a ratio of the actual number of respondents used in the study in a percentage form. Since response rate is related to sampling fraction, which is the ratio of the sample size to the population size, the higher the response rate the higher the sampling fraction and consequently, a good sample representation.

The study identified fifty-five respondents. However, only 45 questionnaires were duly filled. Thus, the response rate was given by;

$$\frac{\text{Actual responses}}{\text{Expected responses}} = \frac{45}{55}$$
$$= 81.82\%$$

The response rate which was at 81.82% was quite high and was deemed appropriate according to Mugenda and Mugenda (2003). Mugenda & Mugenda (2003) argued that a 50% reaction rate is adequate for generalization and 60% is good, while a 70% response rate is an outstanding. The high response rate in this study, therefore, implied that the study used instruments and procedures that were clear, precise and within the acceptable number.

#### **4.3 Demographic Information**

Demographic information focused on the respondents' personal details that included; gender, level of education and how long they had worked in the SACCO. The section describes the percentage of each demographic information. The features help in analyzing the power of the reaction provided on a specific problem by the respondents.

#### **4.3.1 Gender**

The study sought to assess factors that affect the effectiveness of external audit on DT-SACCOs in Nairobi County. The respondents were asked to specify their gender. The findings were as shown below;

**TABLE 4.1**  
**Gender Distribution**

<b>Gender</b>	<b>Frequency</b>	<b>Valid Percent</b>
Female	20	44.4% %
Male	25	55.6%
Total	45	100.0%

It is clear from the table that the majority of participants were male at 55.6%, while the female gender constitutes 44.4%. This is an indication that there are more males engaged in external audit practices in Nairobi county. It is worth noting that though there are discrepancies, the difference is not very big.

#### **4.3.2 Education level**

Education level of the participants was also put into consideration. This was to gauge whether education level had an impact on the respondents' knowledge factors that affect the effectiveness of external audit on DT-SACCOs in Nairobi County.

**TABLE 4.2**  
**Education level distribution**

<b>Education level</b>	<b>Frequency</b>	<b>Percentage</b>
------------------------	------------------	-------------------

College	12	26.7%
Undergraduate degree	23	51.1%
Postgraduate degree	10	22.2%
Total	45	100%

---

From the table shown above, majority of the respondents 51.1% had attained an undergraduate degree as their highest education level. This was followed by college diploma at 26.7% and postgraduate degree at 22.2%. This clearly highlights the fact that most of the respondents' knowledge was somewhat limited to basic education. Only number of them had furthered their studies to post graduate level.

#### **4.3.3 Experience in the SACCOs**

The study assessed the number of years that the respondents had been working in the SACCO. This was meant to gauge the quality of the responses given by the participants. It is believed that experienced people tend to have more knowledge on a particular subject compared to those that have little or no experience.

**TABLE 4.3**  
**Experience Distribution**

<b>Experience</b>	<b>Frequency</b>	<b>Percentage</b>
1-2 years	4	8.9%
3-6 years	18	40%
7-10 years	18	40%
11 years and above	5	11.1%
Total	45	100%

---

From the table above, there seems to be some disparity in experience level. The modal classes were the 3-6 years and 7-10 years in the SACCO (40%). The next one was over 11 years at 11.1% while the least was 1-2 yrs (8.9%). This highlights the fact that there is little movement when it comes to working in SACCOs within Nairobi County. This may be attributed to the fact that external auditors are paid well making them satisfied and SACCO members honor their monthly contributions to the scheme.

#### 4.4 Descriptive Statistics

This section highlights the outcome of the descriptive analysis done on factors (audit committee, audit fees, professional skills competence and independence of external auditors) affecting the effectiveness of external audit function on DT-SACCOs in Nairobi County. The variables (audit committee, audit fees, professional skills competence, independence of external auditors and effectiveness of external audit function) were assessed using a 5-point likert scale that ranged from strongly disagree (1) to strongly agree (5). The scores of little involvements have been taken to represent a variable that had a mean of less than 2.5 on the continuous Likert scale. The scores of moderate involvements have been represented as a variable with a mean of 2.5-3.4, while the mean score of 3.5-5 on the continuous Likert scale represents great or very great involvement.

##### 4.4.1 Audit Committee

Audit Committee was identified as one of the independent variables in the study. The indicators were; size of audit committee, composition of audit committee and experience. These were analyzed using a 5-point likert scale and the following descriptive statistics were obtained from the responses;

**TABLE 4.4**  
**Audit Committee Summary Statistics**

Statement	Mean	Standard Deviation
-----------	------	-----------------------

Audit Committees responsibilities are well defined.	3.56	1.078
External auditors habits conferences with the audit committee prior to the start of the audit.	3.49	1.325
Audit committee video display units the nature and extent of non-audit services carried out through the exterior auditors.	3.64	1.246
Audit committee constructively project management's deliberate decisions, specifically in the area of financial reporting.	2.33	1.206
The existence of the audit committee increases the reliability of monetary reports.	2.58	1.252

The results obtained established that respondents agreed to a great extent that audit committees' responsibilities are well defined (Mean=3.56) and agreed to a moderate extent that external auditors conduct meetings with the audit committee prior to the start of the audit. (Mean=3.49). The findings also highlighted those respondents agreed to a great extent that their SACCOs audit committees monitor the nature and extent of non-audit services performed by the external auditors. (Mean=3.64). Respondents agreed to a low extent that their audit committees constructively challenge management's planned decisions, particularly in the area of financial reporting (Mean=2.33) and agreed to a low extent that the existence of the audit committee increases the reliability of financial reports. (Mean=2.58). The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

