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The Drivers of Audit Report Lag by Listed Companies in Kenya

056633 Owino Fredrick J. Otieno

**A Research Thesis Submitted to the School of Management and Commerce in Partial
Fulfillment for the award of a Master of Commerce Degree of Strathmore University**

May, 2017

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ABBREVIATIONS AND ACRONYMS

AC	Audit Committee
ACGN	African Corporate Governance Network
AFEP	French Association of Political Economy
ARL	Auditor Report Lag
AS	Auditing Standards
CEO	Chief Executive Officer
CMA	Capital Markets Authority
FASB	Financial Accounting Standards Board
GoK	Government of Kenya
IS	Industry Sector
MEDEF	<i>Mouvement des Entreprises de France</i>
NSE	Nairobi Securities Exchange
PCAOB	Public Company Accounting Oversight Committee Board
SRO	Self-Regulatory Organization

DEFINITION OF TERMS

Auditor report lag (ARL) is defined as the number of days from the financial year end to the date of the audit report completed (Bamber, Bamber, & Schoderbek, 1993 ; Chambers & Penman, 1984; Habiba & Bhuiyanb, 2011; Hassan, 2016 ; Knechel Robert & Payne, 2001).

Demutualization is the separation of the management structures of a company's commercial and regulatory functions in line with the Capital Markets Regulations of 2012 (GoK, 2012).

Corporate Governance is the institutional, legal and regulatory framework that governs the relationship between managers and investors in a firm whether it be private, publicly traded or state owned (ACGN, 2016; Demise, 2006; Waweru & Riro, 2013) .

Corporate Governance Quality is the adherence of corporate governance standards set by authorities (Lokman, Mula, & Cotter, 2014 ; Waweru & Riro, 2013). It is further defined in terms of the composition of the board and its activities (Jayanthi Krishnan, 2005).

Profit warning is defined as earnings forecasts made by management that warn of an expected earnings shortfall in relation to a relevant standard. This standard may be an analysis forecast, a previous comparable financial period, or an earlier management forecast (Elayan & Pukthuanthong, 2009).

ABSTRACT

Despite the time taken by external auditors to release the audit report (herein referred to as the auditor report lag, ARL) being regarded as a significant qualitative aspect of timely financial reporting, little known about the determinants of ARL in listed companies in developing economies. This study sought to investigate the determinants of ARL in companies listed in Kenya. A descriptive research design was used to study the auditor-related factors, company-specific factors and corporate governance factors affecting ARL. Two-stage panel least squares regressions were performed to establish the drivers of ARL. The study focused on a ten-year period from 2006 to 2015. The findings revealed that auditor type was the most significant auditor related factor that was associated with ARL. In terms of company-specific factors, the return on assets (ROA) was significant and negatively associated with ARL. In terms of industry sector, the study found that listed companies in the banking sector had lower ARLs. Similarly, companies in the manufacturing sector had lower ARLs. The study found that listed companies in the investment sector had longer ARLs. Next, the study found that listed companies with a higher corporate governance score had shorter ARL. The findings revealed that there exists auditor-specific, company-specific and corporate governance influences on ARL. To corroborate findings from secondary data, semi-structured questionnaires were used. The findings from the questionnaires demonstrated that alongside auditor-, company- and corporate governance-related factors, there are also regulatory factors influencing ARL. The findings should be of interest to managers, auditors and policy makers because these results may help the assessment of the influence of such variables on improving the timeliness of audit reports. Despite the study focusing on ARL in a single country-setting, it contributes to the sparse literature of drivers of ARL in developing countries.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

This chapter outlines the background of the study perspective by describing ARL and the timeliness of financial reporting information, ARL in Kenya and the auditing and regulatory framework in Kenya. It also outlined the problem statement and the research objectives. The chapter concludes with the scope and significance of the study. For a well-functioning capital market timely financial reports are a necessity and undue delay in releasing these reports increases uncertainty in decision making for investors (Afify, 2009 ; Ashton, Willingham, & Elliott, 1987). Changes in technology and business practices especially corporate governance practices have propelled the need to have timely accounting information. Moreover, policy makers such as the Financial Accounting Standards Board (FASB) have also raised concerns about the timeliness of public information disclosures (FASB, 2008). Therefore, this study examined the drivers of auditor report lag (ARL) in companies listed in the Nairobi Securities Exchange (NSE).

1.1.1 ARL and the timeliness of financial reporting information

The Public Company Accounting Oversight Committee Board (PCAOB) defines an audit report as an independent examination and expression of opinion on the financial statements of a company's annual report. The aim of an audit is to independently verify the content and preparation of the company's financial statements according to the standards, legislation, regulations and requirements (PCAOB, 2016). The timeliness of audited annual reports is important to investors because it influences the usefulness of information available to investors for decision making (Alkhatib & Marji, 2012). Audit Report Lag (ARL) has been defined by various authors as the number of days from the financial year end to the audit report date (Habib & Bhuiyanb, 2011; Hassan, 2016; Knechel Robert & Payne, 2001). ARL is one of the few external variables that allow stakeholders to gauge the efficiency of audit (Habib & Bhuiyanb, 2011; Hassan, 2016).

The timeliness of audited financial reporting has been a concern for various stakeholders, including shareholders, managers, and regulators, as well as internal and external auditors (Abbott, Parker, & Peters, 2012; Krishnan & Yang, 2009). In the Kenyan perspective timeliness of audited financial statements is prescribed by the Company Act, 2015 as six months or approximately one hundred and eighty days. Furthermore, Kenyan banks are

required to submit annual reports within three months or approximately ninety days from financial year end. ARL has elicited interest among researchers because timeliness is a critical qualitative aspect of financial reporting (FASB, 2008) and also enhances decision making quality (Afify, 2009; Al-Ajmi, 2008). Timely reporting serves to reduce unfavorable effects of moral hazard and the implications of adverse selection (Leventis, Weetman, & Weetmann, 2004). Prior studies posit that delays in reporting present opportunities for insider trading and misappropriation or misapplication of corporate assets (Leventis et al., 2004).

The Financial Accounting Standards Board (FASB) views timeliness as an “ancillary aspect” of relevance and further suggests that a lack of timeliness can rob information of relevance it might otherwise have had (FASB, 2008). Therefore, delayed disclosure of accounting information allows a subset of investors to acquire costly private pre-disclosure information that would lead to the “well informed” investors exploiting their private information at the detriment of the less informed investors (Afify, 2009). The usefulness of Accounting information is dependent on completeness, accuracy, reliability and timeliness of accounting information (Wisna, 2013). Timeliness is a critical qualitative aspect of financial reporting (FASB, 2008) and also enhances decision making quality (Hassan, 2016). Timely audited financial information improves pricing of securities (Gul, Kim, & Qiu, 2010), and limits insider trading and spread of rumors in the market (Owusu-Ansah, 2000).

ARL has been identified as the single most important determinant of timeliness in earnings announcement (Leventis & Weetman, 2005 ; Owusu-Ansah, 2000), which in turn, determines the market reaction to earnings announcement (Gul et al., 2010). Other researchers have argued that the longer the ARL the higher the likelihood of unscrupulous behavior in the market (Bamber et al., 1993). When the audit report is delayed it worsens the information asymmetry between managers and stakeholders and increases the uncertainty in investment decisions. Consequently, this may adversely affect investors' confidence in the capital market. Unexpected reporting lag may be associated with lower quality information. Determinants that cause the difference in timing of corporate disclosures have been an area of interest to researchers for many years (Knechel Robert & Payne, 2001).

Given the importance of ARL to investors and stakeholders, identifying the determinants of ARL continues to attract the attention of researchers as illustrated in recent studies (Bonson-Ponte, Escobar-Rodriguez & Borrero-Dominguez, 2008; Ettredge, Li & Sun, 2006; Hassan, 2016). Due to the marked socio-economic, cultural and political differences between

developing and developed economies no one study on ARL that has had its findings generalized for other countries (Bokpin & Isshaq, 2009; McGee, 2009; Waweru & Uliana, 2005). ARL is also expected to vary cross-sectionally because of firm and audit-specific characteristics such as firm size, profitability, corporate governance, audit tenure, auditor independence (Bédard & Gendron, 2010 ; Habib & Bhuiyanb, 2011). An understanding of the possible determinants of the ARL likely would provide insights into audit efficiency. In developing countries the most reliable source and reference of accounting information is audited financial statements (Alkhatib & Marji, 2012). Prior research posits that there are marked socio-economic, cultural and political differences between developing and developed economies (Bokpin & Isshaq, 2009; McGee, 2009; Waweru & Uliana, 2005).

Prior research has focused on identifying and expanding variables that determine ARL and their findings indicate that the ARL is affected by Corporate Governance characteristics for instance, board independence, audit committee independence, number of meetings, size and CEO duality (Apadore & Mohd Noor, 2013; Baatwah, Salleh, & Ahmad, 2015; Henderson & Kaplan, 2000). Type of news such as audit opinion and profit warning (Ahmad & Kamarudin, 2003; Hossain & Taylor, 2008; Wermert et al., 2000). Auditor and firm characteristics such as firm profitability, audit tenure and audit specialization (Apadore & Mohd Noor, 2013 ; Dao & Pham, 2014; Waweru et al., 2015). However, studies have not incorporated the aspect of corporate governance and audit committee quality as drivers of ARL. Therefore this study also sought to investigate the influence of corporate governance and audit committee quality as corporate governance-related factors on ARL.