#### **4.4.2 Audit Fees**

Audit Fees was identified as one of the independent variables in the study. The indicators were; Consultation fees , hours spent and annual audit fee cost. These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

**TABLE 4.5**  
**Audit Fees Summary Statistics**

<b>Statement</b>	<b>Mean</b>	<b>Standard Deviation</b>
The controller wants to manage risks to be addressed and controlling internal and external costs of auditing	3.00	1.206
The controller wants to manage risks to be addressed and controlling internal and external costs of auditing	3.00	1.148
The renewal of annual audit fee has reduced the Sacco revenue	2.73	1.053
Cost of remuneration for audit services is costly to the SACCO	2.71	1.079
The renewal of annual audit fee has reduced the Sacco revenue	2.84	1.043

The results obtained established that respondents agreed to a moderate extent that the controller wants to manage risks to be addressed and controlling internal and external costs of auditing (Mean=3.00) and agreed to a moderate extent that the controller wants to manage risks to be addressed and controlling internal and external costs of auditing (Mean=3.00). The findings also highlighted those respondents agreed to a moderate extent that the renewal of annual audit fee has reduced the SACCO's revenue (Mean=2.73). Respondents agreed to a moderate extent that cost of remuneration for audit services is costly to the SACCO (Mean=2.71) and agreed to a moderate extent that the renewal of annual audit fee has reduced the SACCO's revenue.

The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

#### ***4.4.3 Professional Skills Competency***

Professional Skills Competency was identified as one of the independent variables in the study. The indicators were Training levels, Technical accounting skills and refresher accounting course. These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

**TABLE 4.6**  
**Professional Skills Competency Summary Statistics**

<b>Statement</b>	<b>Mean</b>	<b>Standard Deviation</b>
Auditors ought to possess traits of withstanding and resisting the impact in the route of discharge of duties	2.98	1.033
Auditors ought to have gone thorough training in enterprise organization, administration and finance.	2.82	1.319
Professional skills play function in carrying out compliance in work requirements	2.62	1.267
Store of understanding have to be continuously replenished and saved up to date.	4.29	1.014
Professionalism promotes excellent governance by identifying weaknesses and deviations from laws and rules	2.64	1.069

The results obtained established that respondents agreed to a moderate extent that auditors must possess qualities of withstanding and resisting the influence in the course of discharge of duties (Mean=2.98) and agreed to a moderate extent auditors should have thorough training in business organization, management and finance (Mean=2.82). The findings also highlighted those respondents agreed to a moderate extent that professional skills play a major role in accomplishing compliance in work requirements (Mean=2.62). Respondents agreed to a very great extent that the store of knowledge must be constantly replenished and kept up to date (Mean=4.29). Finally, they agreed to a moderate extent that professionalism promotes good governance by identifying weaknesses and deviations from laws and regulations (Mean=2.64).

The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

#### ***4.4.4 Independence of External Auditors***

Independence of external auditors was identified as one of the independent variables in the study. The indicators were; Reporting level, competence of external auditors and threat

cases. These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

**TABLE 4.7**  
**Independence of External Auditors Summary Statistics**

<b>Statement</b>	<b>Mean</b>	<b>Standard Deviation</b>
There are no threat of cases of intimidation after auditing	3.56	0.983
There is clear chain of command for externa audits when reporting audit reports	3.56	1.078
Reporting degree in SACCOS is well defined during audit reports	2.61	1.401
Auditor judgment is quite essential in deciding whether or not recommended audit strategies are enough to obtain audit objective and help services	4.13	1.057
Audit approach sets out in usual terms how the audit is to be performed with the aid of placing up the scope, timing and path of audit	3.73	1.156

The results obtained established that respondents agreed to a moderate extent that there are no threat of cases of intimidation after auditing (Mean=3.56) and agreed to a moderate extent that there is a clear chain of command for externa audits when reporting audit reports in their SACCOS (Mean=3.56). The findings also highlighted those respondents agreed to a moderate extent that reporting level in their SACCOS is well defined during audit reports (Mean=2.61), agreed to a very great extent that auditor judgment is necessary to determine whether suggested audit procedures are sufficient to achieve audit objective and support services (Mean=4.13) and agreed to a moderate extent that audit strategy set out in general terms how the audit is to be conducted by setting up the scope, timing and direction of audit (Mean=3.73).The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

#### 4.4.5 Effectiveness of External Audit

Effectiveness of external audit function was identified as the dependent variable in the study. The indicators were; Funds controlled and revenue generated of each savings and credit cooperative society assessed . These were analyzed using a 5-point likert scale and the following were the descriptive statistics obtained from the responses;

**TABLE 4.8**  
**Effectiveness of External Audit Function Summary Statistics**

<b>Statement</b>	<b>Mean</b>	<b>Standard Deviation</b>
The revenue generated by the SACCO is well accounted for.	3.56	1.013
The SACCO effectively controls funds.	3.16	1.086
Audit Committees involvement help in boosting the performance of the SACCO	3.13	1.358
External audits improve the general performance of the SACCO.	4.11	0.804
The SACCO can not operate efficiently without the professional skills of the external auditors.	3.53	1.100

The results obtained established that respondents agreed to a moderate extent that the revenue generated by the SACCO is well accounted for (Mean=3.56) and agreed to a moderate extent that their respective SACCOs effectively control funds (Mean=3.16). The findings also highlighted those respondents agreed to a moderate extent audit committees involvement help in boosting the performance of the SACCO (Mean=3.13), agreed to a very great extent that external audits improve the general performance of the SACCO (Mean=4.11) and agreed to a moderate extent their SACCOs can not operate efficiently without the professional skills of the external auditors (Mean=3.53).The standard deviation values obtained revealed that the responses did not deviate far away from the mean as the values were small.