1.1.2 ARL in Kenya and the regulatory provisions

Kenya being an emerging economy is characterized by weak institutions such as poorly enforced governance systems, corruption and minimal democracy. This provides an ideal setting to explore the importance of firm and country characteristics in corporate governance because of their unique structures (Hugill & Siegel, 2014). Weak institutions can impact a country's growth and along with it the ability to compete globally (Acemoglu, Johnson, & Robinson, 2001; Beck, Ross, & Loayza, 2000). Kenyans have witnessed numerous companies struggle financially due to weak corporate governance the most recent being Uchumi supermarkets, Imperial bank, Dubai bank (Ngugi, 2016; Wasuna, 2015, 2016). Weak corporate governance structures may significantly affect the ARL (Afify, 2009). An involuntary change of auditors may lead to longer audit lags as opposed to voluntary change (Tanyi, Raghunandan,

& Barua, 2010). This phenomenon has been seen in Uchumi supermarkets which has delayed the release of its audit reports extending the lag to six months (Ngugi, 2016). The investor is left assuming that there is bad news being concealed by managers of the company (Carslaw & Kaplan, 1991) because one way of delaying bad news is delaying the audit report (Alkhatib & Marji, 2012; Patrick & Benjamin, 1994).

The Kenyan education sector has experienced some radical reforms in 2016 which saw the release of national examinations earlier than the norm (Ayiro, 2016 ; Wanzala, 2016). Some stakeholders see this as a move that has brought back credibility because fraudulent individuals have no time to alter results (Otieno, 2016). However, other stakeholders view this as compromising on the quality of marking since it's done within a very short period (Onsongo, 2017). Similarly, reducing the time taken to release audit reports improves the credibility of financial statements (Owusu-Ansah, 2000), however, care must be taken not to compromise audit quality (Robert Knechel, Krishnan, Pevzner, Shefchik, & Velury, 2013).

The Companies Act 2015 No. 17 of 2015 formerly Companies Act Chapter 486 and the Code of Corporate Practices for Issuers of Securities for the Public formerly Corporate Governance Guidelines were introduced in 2015 to regulated listed companies. The Act, under section 688, lays out the framework for documents that publicly listed companies in Kenya are required to file with the registrar of companies. The Companies Act Chapter 486 was amended and now incorporates the duration required to submit audit reports to the registrar of companies, that is, six months from fiscal year end, failure to which each director of the company who is in default commits an offence and on conviction is liable to a fine not exceeding five hundred thousand shillings (GoK, 2015).

The Code of Corporate Practices for Issuers of Securities for the Public 2015 sets out the principles and specific recommendations on structure and processes, which listed companies should adopt in making good corporate governance an integral part of their business dealings and culture. The constitution of Kenya Chapter Four section 27 (8) promulgated in 2010 now requires that in any elective or appointed body no more than two thirds shall be of one gender. As of 31st December 2016, Kenya had sixty six public listed companies (NSE, 2016). Seven are classified in the Agricultural sector, three in the Automobiles and Accessories sector, eleven in the Banking sector, five in the Energy and Petroleum sector, twelve in the Commercial and Services sector, six in the Insurance sector, one in the Real Estate Investment

Trust sector, five in the Construction and Allied sector, four in the Investment sector, one in the Investment Services sector, ten in the Manufacturing and Allied sector, one in the Telecommunication and Technology.

1.2 Problem Statement

The timely release of audited financial statements is important because it brings out two qualitative characteristics of financial accounting information: relevance and reliability (FASB, 2008). Today's society is highly reactionary to information and this has been amplified due to the advancements in technology where platforms have been created to ease access of stakeholders to financial information (Sultana, Singh, & Mitchell Van der Zahn, 2015). These technological advancements such as, online trading platforms have reduced capital flow barriers and increased market integration; however, they have also contributed to greater market volatility (Sultan, 2015). Consequently, the demand to timely release of audit reports is ever more essential.

Some researchers posit that longer ARLs are perceived as bad news to investors because of the likelihood of fraudulent behavior (Rezaei & Shahroodi, 2015) while other researchers argue that a longer audit lag can be good news to investors when the effectiveness of fraud detection is high (Yim, 2010). Therefore, this inconclusively in findings puts auditors and management of listed companies under pressure to release audit reports without undue delay. Inconsistency in findings has also been cited where bank size, a company specific characteristic is negatively associated with ARL when using a cross-sectional approach but positively associated when using a longitudinal approach (Henderson & Kaplan, 2000).

The delay in releasing audit reports is causing information asymmetry in the Kenyan market. An example is the case of Uchumi Supermarkets Limited which has delayed the release of its audit report for days which has seen its share price fall from in September 2016 (Ksh 3.35) to in May 2017 (Ksh. 2.95) (NSE, 2017). From an investors' perspective, a lengthy audit delay could suggest there has been a deterioration in the quality of client-auditor interaction which could translate into an auditor change, and a negative stock market reaction (Krishnamurthy, Zhou, & Zhou, 2006). Developing countries have different institutional set-ups as compared to developed countries (Che-Ahmad & Abidin, 2009). Kenya being a developing country is faced with challenges of weak corporate governance structures hence, the need to conduct this study. Furthermore, it is important to study drivers of ARL because it affects the timeliness of financial reports which is one of the qualitative aspects of financial statements (Habib &

Bhuiyan, 2011; Hassan, 2016). Due to information asymmetry brought about by ARL in the market the study analyzed a broad spectrum of auditor-, company- and corporate governance-related characteristics to identify which variables influence the ARL.

1.3 Main Research Objective

The main objective of this study was to examine the drivers of ARL by listed companies in Kenya.

1.3.1 Specific Objectives

The study sought to address the following objectives:

1. To analyze the influence of auditor-related factors on ARL by listed companies in Kenya.
2. To examine the effect of company-related factors on ARL by Kenyan listed companies.
3. To analyze the influence of corporate governance related factors by listed companies in Kenya.
4. To obtain practitioners perspectives on the drivers of ARL by listed companies in Kenya.

1.4 Research questions

The study sought to answer the following research questions:

1. What is the influence of auditor-related factors on ARL by listed companies in Kenya?
2. What is the effect of company-related factors on ARL by Kenyan listed companies?
3. What is the influence of corporate governance-related factors on ARL by listed companies in Kenya?
4. What do practitioners perceive of drivers of ARL among listed companies in Kenya?

1.5 Scope of the Study

The study seeks to examine the determinants of ARL among listed companies in Kenya. The study was limited to 424 observations from 44 companies listed on the NSE that is, from 1st January 2006 to 31st December 2015. The study also sought responses from external auditors and internal auditors of the listed companies.

1.6 Significance of the study

The findings of this study are significant in the following ways:

1.6.1 To investors

The study examines the determinants of ARL in Kenyan listed companies. This information is useful in guiding investors in adjusting their investment preferences, on companies listed in the NSE, in good time (Dodd, Dopuch, Holthausen, & Leftwich, 1984). The findings of this study will also improve investor confidence in the capital markets by the timeliness of earnings information, which is affected by the ARL (Bamber et al., 1993; Ettredge, Li, & Sun, 2006).

1.6.2 To Auditors

Knowledge on the determinants of ARL is likely to provide more insights into audit efficiency (Leventis, Weetman, & Caramanis, 2005; Walker & Hay, 2007). The findings of this study will aid auditors in having a better understanding of what factors drive the ARL in Kenya.

1.6.3 To Researchers and academicians

The study is structured to examine the determinants of ARL in a Kenyan context which differ cross-sectional from other countries due to firm and audit specific characteristics (Habib & Bhuiyanb, 2011). Therefore, the findings of this study will extend literature on the knowledge of determinants of ARL in the Kenyan perspective. Using mixed method of research the study aims at providing information on the determinants of ARL in a developing country.

1.6.4 To Policy makers and regulators

Policy makers play an important role in ensuring companies adheres to timely financial reporting. Knowledge on the drivers of ARL may help inform policy makers such as ICPAK and CMA in formulating policies that may improve the timeliness of audit reports.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theoretical and empirical literature on determinants of ARL of Kenyan listed companies. The study considered agency theory, signaling theory and the stakeholder theory. The relationship between theoretical and empirical literature was discussed to establish the relationships among the variables. The chapter includes a conceptual framework to further show the linkage between the variables. A summary of the literature will highlight the literature gaps and form basis of this study.

2.2 Extant theories on ARL and its determinants

This study drew from agency theory, signaling theory and stakeholder theory. The theories guided the formulation of dependent and independent variables. The agency theory and the stakeholder theory informed the independent variables; auditor-related factors; corporate-governance related factors and company specific factors because auditors are agents appointed by shareholders, corporate governance practices are meant to protect stakeholders interests.

2.2.1 Agency Theory

Agency theory was developed as a result of researchers exploring risk-sharing among cooperating individuals. It was found that an agency problem is one that arises as a result of cooperating parties having different attitudes towards risk (Arrow, 1971; Eisenhardt, 1989 ; Wilson, 1968) or one that occurs due to cooperating parties differ in terms of goals and division of labor (Jensen & Meckling, 1976 ; Ross, 1973). An agency relationship has been defined as the contractual relationship that arise when one or more persons (principles) engage another (agents) to perform certain services on their behalf (Jensen & Meckling, 1976). Separation between the owners and control leads to a potential conflict between the agents (managers) and principles (agents) (Aboagye-Otchere, Bedi, & Kwakye, 2012; Hassan, 2016) . The theory holds that agents (managers) will always act in their own self-interest and this is further encouraged by the asymmetrical information between agents and principals (Urquiza, Navarro, Trombetta, & Lara, 2010).