#### 4.5 Diagnostic Test Results

The study conducted a number of diagnostic tests to ensure that the regression model did not violate the assumptions of the classical linear regression model. The diagnostic tests conducted were multicollinearity, normality and heteroscedasticity tests.

**4.5.1 Multicollinearity**

Multicollinearity is a situation where the correlation between the independent variables is greater than 0.8. In such a case, the standard errors of the regression model are inflated thus giving false coefficients of the regression model variables. Such values cannot be relied on to predict a relationship between the independent and dependent variables. The study tested for multicollinearity through Variance Inflation Factor (VIF) method where VIF values below 10 are acceptable. The findings for the VIF values are presented in Table 4.9 show that values are less than 10 which imply that all variables are within the threshold for lack of multicollinearity.

**TABLE 4.9**  
**Variance Inflation Factor (VIF) Test of Multicollinearity**

	<b>Collinearity Statistics</b>	
	<b>Tolerance</b>	<b>VIF</b>
Audit Committees	.907	1.102
Audit Fees	.909	1.100
Professional Skills Competency	.924	1.082
Independence of External Auditors	.919	1.088
Dependent Variable: Effectiveness of External Audit		

**4.5.2 Normality**

The assumption of a classical linear regression model demands that the data needs to assume a normal curve (Normal distribution). The normality of the dependent variable was tested through Kolmogorov-Smirnova (K-S). In the Kolmogorov-Smirnova (K-S) test, the null hypothesis is that the data is normally distributed while the alternative hypothesis is that the data is not normally distributed.

A significance value greater than 0.05 indicated that the data is normally distributed since the null hypothesis was not to be rejected. The results for the Kolmogorov-Smirnova (K-S) test are presented in Table 4.12.

The results indicate that the significance of the statistic was not significant (Sig = 0.435 > 0.05). The null hypothesis that the data is normally distributed was not rejected. The data on the dependent variable was therefore normally distributed.

**TABLE 4.10**  
**Kolmogorov-Smirnova (K-S) test of Normality**

Test of Normality	<u>Kolmogorov-Smirnova (K-S)</u>			<u>Shapiro-Wilk Test</u>		
	Statistic	Df	Sig	Statistic	Df	Sig
Effectiveness of External Audit Function	0.654	44	0.435	0.786	44	0.356

#### 4.5.3 Heteroscedasticity

The study tested for violations of Heteroscedasticity. In this test, Breusch Pagan method was used whereby significance value of the probability chi square greater than 0.05 indicates absence of Heteroscedasticity. The results were presented in Table 4.17. The results indicated that the Prob > Chi<sup>2</sup> value was (0.1110 > 0.05) hence the null hypothesis of constant variance was not rejected. Therefore, the data was suitable to run on multiple linear regression.

**TABLE 4.11**  
**Breusch Pagan test of Heteroskedasticity**

#### **Breusch-Pagan test for Heteroskedasticity**

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Ho: Constant variance

Variables: Fitted values of Effectiveness of External  
Audit Function

Chi <sup>2</sup> (1)	2.54
Prob > Chi <sup>2</sup>	0.1110

---

#### 4.6 Inferential Statistics

The study set out to establish the factors (audit committee, audit fees, professional skills competence and independence of external auditors) affecting the effectiveness of external audit function. A number of SACCOs were identified and their external auditors were asked to respond to a number of questions in order to test the developed hypotheses. The inferential statistics done included correlation analysis, multiple linear regression analysis and the analysis of variance (ANOVA).

##### 4.6.1 Correlation Analysis

A correlation analysis was used to establish the association between the study variables. This study utilized the Pearson correlation coefficient to establish the association between the variables used in the study. According to Kumar (2011), a correlation analysis indicates the direction and strength of the relationship between variables and ranges from -1 to +1. The results for the correlation analysis are presented in Table 4.11.

**TABLE 4.12**  
**Correlation Analysis**

		AC	AF	PS	IA	EA
AC	Pearson Correlation Sig. (2-tailed)	1				
AF	Pearson Correlation Sig. (2-tailed)	.145	1			

---

PS	Pearson	.230	-.041	1		
	Correlation	.023	.067			
	Sig. (2-tailed)					
IA	Pearson	.062	.234	.094	1	
	Correlation	.047	.034	.000		
	Sig. (2-tailed)					
EA	Pearson	-.155	.449	.110	.569	1
	Correlation	.011	.002	.008	.002	
	Sig. (2-tailed)					
	N	45	45	45	45	45

Where;

AC- Audit Committee

AF- Audit Fees

PS- Professional Skills Competence

IA- Independence of External Auditors

EA- Effectiveness of External Audit Function

The results in table 4.12 indicated that audit committee has a weak negative relationship on the effectiveness of external audit function ( $r = -0.155$ ,  $\text{Sig} = 0.011$ ,  $< 0.05$ ). This implies that a unit increase in audit committee functions leads to a significant decrease in the effectiveness of external audit function in SACCOs in Nairobi County.

The correlation analysis done highlighted that audit fees has a weak positive and significant relationship with the effectiveness of external audit function ( $r = 0.449$ ,  $\text{Sig} = 0.002$ ,  $< 0.05$ ). This implies that audit fees boost the effectiveness of external audit function in SACCOs in Nairobi County. It was also established that professional skills competency has a weak positive and significant relationship with effectiveness of external audit function in SACCOs in Nairobi County ( $r = 0.110$ ,  $\text{Sig} = 0.008$ ,  $< 0.05$ ). This implies that adequate professional skills competence improve the effectiveness of external audit function in SACCOs in Nairobi County.