The agency theory is concerned with resolving two problems the first being the contention that arises when the shareholders and managers have diverse desires. The second problem addressed by the agency theory is the conflict that arises when the principal and agent have

different attitudes towards risk because of the different risk preferences (Eisenhardt, 1989). In order to alleviate the self-interest actions of managers the agency theory posits that good corporate governance should be implemented (Errunza & Miller, 2000). The agency theory posits that the main role of financial reporting is to monitor the quality of management emphasizing on the need for proper governance structures to ensure that managers act in the best interest of shareholders (Jensen & Meckling, 1976).

The Agency theory posits that the principal-agent conflict can arise due to information asymmetry caused by ARL, it further argues that reduction of ARL may help reduce information asymmetry between the principal and agent thus reducing the principal-agent conflict. The agency theory provides a unique, realistic and empirically testable perspective on problems arising due to the principal-agent relationship (Eisenhardt, 1989). Agency theory has been applied to the organizational phenomena positivist and principle-agent (Eisenhardt, 1989 ; Jensen, 1983). The positivist researchers focused on identifying conflict situations between principal and agent arising due to different goals and prescribing governance mechanisms the limit the agent's self-serving behavior (Eisenhardt, 1989). The principal-agent researcher focused on determining the optimal contract, behavior versus outcome between principal and agent (Eisenhardt, 1989). The principal-agent theory in comparison to the positivist theory is abstract and mathematical, therefore, beyond the reach of organizations and scholars (Eisenhardt, 1989). Therefore, this study employs a positivist approach of the agency theory which will identify the corporate governance mechanisms that have been put in place to remedy principal agent conflicts in a Kenyan perspective.

Prior studies on the determinants of ARL have employed the agency theory because it provides unique, realistic and empirically testable perspective on principle agent problems (Bamber, Bamber, & Schoderbek, 1993; Waweru et al., 2015). Agency theory is useful in this study in that it informs the determinants of ARL: auditor-related factors such as auditor type, corporate governance-related factors such as presence and size of audit committee and company-related factors such as ownership concentration, firm size, profitability and industry. Afify (2009) while utilising agency theory found that existence of an audit committee, size of the firm , industry and profitability significantly affected the ARL in Malaysia. Similarly, Eghliaow (2013) found that company size, industry and auditor type were significant. Apadore and Mohd Noor (2013) found that audit committee size, ownership concentration, firm size and profitability were significantly associated with ARL.

2.2.2 Signaling theory

Signaling theory was developed by Spence (1973) and advanced by Watts and Zimmerman (1986) to explain behavior in labor markets but can also be used to explain the concept of timely financial reporting. Signaling is a reaction to information asymmetry in financial markets; in this case, companies have information that investors don't have (Watson, Shrivess, & Marston, 2002). The signaling theory is mainly concerned with reducing information asymmetry between two parties (Spence, 2002). Under the signaling theory, information asymmetry can be reduced if one party signals the other. In this case, managers of higher quality firms will want to distinguish themselves from lower quality through timely financial reporting (Leventis et al., 2004). For the signaling effect to be successful the news needs to be credible. If managers falsely try to signal news that they are of high quality when in fact they are of low quality and it is eventually revealed, subsequent financial reporting will not be viewed as credible (Watson et al., 2002). Managers must also decide whether or not to communicate news that may either be positive or negative to stakeholders in a timely manner (Connelly, Certo, Ireland, & Reutzel, 2011). Companies that reports profits communicate to investors that they have a bright future ahead and are worth investing in.

Signaling theory has been used in prior studies in auditing and accounting because it is useful in describing the behavior between two parties who have access to different information (Rezaei & Shahroodi, 2015). The signaling theory posits that management may signal something about the firm through various aspects of information disclosure such as the release of audit reports. The timing of the release of audit reports may be viewed as a signal by investors of how the firm is performing. Early release of audit reports may be viewed as good news and may affect the firm's value positively. Late release of audit reports may be viewed as bad news and may negatively affect the firm's value. The information signaling theory has informed the selection of board independence, leverage, complexity, firm size and profitability. Shamsul-Nahar (2007) using signaling theory investigated the role board of directors and audit committee on the timeliness of reporting. The study found that board independence, leverage and profitability were significantly associated with ARL. Similarly, Mukhtaruddin, Oktarina, Relasari, and Abukosim (2015) examined the influence of firm size and complexity. The study found that firm size was significant. However, complexity was not significant leaving room for further studies on determinants of ARL in different countries and institutional set-up to investigate its influence on ARL.

2.2.3 Stakeholder theory

Stakeholder theory was developed by Freeman (1984) who argued that organizations are accountable to the shareholders as well as other stakeholders which is contrary to the traditional view that shareholders were the only stakeholders of a company. Stakeholders are groups or individuals who may benefit or be harmed by activities of a company. These stakeholders have contrasting interests which have to be taken into account when releasing the audit reports. This is important because their varying interests can affect the company's ability to achieve its objectives (Freeman, 2001). The stakeholder theory concerns itself with the trying to meet the expectations of these different stakeholders by employing strategies that could help achieve this problem such as good corporate governance practices. Therefore, it is implied that the directors and auditors of a company have a duty of care to the stakeholders. Stakeholders may bring action against the directors and auditors for failure of exercising due care.

The stakeholder theory can also be used to explain the effect of ARL on the share returns in the sense that, ARL can be increased because managers have an incentive to delay release of audit reports due to mandatory statutory disclosures that prevent them from hiding bad news (Watts, 1992). Stakeholder theory suggests that the delay of audit reports sends a 'silent signal' for shareholder to divest their firms' shares before the news reaches the market. On the other hand, shorter ARLs imply that good news is released into the market before other source discloses this news (Mahajan & Chander, 2008; Nor Izah Ku Ismail & Chandler, 2004). The stakeholder theory argues that stakeholders such as regulator can influence the ARL by implementing policies that reduce ARL so as to ensure timely financial reporting. This theory was instrumental in identifying ARL as having a potential influence on the profitability, growth, age, leverage, and audit firm size. Al-tahat (2015) employed stakeholder theory to investigate the association of ARL firm size, profitability, leverage, and auditor type. The study found a significant relationship between profitability, auditor type and ARL.

2.3 Empirical Review

This section will discuss prior literature on the key variables of this study that is, the ARL, auditor-related factors, corporate governance related factors and stock returns and preparers' perspective. Prior studies have identified drivers of ARL as auditor-related factors, company-related factors and corporate governance related factors (Afify, 2009; Eghliaow, 2013; Hassan, 2016). These factors are different in different countries due to the different institutional set-up in the different countries.

2.3.1 Background of ARL

Research on ARL commenced about 41 years ago and some of the earliest studies were done by Courtis, (1976) and Gilling (1977) in New Zealand, by Davis & Whittred (1980) in Australia , in the US by Garsombke (1981) and Canada by Ashton, Graul, & Newton (1989). Ashton, Willingham, & Elliot (1987) conducted a research to determine the association between ARL with corporate characteristics. Their findings indicated that ARL is positively associated with the client's revenue and business complexity, but is negatively related with client status (represented by one for companies traded on an organized exchange or over the counter, and zero otherwise), quality of internal control (rated one if auditor judged the internal control quality as "virtually none" and five if "excellent") and relative mix of audit job (rated one if all audit work performed subsequent to year end and four if most work performed prior to year-end).

Prior studies found that firms that report losses have a longer ARL (Carslaw & Kaplan, 1991 ; Courtis, 1976). ARL is influenced by an auditor's business risk associated with the client and audit specific events that are expected to require additional audit work such as extraordinary items, net losses and qualified audit opinions (Bamber et al., 1993) and also found that large clients have a shorter audit lag. Audit lag increased for companies that switched their auditor late in the fiscal year (Schwartz & Soo, 1996). This result is consistent with their expectation that companies change their auditor early in their fiscal year for positive reasons, whereas late auditor switching is driven by extended auditor client negotiations or opinion shopping, which leads to longer audit lag.

Studies on audit lag in the banking sector revealed that a financial institution takes less time to issue an audit report because it operates in a highly regulated industry (Henderson & Kaplan, 2000). Some researchers suggest that any attempts to regulate more closely the timeliness of audited financial reports should focus on audit-specific issues (e.g., audit fees or audit hours, proxied by the presence of extraordinary items in the income statement, the number of remarks in the subject to/except for audit opinions) rather than on the audit client's characteristics. They find that the type of auditors, audit fees, number of remarks in audit report, extraordinary items and uncertainty of opinion in the audit report are statistically significant in explaining variations in audit timeliness (Leventis & Weetman, 2005).

2.3.2 Determinants of ARL

This section discusses prior literature on drivers of ARL. The drivers of ARL were grouped into auditor-, company specific-, and corporate governance-related factors.

2.3.2.1 Influence of auditor-related characteristics on ARL

Simunic (1980) pioneered the study on determinants of audit fees. A meta-analysis of audit fees classified audit fees into three categories, that is, firm (client), auditor and engagement attributes (Hay, Knechel, & Wong, 2006). The rise of accounting scandals has seen an increase in public interest in corporate governance seen by recent studies examining board and audit committee characteristics as determinants of audit fees (Abbott, Parker, Peters, & Raghunandan, 2003; Carcello, Hermanson, Neal, & Riley, 2002). Prior studies related to audit fees have highlighted two schools of thought on audit pricing (Agus et al., 2015). One school of thought views audit fees from the supply side perspective that links audit fees and audit risk. Based on this perspective audit fees are seen as a proxy for audit efficiency (Masli, Peters, Richardson, & Sanchez, 2010; Raghunandan & Rama, 2006). Audit fees are a result of a production function where the existence of a strong internal control environment decreases the amount of audit fees, consequentially reducing the time taken to release the audit report (Agus et al., 2015; Simunic, 1980). This theoretical model however assumes a constant demand for audit and does not take into account the different demand forces that determine audit fees (Agus et al., 2015).

The second school of thought views audit pricing from the demand side where the demand from audit services is a function of a set of risk factors that stakeholders with interest on the outcome of the audit fee (Hay et al., 2006). The demand for audit services is expected to increase as the number of stakeholders interested in the outcome of the audit increases; this is evidenced by the level of stakeholder involvement in corporate governance decisions. The demand for audit services increases because those charged with governance need to protect their interests (Knechel & Willekens, 2006). This school of thought sees audit fees as a proxy for audit quality. In conclusion, the discussion above shows the need to investigate the effect of fee on the ARL in the Kenyan environment.

Auditor type refers to the size of the audit firm whether it can be classified under the big four or not. Companies audited by big four audit firms tend to have shorter audit lags as compared to non-big four audit firms (Carslaw & Kaplan, 1991). This is attributed to the vast resources available to big four audit firms and they tend to develop audit specialization and expertise in

certain sectors that increases their efficiency (Carslaw & Kaplan, 1991). In Libya it was found that firms audited by big audit firms have shorter lags (Eghliaow, 2013) contrary to a similar study in Malaysia which concluded that the auditor type was an insignificant variable (Apadore & Mohd Noor, 2013).

Prior studies show that once a risky client leave a Big 4 audit firm, that firm has to seek audit services in a non-Big 4 audit firm. This is because Big 4 audit firms have more to lose from litigation and may suffer a great blow to their reputation from an audit failure than non-Big 4 audit firms (Jones & Raghunandan, 1998; Mande & Son, 2011). Studies have shown that Big 4 audit firms are less dependent on one clients audit fees (Watkins, Hillison, & Morecroft, 2004). Therefore, clients dropped by one Big 4 audit firm are less likely to be accepted by another Big 4 audit firm because of the client risks that all Big 4 audit firms try to avoid (Mande & Son, 2011). From an investor perspective, when a Big 4 audit firm drops a company as a client signals a possibility of auditor-client conflict that may lead to a lengthy audit delay that leads to a negative stock price reaction (Krishnamurthy et al., 2006).

Big 4 audit firms dropping a risky client does not reflect positive from a social perspective because non-Big 4 audit firms now have to audit these risky clients. Non-Big audit firms provide lesser monitoring of the financial reporting process than Big audit firms (Cassell, GirouxG., Myers, & Omer, 2007). This could lead to a reduction in the audit quality due to the increase likelihood of audit failures (Mande & Son, 2011). Audit risk is also usually high when an auditor is auditing a client for the first time because the auditor needs to incur extra effort and time in learning the business processes and financial reporting systems (Flanigan, 2002; Tanyi et al., 2010). This usually leads to a longer audit delay (Tanyi et al., 2010). Prior studies measure audit risk as the ratio of current liabilities to current assets (Sultana et al., 2015). This discussion motivated formulation of the following hypothesis.

H₁: Auditor-related characteristics has a positive influence ARL (audit fees, audit risk and auditor type).

2.3.2.2 Influence of company-specific factors on ARL

Prior researchers who have studied ARL have measured company size in terms of total assets (Ashton et al., 1989; Curtis, 1976) while others have used revenue (Knechel Robert & Payne, 2001). This study will separately use both measurements and give a comparative outlook on their effect on the ARL. Based on prior research company size could either be positively or negatively associated with ARL (Carslaw & Kaplan, 1991). Some researchers found a negative

association between company size and ARL this may be attributed to the fact that large companies may have stronger internal control systems, which reduce the likelihood of financial reporting errors occurring. Additionally, large companies have the capability of exerting greater time pressures to complete the audit in a timely fashion as compared to small companies (Carslaw & Kaplan, 1991).

Profitability has been employed in prior studies on audit delay as a measure of a company's financial performance (Ahmad & Kamarudin, 2003; El-Banany, 2006). Profitability has been defined as the rate of return of the company's investment (Arshad & Gondal, 2013). Return on Equity (ROE) have been used to measure profitability (Che-Ahmad & Abidin, 2009).

Studies show that auditors are likely to perform their audit task more cautiously and thoroughly for companies with low profitability due to the high business risk involved in comparison to companies with high profitability (Che-Ahmad & Abidin, 2009). Therefore, the audit lag is expected to be longer for companies with low profitability in comparison to those with high profitability. In Libya and Malaysia it was found that profitability doesn't have a significant effect on audit lag (Apadore & Mohd Noor, 2013; Eghliaow, 2013).

Complexity has been identified as the level of diversification of a company's' business operations and is measured by the number of subsidiaries owned by a company (Che-Ahmad & Abidin, 2009). Auditors are expected to take longer to complete his audit task for companies with more business operations than those with few (Che-Ahmad & Abidin, 2009). Complexity can also be measured using the ratio of inventory and receivables to total assets. It is expected that a larger proportion of receivables and inventory requires more time to verify balances in the financial statements and hence a longer lag (Che-Ahmad & Abidin, 2009). This study will also employ the use ratio of inventory and receivables to total assets (Agus et al., 2015).

Prior studies show that audit firms that decide to focus on particular industries invest in technologies, physical facilities, personnel, and organizational control systems which are expected to improve audit quality thus improving of timely financial reporting (Balsam, Krishnan, & Yang, 2003; Kwon, Lim, & Tan, 2007). Industry-specific auditors tend to develop industry specific knowledge, and are consequently expected to complete an audit within a shorter period than non-industry specific auditors. Other studies show that companies in the financial sector for instance, banks tend to have shorter audit delays than companies in non-financial sector because it is a highly regulated sector (Henderson & Kaplan, 2000). This study will assess whether the type of industry a company belongs to affect the ARL.

Ceteris paribus, it is expected that all companies would disclose financial information as fast as possible to avoid adverse selection (Grossman, 1981). Favorable news is usually expected to be reported earlier than unfavorable news (Milgrom, 1981). There may also be an agent's compensation effect in that favorable news is more likely to be rewarded. Verrecchia (1983 / 1990) found that the incentive to disclose information is a decreasing function of the proprietary costs attached to a disclosure and an increasing function of the favorableness of the news in a disclosure. Darrough and Stoughton (1990) posited that industry dynamics may also influence the release of information, companies that have less fear of potential entrants will respond to market demands for timely information. Companies that hold favorable news might wish to delay disclosure, while companies with unfavorable news might want to release early to prevent entry (Palepu & Healy, 2001).

According to Ettredge et al., (2011) compliance is negatively associated with bad news. Prior research suggests that management has incentives to exercise discretion over the timeliness of reporting (Chambers & Penman, 1984; Givoly & Palmon, 1982; Patell & Wolfson, 1982). Komen (2014) identified bad news to be profit warning. According to Alves et al., (2011) profit warning helps reduce the expectation gap and lowers market reactions to avoid large stock price fluctuations. Profit warning is viewed by some investors as bad news but on the other hand it helps reduce large stock price variations hence, perceived as good news by other investors (Alves et al., 2011). Disclosure of profit warning also seeks to reduce information asymmetry and keeping transparency (Tumurkhuu & Wang, 2010). This prevents insiders, mainly managers, from misusing information thereby protecting unsuspecting investors. Investor make decisions based on information perceived to be credible, if a firm gives misleading information about future prospects of the firm especially that which is related to profit, then investors have difficulty in relying on this information to make rational decisions (Bodie, Kane, & Marcus, 2009). According to Bulkley and Herrerias (2004) profit warning is classified into two categories : quantitative and qualitative profit warnings. Quantitative profit warnings involve giving the actual figures of the profit estimates that are not met while qualitative profit warnings involve the use of phrases such as “unlikely to meet desired profit target”.

Market participants particularly the investors do not like to receive bad news especially one that is related to profits. Prior studies have revealed that profit warnings are received as bad news not only within the country where the company is listed but also in countries with

comparable foreign non-announcing firms (Alves et al., 2011). The norm is that profit warnings are communicated just before the year end and this may affect the ARL because, on average, managers tend to delay bad news (Kothari, Shu, & Wysocki, 2009). In Kenya it is a regulatory requirement for listed companies to disclose all material information and make public the announcement of any profit warning where there is a material discrepancy between projected earnings for current year and level of earnings in previous financial year (GoK, 2002). Companies such as National Bank of Kenya and Centum Investment have been penalized for violation of this requirement (Herbling, 2016a; Ngigi, 2013).