Finally, it was established that independence of external auditors has a strong positive and significant relationship with the effectiveness of external audit function ( $r = 0.569$ ,  $\text{Sig} =$

0.002, < 0.05). This implies that independence of external auditors improve the effectiveness of external audit function in SACCOs in Nairobi County.

#### **4.6.2 Multiple Linear Regression Analysis**

To establish the factors (audit committee, audit fees, professional skills competency and independence of external auditors) affecting the effectiveness of external audit function in deposit taking savings and credit cooperative societies in Nairobi County, a multiple linear regression model was used. The model took the form;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where;

Y = Effectiveness of external audit function

X<sub>1</sub> = Audit Committee

X<sub>2</sub> = Audit Fees

X<sub>3</sub> = Professional Skills Competence

X<sub>4</sub> = Independence of External Auditors

β<sub>0</sub>= Constant Term;

β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub>, β<sub>4</sub>= Beta coefficients;

ε = Error Term.

The model was used to test the following hypotheses;

**H<sub>01</sub>:** There is no significant effect of audit committee on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

**H<sub>02</sub>:** There is no significant effect of audit fees on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

**H<sub>03</sub>:** There is no significant effect of professional skills competency on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

**H<sub>04</sub>:** There is no significant effect of external auditors' independence on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.

The estimation of the regression model has model summary, ANOVA and model coefficients. The results are presented and explained in the sub sections that follow. The model summary results as presented in Table 4.13.

**TABLE 4.13**  
**Regression Model Summary**

<b>R</b>	<b>R-Squared</b>	<b>Adjusted R-Squared</b>	<b>Std. Error Estimate</b>
0.690	0.4724	0.4196	0.55473
Predictors: (Constant) Audit Committee, Audit fee, Professional Skills Competence, Independence of External Auditors			

The results in Table 4.13 showed that the four factors analyzed that is audit committee, audit fees, professional skills competence and independence of external auditors had a strong positive correlation with financial performance of SACCOs (R = 0.690). This implies that the four factors analyzed affect the effectiveness of external audit function in SACCOs in Nairobi County.

The R-square indicates the change in the dependent variable (effectiveness of external audit function) explained by the independent variables (audit committee, audit fees, professional skills competence and independence of external auditors). The R-square value commonly known as the coefficient of determination was 0.4724 in this study. This implies that up to 47.24% of the variation in effectiveness of external audit function in Nairobi County SACCOs is explained by the four factors (audit committee, audit fees, professional skills competence and independence of external auditors). The remaining percentage, that is, 52.76%, is explained by other factors other than the four assessed. The model was however a good fit.

In order to establish the significance of the regression model used, Analysis of Variance (ANOVA) was used. ANOVA shows the deviation of the predicted regression model from the actual regression model. The ANOVA results are presented in Table 4.14.

The F statistic value was significant ( $F = 8.95$ ,  $P\text{-Value} = 0.000 < 0.05$ ) which implies that the overall regression model to determine the factors that affect the effectiveness of external audit function in DT-SACCOs in Nairobi County was significant. The regression model confirms the suitability of the factors (audit committee, audit fees, professional skills competence and independence of external auditors) in determining the effectiveness of external audit function.

**TABLE 4.14**  
**Analysis of Variance**

	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	11.105	4	2.776	8.95	.000
Residual	12.225	40	0.306		
Total	23.330	44			

Dependent Variable: Return on Assets

Predictors: (Constant), Audit Committee, Audit fee, Professional Skills Competence, Independence of External Auditors

To establish the beta coefficients, constant and their significance, the regression results were highlighted in Table 4.15. The study established the model significance using both P values as well as critical t values. For the p-values, a variable had a significant effect on audit firms' organizational performance if the value was less than 0.05 and critical t value was greater than absolute 1.96. In such a case, the null hypothesis was rejected. The regression model coefficients are presented in Table 4.15.

**TABLE 4.15**  
**Regression Model Coefficients**

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.8624	0.756		1.17	0.250
Audit Committee	-0.250	0.142	-0.211	-1.76	0.087
Audit Fees	0.4459	0.148	0.378	2.98	0.005
Professional Skills Competence	0.1409	0.149	0.132	0.93	0.356
Independence of External Auditors	0.4906	0.131	0.455	3.76	0.001

Dependent Variable: Effectiveness of External Audit Function

From Table 4.15 above, the regression equation is given by;

$$Y = 0.8624 - 0.250 X_1 + 0.4459 X_2 + 0.1409X_3 + 0.4906 X_4$$

Where: Y = Effectiveness of External Audit Function , X<sub>1</sub> = Audit Committee , X<sub>2</sub> = Audit Fees, X<sub>3</sub> = Professional Competence Skills and X<sub>4</sub> =Independence of External Auditors

The regression model indicates that when these factors;audit committee, audit fees, professional skills competence and independence of external auditors are held constant, the effectiveness of the external audit function in savings and credit cooperative societies in Nairobi County is positive at 0.8624.

#### 4.6.3 Hypotheses Testing

The study set out to test the developed hypotheses around the factors (audit committee, audit fees, professional skills competence and independence of external auditors) affecting the effectiveness of the external audit function in SACCOs in Nairobi County. The following are the results obtained from the regression analysis done.