Managerial ownership serves to align the interests of shareholders and managers (Kelton & Yang, 2008) and reconciles any agency conflicts between managers and shareholders thus reducing principle-agent conflicts (Jensen & Meckling, 1976). Studies find that companies with high level of manager ownership have longer ARLs which is attributed to less pressure to release timely information since they have access to the information (Ashton et al., 1989; Bamber et al., 1993). In line with the body of this research this study will classify the listed companies as either owner controlled or manager controlled as was the case in previous studies (Carslaw & Kaplan, 1991). A company will be considered owner controlled if thirty percent of ordinary shares is owned by one individual and vice versa. Ownership concentration is treated as a dummy variable where 1 represents owner controlled companies (Carslaw & Kaplan, 1991).

Studies show that companies with high leverage have longer audit lags this is due to the likelihood of bankruptcy (Che-Ahmad & Abidin, 2009). The amount of long term debt is also likely to raise agency costs and is likely to increase audit efforts because of the high business risk (Carslaw & Kaplan, 1991; Che-Ahmad & Abidin, 2009). Prior studies have measured leverage as total liabilities divided by total assets (da Silveira Di Miceli, Leal, Barros, & Carvalhal-da-Silva, 2009). A high leverage level may indicate poor financial health and the auditors may raise concerns that the financial reporting process is flawed (Carslaw & Kaplan, 1991). He or she may decide to take up additional procedures that would tend to increase the audit delay because the audit of debt is more complicated than that of equity (Carslaw & Kaplan, 1991). Leverage will be used as a control variable for this study.

Prior studies posit that timely reporting of financial information is important to stakeholders because it is the only means of obtaining information on the company's performance (Leventis & Weetman, 2005). Longer ARLs create information asymmetry which enables investors with

information to take advantage of those without information, therefore investors will tend to invest in companies with shorter ARLs because they reduce information asymmetry (Ahearne, Griever, & Warnock, 2004; Portes & Rey, 2005). Therefore, companies with a significant amount of foreign ownership have an incentive to timely release audit reports. The discussion led to the following hypothesis.

H₂: Company-specific factors are negatively associated with ARL (size, profitability, complexity, industry sector, profit warning, ownership concentration, leverage, foreign ownership).

2.3.2.3 Influence of corporate governance-related factors on ARL

This section discusses prior literature on corporate governance related factors that affect the ARL that is, corporate governance quality and audit committee quality. Corporate governance is an important determinant of the ARL, it involves mechanisms that govern actions of and interactions between firm managers, shareholders, board members and stakeholders in an attempt to address principal agent conflicts (Afify, 2009 ; Hugill & Siegel, 2014). Investors are willing to offer valuable financing or pay higher equity price for firms with better governance (Chen, Chen, & Wei, 2009) because high quality corporate governance controls the principal-agent conflict through regulation or firm policy thus protecting investors (Hugill & Siegel, 2014). On the other hand Ettredge et al. (2011) found that non-compliant firms have lower quality corporate governance .

The 20th Century has seen the emergence of new standards, principles and recommendations that increasingly regulate corporate governance practices (Zitouni, 2016) . Kenya has not been left behind as it has the Code of Corporate Practices for Issuers of Securities for the Public, 2015. Since the publication of the Cadbury's report in 1992, regular publication of codes of good conduct have enriched corporate governance quality all over the world. Prior research by Charreaux (1997) shows that in France, the traditional corporate governance model is focused on the manager who had absolute power; hence the disciplinary impact of market mechanisms remained limited. This led to different working committee to make recommendations for French companies wishing to strengthen their good governance practices. They issued the Viénot I and Viénot II reports, the Bouton report and The Corporate Governance Principles for listed companies.

The report Viénot I named after the CEO of Société Générale , highlights the importance of corporate governance principals in France. The report Viénot II brought in a deeper reflection

on the dual functions of chairman and CEO, the executive compensation and shareholders right to access information. The Bouton report focused on the corporate governance practices in the composition of the board and independence of auditors and the accounting practices within the company. The consolidation of joint reports from AFEP and MEDEF gave rise to corporate governance principles which highlight ‘competence’ as an important quality of the director more so than ‘independence’. In 2008 these principles were updated with recommendations on the compensation of directors and in 2010 they were updated on the presence of women in the Board of Directors.

The German system of governance is based on internal control mechanisms (Emmons & Schmid, 1998). In this system the disciplinary power of the financial markets is particularly restricted as opposed to the Anglo-American system characterized by more liquid markets and more active institutional shareholders (Elmeskov, 1995; Easton & Walker, 1997). This internal monitoring system is characterized by the power of banks and the formal separation between management and regulatory bodies (Zitouni, 2016). The ‘German code of corporate governance was first published in 2000 and subsequently revised ten times between the period of 2002 and 2015. Similarly, in 2002 the ‘Swiss code of corporate governance for public companies was published and revised on 2008 and 2014. In 1994 Canadians introduced the “guidelines for better corporate governance in Canada” which mainly emphasized on the role of Directors. It was later modified into “Guide to good disclosure; corporate governance” which was revised in 2006 and 2013.

In the US, several reports by the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committee (BRC, 1999) and the National Association of Corporate Directors Blue Ribbon Committees (NACD, 2000) were published with recommendations on how to improve the quality of audit committees. This led to the SEC publishing rules about the communication on the composition and activities of audit committees (SEC, 1999). The accounting fraud scandals of 2002 led to the introduction of Sarbanes-Oxley Act in addition to the requirements of this act the New York Stock Exchange (NYSE) issued a report that required listed companies to have a Board of Directors with majority being independent directors. Prior literature on audit delay indicates that the association between corporate governance quality and timeliness of financial reporting is rarely investigated (Bédard & Gendron, 2010). Corporate governance is a central and dynamic aspect of business and its importance cannot be overstated (Dibra, 2016). Prior studies find that developing countries are characterized by

weak governance structures, corruption and fraud (Ntayi, Ngoboka, & Kakooza, 2013; Osei-Tutu, Badu, & Owusu-Manu, 2010).

In Kenya corporate governance started making head way in 1998 in a workshop for non-executive directors which was organized by the Private Sector Initiative for Corporate Governance. This led to the Capital Markets Authority publishing of Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya of 2002. This was later revised into the Code of Corporate Practices for Issuers of Securities for the Public 2015. Waweru and Uliana (2014) found that audit quality and firm performance are the main factors that influence the quality of corporate governance in Kenya. Afify (2009) recommends that further studies should be conducted on the relationship between ARL and corporate governance quality using a corporate governance index. Due to the concerns raised on the quality of corporate governance all over the world there is need to study it in relation to ARL.

Agency theory posits that principal-agent conflict in companies arise due to managers self-interests (Jensen & Meckling, 1976). The board of directors is one of many mechanisms put in place to monitor managers on behalf of dispersed shareholders (Abd-Elsalam & El-Masry, 2008). The Code of Corporate Governance Practices for issuers of Securities to the Public 2015 cites the board of directors as the single most important institution in corporate governance. It further states that effective corporate governance requires a board of governance that is composed of qualified and competent members. Prior studies show that a large board has difficulty in communication and coordination making it a less efficient monitoring body than a small board (Dimitropoulos & Asteriou, 2010). A large board also has higher 'free rider problem' intensity than a small board (Jensen, 1993; Naimi Mohamad-Nor, Shafie, & Wan-Hussin, 2010). In addition, large boards create less participation, are less organized and less likely to quickly reach a compromise in decisions (Dalton, Daily, Johnson, & Ellstrand, 1999; Mak & Li, 2001). An increase in board size is related to higher incidences of fraud cases (Beasley & Salterio, 2001). On the other hand small boards exhibit greater in formativeness (Vafeas, 2005).

Board size has been found to be positively related to earnings management in one study (Abdul-Rahman & Mohamed-Ali, 2006) while it has been found to be negatively associated with earnings management in another (Bradbury, Mak, & Tan, 2006) consequently having a mixed effect on the ARL. The conflicting evidence warrants a study in a Kenyan perspective. In conclusion, researchers have not prescribed the appropriate board size but their findings

suggest that the size will depend on the needs of a company. For instance, in Kenya the Code of Corporate Governance Practices for issuers of Securities to the Public 2015 only recommends that listed companies should be of sufficient size whereby it shall not be too large to undermine interactive discussion during meetings or too small hindering the inclusion of experts

The Code of Corporate Governance Practices for issuers of Securities to the Public 2015 recommends that the board should have policies and procedures in place to ensure independence of its members which should be assessed annually by the board Code of corporate governance, 2015). Industry practice and empirical review in finance find that the degree of board independence is closely related to its composition (Afify, 2009). Corporate governance has increasingly shifted towards having more directors who are not from the company and with minimal shareholding in the company to increase independence (Afify, 2009; John & Senbet, 1998). Some researcher argue that directors from outside the company rarely collude with company management for their own self-interests (Fama & Jensen, 1983). Independent directors are a tool for keeping company's management in check and have been associated with more voluntary disclosure and timely financial reporting than companies with less independent directors (Chen & Jaggi, 2000; Huafang & Jianguo, 2007; Patelli & Prencepe, 2007). However, some studies show that board independence does not enhance transparency (Haniffa & Cooke, 2002). This inconsistency in findings necessitates an investigation of board independence in the Kenyan environment.