***H<sub>01</sub>:** There is no significant effect of audit committee on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.*

The results in Table 4.15 indicate that audit committee has a negative and insignificant effect on effectiveness of external audit function in DT-SACCOs in Nairobi County. ( $B = -0.250$ ;  $t = -1.76 < 1.96$ , = P-Value = 0.087,  $< 0.05$ ). These results imply that an increase in one unit of audit committee functions decreases the effectiveness of external audit function by 0.250. The null hypothesis developed on the non-significance of the effect of audit committee on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County was not rejected.

***H<sub>02</sub>:** There is no significant effect of audit fees on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.*

The results in Table 4.15 indicate that audit fees has a positive and significant effect on effectiveness of external audit function in DT-SACCOs in Nairobi County. ( $B = 0.4459$ ;  $t = 2.98 > 1.96$ , = P-Value = 0.005,  $< 0.05$ ). These results imply that an increase in one unit of audit fees increases the effectiveness of external audit function by 0.4459. The null hypothesis developed on the non-significance of the effect of audit fees on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County was rejected.

***H<sub>03</sub>:** There is no significant effect of professional skills competence on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.*

The results in Table 4.15 indicate that professional skills competence has a positive and significant effect on effectiveness of external audit function in DT-SACCOs in Nairobi County. ( $B = 0.1409$  ;  $t = 0.93 < 1.96$ , = P-Value = 0.356,  $> 0.05$ ). These results imply that an

increase in one unit of professional skills competence increases the effectiveness of external audit function by 0.1409. The null hypothesis developed on the non-significance of the effect of professional skills competence on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County was not rejected.

*H<sub>04</sub>: There is no significant effect of independence of external auditors on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County.*

The results in Table 4.15 indicate that independence of external auditors has a positive and significant effect on effectiveness of external audit function in DT-SACCOs in Nairobi County. ( $B = 0.4906$  ;  $t = 3.76 > 1.96$ , = P-Value = 0.001,  $< 0.05$ ). These results imply that an increase in one unit of external editors' independence leads to an increase in the effectiveness of external audit function by 0.4906. The null hypothesis developed on the non-significance of the effect of independence of external auditors on the effectiveness of external audit in deposit taking savings and credit cooperative societies in Nairobi County was rejected.

## **4.7 Discussion of Findings**

The following section discusses the results of the study in line with the research objectives and hypotheses formulated in chapter one of the study. These were based on conceptual and empirical literature. A multiple linear regression model was used to test the hypotheses. Further the section discusses the results of the study to show to which extent it agrees with prior studies.

### ***4.7.1 Effect of Audit Committee on the Effectiveness of External Audit Function***

Results of the first hypothesis revealed that audit committee had a negative and significant effect on effectiveness of external audit function in DT-SACCOs in Nairobi County . These findings are at par with a Malsyian study done by Mohammad and Ahmed

(2017) on the influence of monetary reporting gadget being relatively established upon the mechanism of company governance, such as effectiveness of the audit committee, external audit, economic expertise and board structure. The study examined the relationship between audit committee characteristics and external auditors' characteristics (independent variables) and monetary reporting fantastic (dependent variable). Results revealed that audit committee had a negative however insignificant effect on economic reporting quality.

findings are inconsistent with a study conducted by Ogoro and Simiyu (2015) who analyzed the relationship between the characteristics of audit committees and its effectiveness in reducing the range of financial announcement restatements for State Corporations in Nairobi County. The findings indicated that the most important and influential traits of audit committees is a couple of directorships and audit committee tenure as they are statistically good sized in reducing the number of financial declaration restatements. The current study assessed how audit committees affect the effectiveness of external audit in SACCOs.

#### ***4.7.2 Effect of Audit Fees on the Effectiveness of External Audit Function***

Results on the second hypothesis revealed that audit fees has a positive and significant effect on effectiveness of external audit function in DT-SACCOs in Nairobi County. These findings are at par with Seifert (2018) who examined the association between auditing funds and the firm's US public results, non-financial businesses. The research was set up that improvement in working overall performance is associated with reduction on auditing charges and vice versa. It concluded that auditors have a capacity to undertake the function in organising the monetary situation of purchasers for the business implying that the quintessential costs for auditing ought to be fair assessment of how properly a specific association is progressing. Consequently, Gatauwa (2018) did research in Nairobi County on the hyperlink between unbiased auditor's fees and performance of the firm. The findings confirmed that the audit prices and values of the corporation are intently related.

However, a Ghanaian study by Owusu and Bekoe (2019) differed from the present day study. The research examined the perception of external auditors on the dominant elements that influence audit prices determination. Findings obtained that there was no correlation between exterior auditors and have an effect on of audit costs determination.

#### ***4.7.3 Effect of Professional Skills Competence on the Effectiveness of External Audit Function***

Results from the third hypothesis revealed that professional skills competence had a positive but insignificant effect on effectiveness of external audit function in DT-SACCOs in Nairobi County. These findings are at par with Semiyu (2019) who assessed the stakeholders' Perception of Audit Performance Gap Organizations that had connections with exterior auditors that have excessive competency capabilities level. It was evident that the performance is positive and this leads to extra effective SACCO governance. Consequently, Kirima (2016) indicated that interior auditors who are inexperienced in auditing operations act as a most important hassle to attaining excessive performance. It is the duty of the chief auditor to choose and recruit notably certified and expert auditors.

However, a Zimbabwean study by Jachi and Yona (2019) investigated the impact of inner audit function competence; staffing on transparency; accountability in the country's nearby authorities. The learn about adopted expert competence; staffing as the independent variables and transparency; accountability as the structured variable. The find out about hooked up that there was once no significant relationship between inner audit function competency dimensions of qualification, trip and education and transparency; accountability in Zimbabwe neighborhood authorities.

#### ***4.7.4 Effect of Independence of External Auditors on the Effectiveness of External Audit Function***

Results on the fourth hypothesis revealed that independence of external auditors has a positive and significant effect on effectiveness of external audit function in DT-SACCOs in

Nairobi County. These findings are at par with a study Gachare (2016) who did a study on practices of investments dollars reserved in savings and credit score cooperative societies in Nairobi County. It used to be mounted that independence and authority of inside audit are elements which allow IAF to lift out its activities without intrusion and provide real remarks to the management on how to develop, enhance and promote control policies. Consequently, Maina and Kibanga (2016) conducted a study on the factors affecting independence of auditors in financial establishments in Nairobi County. Findings indicated that internal auditors' lack of independence limits their performance. Further, Owino (2017) targeted on the competitive Strategies adopted by means of Savings and Credit Cooperatives in Mombasa County. The findings revealed that for a minimal exterior auditors sensible reporting should be to a level possessive of ample authority to stick to their independence, to make positive huge purposeful scope, ample thinking on engagement communications and adequate movement on audit pointers, to construct appropriate stage of independence for exterior audit effectiveness, the chief audit authority ought to report administratively to the senior executives and functionally to the board.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of findings of the research on the factors (audit committee, audit fees, professional skills competence and independence of external auditors)

affecting the effectiveness of external audit function in deposit taking savings and credit cooperative societies in Nairobi County. Basically, the chapter contains the findings summary, conclusions, recommendations, suggested areas for further study and limitations of the current study. All the itemized headings are discussed as per the general and specific objectives of the study.

## **5.2 Summary**

The study sought to assess four factors (audit committee, audit fees, professional skills competence and independence of external auditors) that affect the effectiveness of external audit function in deposit taking savings and credit cooperative societies in Nairobi County. Primary data was obtained by use of structured questionnaires which was based on a five point likert scale. These questionnaires were administered to 55 in the county, however only 45 were duly filled by the external auditors. The data was coded, cleaned and analyzed. The primary data was based on all variables(independent and dependent). The diagnostic tests done affirmed that the data set was normally distributed, was not multicollinear in nature and was not heteroscedastic which meant that the multiple regression model adopted was appropriate to test the developed hypotheses. The indicators of audit committee were size of audit committee, composition of audit committee and experience. The indicators of audit fees were; Consultation fees , hours spent and annual audit fee cost. The indicators of professional skills competence were; Training levels, Technical accounting skills and refresher accounting course. The indicators of independence of external auditors were Reporting level, competence of external auditors and threat cases. Finally, the indicators of effectiveness of external audit function were; revenue controlled and funds generated. The results obtained showed that there was a significant effect factors that affect external audit function in deposit taking savings and credit cooperatives societies in Nairobi County.

### ***5.2.1 Audit Committee and the Effectiveness of the External Audit Function***

In the evaluation the effect of audit committee on the effectiveness of the external audit function in in deposit taking savings and credit cooperatives societies in Nairobi County, the results of the study revealed the presence of negative and insignificant relationship between the two variables. Correlation analysis too showed a negative and weak strength between the two variables. Further, analysis demonstrated that a unit change in audit committee functions decreased the effectiveness of external audit function decreased the effectiveness of the external audit function in in deposit taking savings and credit cooperatives societies in Nairobi County.

### ***5.2.2 Audit Fees and the Effectiveness of the External Audit Function***

The second hypothesis stated that audit fees had no significant effect on the effectiveness of the external audit function in deposit taking savings and credit cooperatives societies in Nairobi County. Results of the study revealed that audit fees had a positive and significant effect on effectiveness of the external audit function. Correlation analysis also confirmed the regression analysis of a positive and weak relationship between audit fees and effectiveness of the external audit function. The analysis highlighted that a unit increase in audit fees allocation led to an increase in the effectiveness of the external audit function in deposit taking savings and credit cooperatives societies in Nairobi County.

### ***5.2.3 Professional Skills Competence and the Effectiveness of the External Audit Function***

The third objective of the study sought to find out the effect of professional skills competence on the effectiveness of the external audit function in deposit taking savings and credit cooperatives societies in Nairobi County . Results from the analysis showed that there was a positive and insignificant relationship. Correlation analysis revealed a positive but weak relationship between professional skills competence and effectiveness of the external audit function. In addition, a unit change in professional skills competence increased the the

effectiveness of the external audit function in deposit taking savings and credit cooperatives societies in Nairobi County.

#### ***5.2.4 Independence of External Auditors and the Effectiveness of the External Audit Function***

In the assessment of the effect of independence of external auditors on the effectiveness of the external audit function in deposit taking savings and credit cooperatives societies in Nairobi County, the results of the study revealed the presence of positive and significant relationship between the two variables. Correlation analysis too showed a positive and strong strength between independence of external auditors and effectiveness of external audit function . Further, analysis demonstrated that a unit change in independence of external auditors improved the effectiveness of the external audit function in deposit taking savings and credit cooperatives societies in Nairobi County.

### **5.3 Conclusion**

The study sought to examine the factors (audit committee, audit fees, professional skills competence and independence of external auditors) affecting the effectiveness of external audit function in deposit taking savings and credit cooperative societies in Nairobi County. From the analysis, the overall outcome reveals that SACCOs are evidently faced with a number of financial issues that hinder their performance. This may include incomplete records, misappropriation of funds and financial fraud by those in management positions. Though some of the mentioned problems are internal in nature, there is need to adopt the skills of external auditors to mitigate against such risks that may occur.