CEO-duality is a term used to refer to when the CEO also serves as chairman of the board. This implies that most of the decision making power lies with one individual barring board independence reducing the boards oversight capacity (Afify, 2009). Corporate governance has grown towards having a separation of the CEO and Chairman of the board positions to avoid conflicts of self-interests (Agus et al., 2015). In Kenya the Code of Corporate Governance Practices for issuers of Securities to the Public 2015 recommends that the positions of CEO and chairperson of the board should not be held by the same individual.

The agency theory posits that CEO- duality creates a strong individual power base which could impair board independence and the effectiveness of its governing functions (Abd-Elsalam & El-Masry, 2008). A CEO with role duality is capable of selecting board member, selecting agendas and controlling board meetings (Kelton & Yang, 2008). Agency theory supports the separation of these two roles to provide checks and balances over management performance.

Studies have found that CEO-duality is associated with longer audit lags (Gul & Leung, 2004). In line with this body of research the Cadbury Committee (1992) recommended that large companies separate the role of the chairman and the CEO (Abdelsalam & Street, 2007).

Prior studies find that separation of CEO and chairman positions contributes to timely financial reporting (Abdelsalam & Street, 2007; Cerbioni & Parbonetti, 2007; Gul & Leung, 2004; Huafang & Jianguo, 2007; Sarkar, Sarkar, & Sen, 2008). However, other studies find no evidence that CEO duality impairs timely financial reporting (Cheng & Courtenay, 2006; Petra, 2007). CEO duality adversely affects internet disclosures and an unfavorable effect on earnings quality (Al-Arussi, Selamat, & Mohd-Hanefah, 2009). In contrast to these findings other researcher have found that there is no association between CEO-duality and earnings management (Abdul-Rahman & Mohamed-Ali, 2006; Abdullah, Mohamad-Yusof, & Mohamad-Nor, 2010; Bradbury et al., 2006). In conclusion, these studies have contrasting findings necessitating an investigation of CEO duality's effect on the ARL in a Kenya perspective.

Corporate governance quality is defined in terms of the composition of the board and its activities (Jayanthi Krishnan, 2005). According to a company's corporate governance quality increases as additional corporate governance standards are met. The compatibility of corporate governance practices with global standards has become integral to corporate success. Good corporate governance practices have therefore become a necessary prerequisite for any corporation to manage effectively in the globalized market. Researchers have developed and improved indices to measure corporate governance quality such as Cornelius (2005) who developed an index that made use of five major aspects of corporate governance. These aspects were board composition and independence; executive and director compensation; the executive and non-executive board members' ownership; the auditory processes independence and separability; and capital structure (Cornelius, 2005).

Prior literature on gender diversity shows that women are likely to be involved in monitoring-related committees mostly the audit committees that increase transparency (Adams & Ferreira, 2009). Furthermore, it has been found that the participation of women in boards promotes more effective and prompt information to investors (Baumgartner, & Schneider, 2010). Additionally, prior researchers have found that boardroom gender diversity is positively related to audit effort and may reduce the ARL (Srinidhi, Gul, & Tsui, 2011) . Some studies find that boards with female directors tend to be associated with more accurate earning forecast thus, reducing

information asymmetry (Gul, Hutchinson, & Lai, 2013). However, results have not been conclusive whether gender diversity reduces information asymmetry by reducing ARL (Cai, Keasey, & Short, 2006).

Prior studies in the US show the following existence of the committee at sixty nine percent, independence at fifty seven percent, competence at fifty one percent, number of meeting at thirty percent and its size at twenty two percent. These characteristics are expected to differ in different countries due to the different environmental factors of companies for instance, concentration of ownership (Bédard & Gendron, 2010). The Code of Corporate Governance Practices for issuers of Securities to the Public 2015 recommends that the board of directors of listed companies should appoint an audit committee of not less than three independent non-executive members. Prior studies show that audit committee size influences financial disclosures (Li, Pike, & Haniffa, 2008b; Persons, 2009) where large audit committee are expected to solve financial reporting problems at a faster rate than smaller committee due to the increased resources available to the committee (Naimi Mohamad-Nor et al., 2010). However, other studies show that there is a weak relationship between audit committee size and the quality of financial information disclosure (Ahmad-Zaluki & Wan-Hussin, 2010). Studies have found audit committee characteristics to be the board size, independence, number of meetings and relevant expertise (Abbott, Parker, & Peters, 2004; Apadore & Mohd Noor, 2013).

Prior studies posit that independent audit committees are likely to be effective if the committees are active. One way of describing their activeness is in terms of the number of meetings held (Menon & William, 1994). The Treadway Commission (1987) also known as the National Committee on Fraudulent Financial Reporting states that audit committee that intend to be actively involved in oversight need to maintain a high level of activity. Their diligence is measured by the number of meeting held (Naimi Mohamad-Nor et al., 2010). In Kenya the Code of Corporate Governance Practices for issuers of Securities to the Public 2015 recommends that audit committee should meet regularly. Other jurisdictions like the US through the Blue Ribbon Committee (BRC) (1999) on audit committees recommend that audit committee meetings should be not less than four in a year. While in the UK the number of meetings should be not less than three in a year in light of the fact that companies are required to produce interim financial reports semi-annually (Naimi Mohamad-Nor et al., 2010).

Prior studies show that the number of times audit committees meet is positively associated with the level of disclosure and discretionary accruals are lower (Li et al., 2008b; Xie, Davidson III, & Dadalt, 2003). In addition, other studies have high level of audit committee activity is significantly in lowering financial restatement and fraudulent financial reporting (Abbott et al., 2004; Persons, 2009). However, other studies find no significant association between the number audit committee meetings and financial reporting quality. This inconsistency in findings has motivated this study to find out the association in a Kenyan perspective. The auditing environment necessitates the need for audit committee members to have a high degree of accounting comprehension (Naimi Mohamad-Nor et al., 2010). Possession of the relevant expertise enables the audit committee members to understand auditing issues and risks. Audit committee members have been classified as financial experts if they have had past employment in finance and /or accounting, requisite professional certification in accounting and /or any other financial oversight experience or background which result in financial prowess (Felo & Solieri, 2009) .

Prior studies show having the relevant financial expertise and prior experience and knowledge in financial reporting and audit minimizes fraudulent financial reporting (Bédard, Chtourou, & Courteau, 2004; McMullen & Raghunandan, 1996) and the audit committee is likely to make expert judgment than those without (DeZoort & Salterio, 2001). In addition, audit committees with financial expertise reduce financial restatements or constrain contributing to the timely release of audit reports (Abbott et al., 2004; Xie et al., 2003). Other studies show that the appointment of audit committee members who are financial experts has a positive stock market reaction because the market's expectation is that their financial prowess will be useful in their financial monitoring role (DeFond, Hann, & Hu, 2005). In conclusion, these studies show that possession of the relevant expertise is necessary for an audit committee to be in a position to prevent and detect financial reporting errors in a timely manner thus reducing the ARL.

In Kenya the Code of Corporate Governance Practices for issuers of Securities to the Public 2015 recommends that the board for listed companies should establish an audit committee of not less than three independent and non-executive members. Prior studies show that large audit committees are more likely to uncover and resolve potential problems in the financial reporting process in comparison to small audit committees and may be due to the committee availing resources (Naimi Mohamad-Nor et al., 2010). The audit committee size has an influence in timely financial reporting (Li, Pike, & Haniffa, 2008a; Persons, 2009). Other studies however,

provide weak evidence that audit committee size is positively associated with timely financial reporting (Ahmad-Zaluki & Wan-Hussin, 2010). In addition, other studies show that audit committee size is not a significant driver of effectiveness (Bédard & Gendron, 2010). Despite that advantage of having the capability of availing more resources a large audit committee may face problems of incremental costs of poor communication, inability of reaching consensus in a timely manner thus affecting the audit releasing period (Bédard & Gendron, 2010).

Javed and Iqbal (2006) proposed an index that would measure corporate governance quality using twenty two factors. These factors were divided into three major groups the first group being the composition of board independence autonomy that measures the structure and effectiveness of the board of directors. The second being the company's property and shareholders and the third is clearness, disclosure and accountability. The maximum score is 100 (Javed and Iqbal, 2006). Shah, Butt, & Hasan (2009) suggested that corporate governance is a function of board composition, ownership structure and audit committee independent. They developed an index that gave weights to the factors based on their relative importance then calculated the sum of the weights (Shah et al., 2009). da Silveira Di Miceli, Leal, Barros, & Carvalhal-da-Silva (2009) created an index called the corporate governance practice index which is computed from the responses of twenty four binary and objective questions .Each positive answer adds one point so the final score for each firm ranges from 0 to 24 that is, worst to best corporate governance quality (da Silveira Di Miceli et al., 2009)

Gompers, Ishii, & Metrick (2003) developed an index that comprised of five levels which included twenty four different variables related to corporate governance systems of companies. Companies that had scored five or less than five had stronger corporate governance mechanisms and companies that scored fourteen and above had weak corporate governance structures (Gompers et al., 2003). For the purpose of this study the researcher adopted an index developed by Zitouni (2016). He used the Data Envelopment Analysis approach which incorporates endogenous or exogenous relations between different mechanisms and corporate governance mechanisms. Additionally, it has the ability to simultaneously integrate multiple inputs and outputs without explicitly specifying priori functional form. It also determines a "good practice" frontier a kind of benchmarking of firms whose combination of governance standards. Units that operate efficiently have a score equal to one while less efficient have a score of less than one (Zitouni, 2016).