The study highlights the importance of the audit committee in influencing the effectiveness of external audit function in DT-SACCOs in Nairobi County. Though the findings revealed that the effect is negative, there is need for SACCOs to adopt services of an audit committee which helps in keeping the audit function of the SACCO in check. More

importantly, keeping the correct accounting records gives room for recommendations on how to improve the SACCO.

Secondly, the importance of audit fees. SACCOs need to honour payments given to external auditors. Generally, when people are paid well their performance tends to increase. Thirdly, the need for professional skills is evident when dealing with external audit. This goes a long way in ensuring that accounts are balanced effectively. Finally, there is need for independence of external auditors. This goes a long way in ensuring that they produce effective results that are unbiased and effective. This will boost the external audit function of the firms.

The current study was based on the auditor's theory of inspired confidence. The importance of the inspired teaching of the auditors' responsibilities is based on the public confidence in the success of the audit process and in the validity of the accountant's views. Thus, auditors need to boost the public's confidence in the SACCOs thus improving their performance as more members mean more assets.

#### **5.4 Suggestion for Further Studies**

The study focused only on the factors (audit committee, audit fees, professional skills competence and independence of external auditors) affecting the effectiveness of external audit function in deposit taking savings and credit cooperative societies in Nairobi County. There are other ways for example internal audit that may boost financial performance of SACCOs. Consequently, there are other factors that may affect the effectiveness of external auditors that the current study did not analyze. Other studies need to incorporate these differences. Additionally, different measures of the variables may be used. This may give a different perspective from what the current study has established

The current study used primary data to assess the factors (audit committee, audit fees, professional skills competence and independence of external auditors) affecting the

effectiveness of external audit function in deposit taking savings and credit cooperative societies in Nairobi County; other studies should focus on different data sources for example secondary data that will give a different view from what the study used.

The current study used a census sampling method. Future studies could use different sampling methods for example stratified sampling where DT-SACCOs can be grouped into different sections. Additionally, the study only considered Nairobi County. Other counties also have SACCOs in them. They should be considered as well.

### **5.5 Limitations of the Study**

This study has a number of limitations:

**Contextual limitations:** The study was limited to 55 registered deposit taking savings and credit cooperative societies in Nairobi County. There are also a number of unregistered SACCOs in the county that the study could have considered. The findings could have given more accurate results had the study considered in both registered and non-registered SACCOs in Nairobi County. Another limitation is that this study focused on SACCOs only. Kenya has a number of financial institutions that require external audits to boost their performance. The findings made are only limited to SACCOs in Nairobi County. Future researchers to explore these areas.

**Conceptual Limitation:** The current study only assessed only four factors (audit fees, audit committee, professional skills competence and independence of external auditors) that affect the effectiveness of external audit function in DT-SACCOs in Nairobi County. Other factors for example reputation of the audit firm need to be taken into consideration.

**Methodological Limitation:** The study used multiple linear regressions analysis in which primary data was collected by means of a structured questionnaire based on a five-point likert scale. Perhaps different methods such as Ordinary Least Squares method, panel data or use of secondary data would have yielded different results. Further, the study

employed the use of census sampling method. It could have still used other sampling methods such as simple random sampling or stratified random sampling method. Future researchers should explore these areas.

***Theoretical Limitation:*** The study used Auditors Theory of Inspired Confidence, Institutional Theory and Agency Theory. There are other audit related theories that the study could have used including Institutional Theory, lending credibility theory, among others which could have produced different findings.

## **5.6 Recommendations of the Study**

The study highlights the importance of the audit committee in influencing the effectiveness of external audit function in DT-SACCOs in Nairobi County. Though the findings revealed that the effect is negative, there is need for SACCOs to adopt services of an audit committee which helps in keeping the audit function of the SACCO in check. More importantly, keeping the correct accounting records gives room for recommendations on how to improve the SACCO.

Secondly, the importance of audit fees. SACCOs need to honour payments given to external auditors. Generally, when people are paid well their performance tends to increase. Thirdly, the need for professional skills is evident when dealing with external audit. This goes a long way in ensuring that accounts are balanced effectively.

Finally, there is need for independence of external auditors. This goes a long way in ensuring that they produce effective results that are unbiased and effective. This will boost the external audit function of the firms.

The regulator being the oversight of the industry, there's need for the regulator to ensure that it develops policies that will ensure the audit committee is well constituted by ensuring that the members have the relevant qualification as well as experience in varied areas to ensure all activity centers of the DT saccos are well represented.

The regulator should standardise the audit fees to ensure that there is a level playing field for all players in the industry, as well as list the services that an auditor can provide to the client that are not audit related with their relevant charges to ensure uniformity across the industry.

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Female [ ]

2. Level of Education

College Diploma [ ]

Bachelor's degree [ ]

Masters Degree [ ]

Other qualifications .....

3. How long have you been in the Sacco?

Below 2 years [ ]

2—6 years [ ]

7—10years [ ]

Above 11 years [ ]

**SECTION II: AUDIT COMMITTEES**

4. The following rating of choices are based on a scale of 1-5. The study seeks to establish effect of audit committee on effectiveness of external audit function among deposit taking SACCOS in Nairobi County.

**The scale; Where 1=strongly disagree, 2=disagree, 3=Neutral 4= Agree ,5=Strongly agree**

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Audit Committees responsibilities are well defined.					

External auditors habits conferences with the audit committee prior to the start of the audit.					
Audit committee video display units the nature and extent of non-audit services carried out through the exterior auditors.					
Audit committee constructively project management's deliberate decisions, specifically in the area of financial reporting.					
The existence of the audit committee increases the reliability of monetary reports.					

### SECTION III: AUDIT FEES

5. The following rating of choices are based on a scale of 1-5. The study seeks to establish effect of audit fees on effectiveness of external audit function among deposit taking SACCOS in Nairobi County.

**The scale; Where 1=strongly disagree, 2=disagree, 3=Neutral 4= Agree ,5=Strongly agree**

Statements	1	2	3	4	5
The controller wants to manage risks to be addressed and controlling internal and external costs of auditing					
The controller wants to manage risks to be addressed and controlling internal and external costs of auditing					

The renewal of annual audit fee has reduced the Sacco revenue					
Cost of remuneration for audit services is costly to the SACCO					
The renewal of annual audit fee has reduced the Sacco revenue					

#### SECTION IV: PROFESSIONAL SKILLS

6. The following rating of choices is based on a scale of 1-5. The study seeks to establish effect of professional skills on the effectiveness of external audit function among deposit taking SACCOS in Nairobi County.

**The scale; Where 1>> strongly disagree, 2>>disagree, 3>> Neutral 4>>Agree  
5>> Strongly agree**

<b>Narrations</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Auditors ought to possess traits of withstanding and resisting the impact in the route of discharge of duties					
Auditors ought to have thorough training in enterprise organization, administration and finance					
Professional skills play function in carrying out compliance in work requirements					

Store of understanding have to be continuously replenished and saved up to date.					
Professionalism promotes excellent governance by identifying weaknesses and deviations from laws and rules					

### SECTION V: INDEPENDENCE OF AUDITORS

7. The following rating of choices are based on a scale of 1-5. The study seeks to establish effect of independence of auditors on effectiveness of external audit function among deposit taking SACCOS in Nairobi County.

**The scale; Where 1>> strongly disagree, 2>disagree, 3>> Neutral 4>>Agree**

**5>> Strongly agree**

<b>Narrations</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There are no threat of cases of intimidation after auditing					
There is clear chain of command for external audits when reporting audit reports					
Reporting degree in SACCOS is well defined during audit reports					
Auditor judgment is quite essential in deciding whether or not recommended audit strategies are enough to obtain audit objective and help services					
Audit approach sets out in usual terms how the audit is to be performed with the aid of					

placing up the scope, timing and path of audit					
Accounting records are commonly examined in an independence external audit to make sure no errors exist in financial statements					
There are no cases of data security compromising effective management of finance					

**SECTION VI: EFFECTIVENESS OF AUDIT**

8. The following rating of choices are based on a scale of 1-5. The study seeks to establish factors that affect the effectiveness of external audit function among deposit taking SACCOs in Nairobi County.

<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The revenue generated by the SACCO is well accounted for.					
The SACCO effectively controls funds.					
Audit Committees involvement help in boosting the performance of the SACCO					
External audits improve the general performance of the SACCO.					
The SACCO can not operate efficiently without the professional skills of the external auditors.					

**Thank you for participation**

## Appendix II: Work Plan 2021

ITEM	MONTHS					
	March	April	May	June	July	August
Proposal Formulation (Planning)	↓					
Proposal Development		↓				
DEFENCE Data Collection (Field work)			↓	↓		
Data compilation				↓		
Data Analysis, Presentation & Project Defense					↓	
Corrections after defense Final Submission						↓

## Appendix IV:List of DT-Sacco's in Nairobi County

Acumen Sacco	Nacico Sacco
Afya Sacco	Nafaka Sacco
Airports Sacco	Nation Sacco
Ardhi Sacco	NSSF Sacco
Asili Sacco	Nyati Sacco
Chai Sacco	Safaricom Sacco
Chuna Sacco	Sheria Sacco
Comoco Sacco	Shirika Deposit Taking Sacco
Elimu Sacco	Shoppers Sacco
Fundilima Sacco	Stima Sacco
Harambee Sacco	Taqwa Sacco
Hazina Sacco	Telepost Sacco
Jamii Sacco	Tembo Sacco
Kencream Sacco	Ufanisi Sacco
Kenpipe Sacco	Ukristo Na Ufanisi Wa Anglicana Sacco
Kenversity Sacco	
Kenya Bankers Sacco	
Kenya Police Sacco	Ukulima Saco
Kimisitu Sacco	Unaitas Sacco
Kingdom Sacco	United Nations Sacco
Magereza Sacco	Ushuru Sacco
Maisha Bora Sacco	Wana-anga Sacco
Mwalimu National Sacco	Wanandege Sacco
Mwito Sacco	Waumini Sacco

**Appendix V: Budget Plan 2021**

<b>Proposal Preparation</b>	<b>Kshs.</b>	<b>Total</b>
Stationery	1,500.00	
Typing Printing Photocopy	2,500.00	
Internet	2,000.00	6,000.00
<b>Data Collection</b>		
Stationery	3,000.00	
Typing Printing Photocopy	3,000.00	
Incidental Cost	4,000.00	
Transport Cost	8,000.00	18,000.00
<b>Data analysis Report</b>		
Stationery	3,500.00	
Internet	2,500.00	
Typing Printing and Binding	4,500.00	
Miscellaneous	5,000.00	15,500.00
<b>TOTAL</b>		<b>39,500.00</b>
Contingency Expenses	10%	3,950.00
<b>GRAND TOTAL</b>		<b>43,450.00</b>