Audit committee quality is defined in terms of the composition of the board and its activities (Jayanthi Krishnan, 2005). The audit committee plays a vital role in not only monitoring of internal controls to ensure the quality of financial reporting is not compromised, also but acts as corporate governance mechanism (Carcello & Neal, 2000; Klein, 2002). The corporate governance aspect of the audit committee comes about because of the potential litigation risk and reputation impairment (Zhang, Zhou, & Zhou, 2007). Prior studies show that the audit committee quality is associated with financial reporting outcomes that is timely release of audit report is associated with high quality audit committees (Carcello & Neal, 2000; Klein, 2002). The Blue Ribbon Committee (BRC), (1999) recommended that audit committees should have at least one member with professional qualifications; this is because they can perform their role in financial reporting more effectively (Raghunandan, Read, & Rama, 2001). Kenya has adopted the Code of Corporate Governance Practices for issuers of Securities to the Public 2015 recommends that audit committee should have not less than three independent and non-executive directors and have at least one director with a professional qualification in audit or accounting. The discussions led to the following hypothesis.

H₃: Corporate governance related factors have a positive effect on ARL (CGQS and ACQS).

2.3.2.4 Stakeholder perceptions on ARL and its determinants

It is paramount to understand the perceptions of auditors regarding ARL because any difference that may arise may contribute to a longer or shorter ARL. Prior studies indicate that auditor perceive the completion of an audit in good time as a significant contributor to audit efficiency (Carcello, Hermanson, & McGrath, 1992). Auditors perceive that a lengthy interaction between them and their clients implies high audit risk to their integrity, internal and the financial reporting process (Mande & Son, 2011). Prior studies have found that auditor resignations occur in the year following lengthy ARL (Mande & Son, 2011). Longer audit delays usually occur due to disagreements between the auditor and client on accounting issues and general deterioration in the quality of auditor- client interaction. Audit delays may also be caused by problems in the audit, a client firm has high inherent and control risk requiring more work by the auditor (Ireland, 2003). Big four audit firms are more likely than non-big four audit firms to provide better monitoring of financial reporting process but a change in audit firm would reduce the audit quality and increase the likelihood of audit delays (Cassell, Giroux, Myers, & Omer, 2007).

Prior studies indicate that auditors take actions to mitigate their risk exposure when managing their clients' portfolios. Clients in financial distress are more likely to be dropped by big four audit firms in comparison to those not experiencing financial distress (Schwartz & Menon, 1985). Jones and Raghunandan (1998) also found that clients portfolio in the big 6 audit firms comprised less of financially distressed companies during a period of increased litigation. Krishnan and Krishnan (1997) argued that litigation risk proxied by Stice's (1991) litigation score is positively associated with auditor resignations. Johnstone & Bedard (2004) posit that, financial distress, audit risk factors relating to managements' integrity, internal controls, and financial reporting quality have a great impact on an auditors' decision to retain or dismiss clients.

The agency theory is an important tool in managing conflicts between managers and auditors long ARL portrays a negative image of managers to the shareholders therefore managers perceive that shorter ARL means good news to shareholders which could result in rewards (Matos, 2001). From a managers perspective factors that may contribute to long ARL are weak internal controls, lack of funds to seek Big 4 auditors and the incentive to delay "bad news" (Kothari et al., 2009). From an investors' perspective, a lengthy audit delay could suggest there has been a deterioration in the quality of client-auditor interaction which could translate into an auditor change, and a negative stock market reaction (Krishnamurthy et al., 2006).

2.4 Summary of literature

The chapter began by discussing the extant theories underpinning this study. The agency signaling and stakeholder theories and informed the selection of the auditor, company specific and corporate governance characteristics as drivers of ARL. These theories provided a framework in which these variables could be associated and examined. Empirical literature review revealed that the auditor related characteristics were audit fees, auditor type and audit risk. The company specific characteristics were size of the company, profitability, complexity, industry sector, profit warnings, ownership concentration, leverage and foreign ownership. The corporate governance characteristics were board and audit committee characteristics. A review of literature revealed that the examination of drivers of ARL was still an area of interest. The variables of interest were then operationalized through a review of literature. The theoretical and empirical review of literature revealed that drivers of ARL were an area suitable for further research based on unique institutional and country characteristics. The chapter concluded with the conceptual framework which depicted the association between the variables of interest.

2.5 Research Gap

While these studies on audit delay share many similarities, they also present peculiarities that differentiate them. Prior studies show differences in respect of periods, methodology, variables introduced and conclusions obtained. In this research the inevitable gap existing between the close of the accounting period and the date of signing of the audit report is analyzed, taking the view that minimizing this gap would improve the efficiency of the market (Leventis et al., 2005). A review of literature has established that most studies on ARL have focused on the components of corporate governance and less on the quality of corporate governance. Moreover, studies have also focused on profitability of companies and few on profit warning. It has also revealed that different countries have different institutional set-ups.

2.6 Conceptual framework

The conceptual framework is described as an elaborate network of associations between the dependent independent and confounding variables considered as relevant to the problem being addressed by the study (Kothari, 2009). The dependent variable is the variable of primary interest (Sekaran & Bougie, 2013). The confounding variable is the variable that obscures the effects of another variable or one that correlates with the independent and dependent variables (Frank, 2000). The confounding variable in this study is the ARL in Kenyan listed companies.

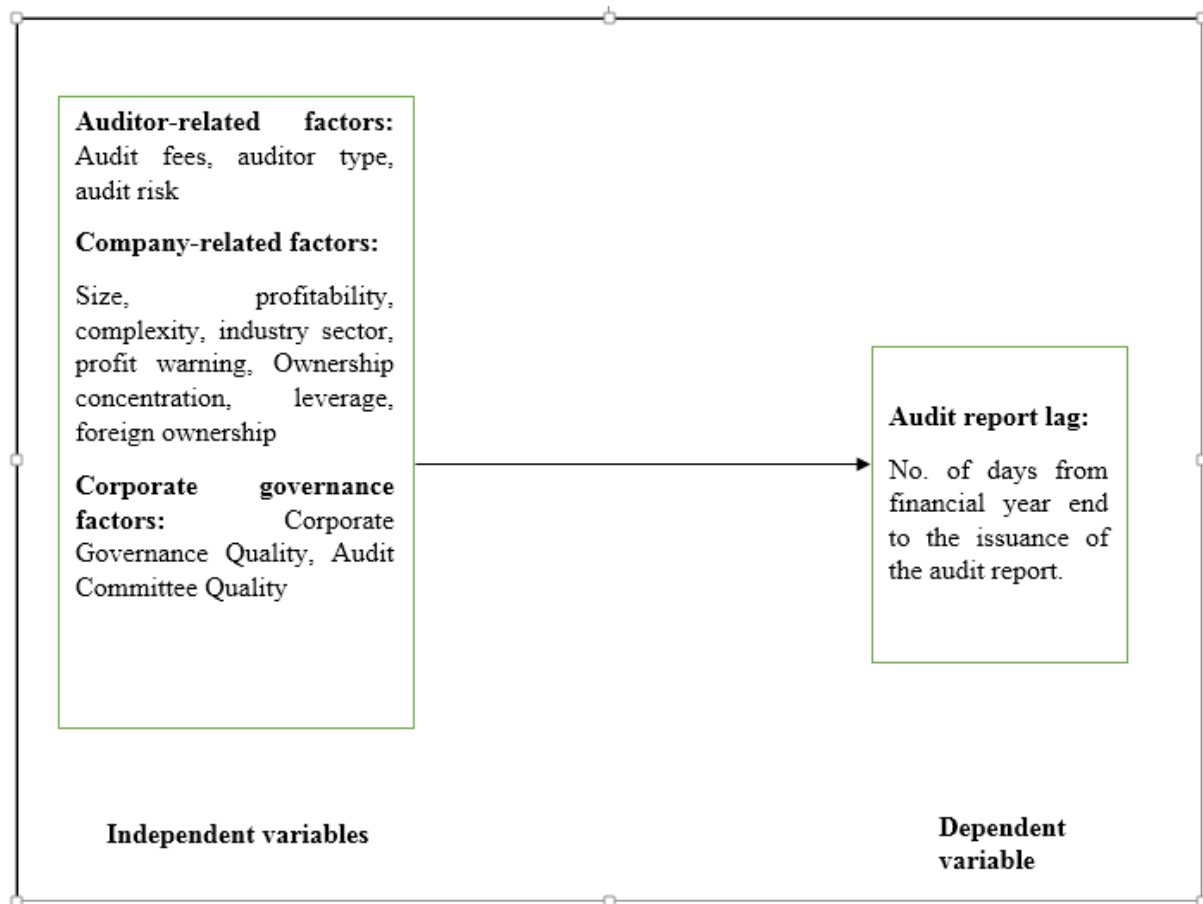


Figure 2.1: Conceptual Framework

2.7 Operationalization of variables

This section describes how the researcher measured the independent variables that is; auditor related factors, Company related factors corporate governance factors. The dependent variable was ARL. It also identifies the control variables used in the study. Hassan (2016) investigated the determinants of ARL in Palestine using annual reports for the year ending 2011. The study measured ARL as the number of days from the financial year end to the audit report date. The study conducted a multiple regression to identify the company characteristics, ownership structure and corporate governance mechanisms. The study found that board size, corporate size, status of the audit firm, company complexity, existence of audit committee and ownership dispersion influenced ARL. This study treated ARL as the dependent variable because it was the dependent variable against the auditor-, company-, corporate governance-related characteristics.

The independent variables for the study were audit fees, auditor type, and audit risk (auditor-related). Company size, profitability, industry sector, profit warning, ownership concentration (Company-related) corporate governance quality score and audit committee quality score

Corporate governance-related. Baatwah et al. (2015) investigated the CEO characteristics and audit report timeliness. The study utilized the amount paid to external auditors for an audit engagement. The audit fees were transformed into natural logarithm. Mohamad-Nor, Shafie and Wan-Hussin (2010) investigated Corporate governance and audit report lag in Malaysia following the implementation of the Malaysian Code on Corporate Governance in 2001. The study treated auditor type as a dummy variable where if an audit firm was among the Big 4 audit firms 1 was scored and 0 if it was not among the Big 4. Consistent with the study, this study also treated auditor type as a dummy variable.

Sultana et al. (2015) examined the audit committee characteristics and the ARL. The study estimated audit risk as the ratio of current liabilities to current assets. Consistent with the study this study measured audit risk as the ratio of current liabilities to current assets. Baatwah et al. (2015) examined CEO characteristics and audit report timeliness using data from the Oman capital market for a five year period from 2007-2011. The study measured company size using the log of total assets. Similar to the study, this study utilized the log of total assets to measure company size.

Apadore and Mohd Noor (2013) analyzed the relation between the characteristics of corporate governance; board independence, ownership concentration, audit committee independence, expertise, meeting, size, internal audit investment and audit report lag among companies listed under Bursa Malaysia 2009 to 2010. The study estimated ROA as net income to total assets ratio. Similarly, this study measured ROA as the profit after tax to total assets ratio. Additionally, Puat Nelson and Norwahida Shukeri (2011) examined the impact of corporate governance characteristics on ARL in Malaysia. The study treated firm performance as a dummy variable where 1 was scored if company made profits and 0 otherwise. Similarly, this study employed the dummy variable measure used by to measure firm performance.

Henderson and Kaplan (2000) investigated the determinants of ARL in the banking sector. The study treated industry sector as a dichotomous variable where 1 was scored if the company was in the banking sector and 0 otherwise. Similarly, this study treated the listed companies belonging to the different sectors as dummy variables. 1 was scored if firm was in the agricultural sector and 0 otherwise. Similarly 1 was scored if firm was in the manufacturing and allied and 0 otherwise. 1 was scored if firm was in the automobiles and accessories sector and 0 otherwise. 1 was scored if firm was in the banking sector and 0 otherwise. 1 was scored if firm was in the insurance sector and 0 otherwise. 1 was scored if firm was in the investment

sector and 0 otherwise. 1 was scored if firm was in the commercial and services sector and 0 otherwise. 1 was scored if firm was in the construction and allied sector and 0 otherwise. 1 was scored if firm was in the energy and petroleum sector and 0 otherwise. 1 was scored if firm was in the telecommunication and technology sector and 0 otherwise (Henderson & Kaplan, 2000).

Soltani (2002) investigated the timeliness of corporate and audit reports in the French context over a ten year period. The study treated profit warning as a dichotomous variable where 1 was scored if company issued profit warning and 0 otherwise. as was the case in previous studies this study also treated profit warning as a dummy variable (Soltani, 2002). Carslaw and Kaplan (1991) examined audit delay in New Zealand using company (owner control and manager control) explanatory variables. The study estimated ownership concentration as a dummy variable where 1 was scored if owner or manager had 30% or more ownership and 0 otherwise. Similarly, this study treated ownership concentration as a dummy variable.

Mathuva, Mboya and Mcfie (2016) examined the association of the governance of credit unions and their social environmental disclosure in a developing country. The study utilized a corporate governance quality index to measure corporate governance quality and an audit committee quality index to measure audit committee quality. Similarly, Zitouni (2016) developed an index that constituted governance mechanisms as inputs and governance standards from the codes of good practices as the outputs. These studies treated the following as dummy variables ; board size, independence, training of board members, board meetings, audit committee presence, AC size, AC meetings, relevant expertise, presence of compensation committee, CEO presence in compensation committee, gender diversity, presence of other committees, financial expertise and supervisory experience.

Al-Ajmi (2008) investigated of the timeliness of annual reports of an unbalanced panel of 231 firm-years of financial and non-financial companies listed on the Bahrain Stock Exchange. The study measured leverage as total liabilities divided by total assets. Similarly, this study employed the total liabilities to total assets ratio to estimate leverage. Baatwah et al. (2015) examined CEO characteristics and audit report timeliness using data from the Oman capital market for a five year period from 2007-2011. The study measured firm performance using ROA calculated as the profit after tax divided by total assets. Similarly, this study estimated firm performance using ROA. Table 2.1 presents the variables definitions used by this study.

Table 2.1: Variable Definitions

Variable type	Measure	Definition	Source
<i>Dependent variable</i>			
ARL _{it}	ARL	No. of days from financial year end to the issuance of the audit report (Hassan, 2016; Habib & Bhuiyanb, 2011).	Listed companies' annual reports
<i>Dependent variable</i>			
<i>Independent variables</i>			
<i>Auditor-related factors</i>			
LNFEET _{it}	Audit fees	The natural log of audit fees (Abbott, Parker, & Peters, 2012).	Listed companies' annual reports
AUDITORTYPE _{it}	Auditor type	Treated as dichotomous variable where 1 was scored if audit firm was Big-4 and 0 otherwise (Che-Ahmad & Abidin, 2009).	Listed companies' annual reports
AUDITRISK _{it}	Audit risk	Prior studies measure audit risk as the ratio of current liabilities to current assets (Sultana, Singh, & Mitchell Van der Zahn, 2015).	Listed companies' annual reports
<i>Company-related factors</i>			
LNTA _{it}	Size	The natural log of total assets (Baatwah et al., 2015).	Listed companies' annual reports
PROFITABILITY _{it}	Profitability	This was treated as a dummy variable where 1 if company makes profit and 0 if it makes loss.	Listed companies' annual reports
COMPLEXITY _{it}	Complexity	Ratio of inventory and receivables to total assets (Che-Ahmad & Abidin, 2009).	Listed companies' annual reports
IS _{it}	Industry sector	This was treated as a dummy variable where 1 is scored if company is in the agricultural, Automobiles and accessories, Banking, Commercial and services, Construction and allied, Insurance, Manufacturing and allied, Telecommunication and technology and 0 otherwise (Eghliaow, 2013).	Listed companies' annual reports
PWARNING _{it}	Profit warning	This was treated as dummy variable where 1 is scored if there was a profit warning and 0 otherwise (Soltani, 2002).	Listed companies' annual reports
OWN CON _{it}	Ownership Concentration	A binary variable variable where 1 is scored if company has individuals owning more than 30% of the total shares and 0 otherwise (Carslaw & Kaplan, 1991; Mohamad-Nor et al., 2010).	Listed companies' annual reports
LEVERAGE _{it}	Leverage	Total liabilities to total assets (da Silveira Di Miceli, Leal, Barros, & Carvalho-da-Silva, 2009)	Listed companies' annual reports
FOROWN _{it}	Foreign Ownership	This was the proportion of shares owned by foreigners.	Listed companies' annual reports
<i>Corporate governance-related factors</i>			
CGQS _{it}	Corporate governance quality	This was measured by the corporate governance quality index as in Appendix V.	The code of corporate practices for issuers of securities for the public 2015, Mathuva, Mcfie, & Mboya (2016) and Zitouni (2016)
ACQS _{it}	Audit committee quality	This was measured by the audit committee quality index as in Appendix VI.	The code of corporate practices for issuers of securities for the public 2015, Mathuva, Mcfie, & Mboya (2016) and Zitouni (2016)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology for collecting and analyzing the data for testing the objectives of the study. It discussed the research design, research philosophy, population and data collection techniques to be used. It began with a rationale for the broad research philosophy underpinning the quantitative and qualitative approach taken by this study. It discussed the primary and secondary data collection methods to be used and the methods used to analyze data from both sources. This chapter also discussed the regression model to be used in analyzing secondary data.

3.2 Research Philosophy

Various authors have argued on different research ideologies known as paradigm argument that have shaped knowledge development over the years (Alzheimer Europe, 2009). This research employed an ontological research philosophy paradigm which relates more to the dynamics of human beings (Agyeman, 2010). A positivistic research is one that deals with units that can be observed and tested (Agyeman, 2010; Remenyi, Williams, Money, & Swartz, 1998) stated “a positivist approach to research implies that the researcher is working with an observable social reality, for which the end product of such reality should be the derivation of laws or law like generalizations”.

Consistent with prior studies (Eghliaow, 2013) on audit delay in Libya, this study was guided by the post positivism philosophical approach with the premise that the social reality exists “out there” and can be scientifically measured. A nomothetic will be applied which enables the researcher to apply statistical techniques to test hypotheses and analyze research data collated using quantitative research techniques, such as questionnaire (Castro-Schilo & Ferrer, 2013). Post positivism philosophical assumptions include causality determinism where cause determines effect and reductionism where ideas are reduced and theories verified using empirical methods (Creswell, 2003) .

3.3 Research Design

The development of a good research design permits us to obtain the best data possible (Creswell, 2012). This study employed a descriptive research design because the study involved an investigation of the drivers of ARL. Descriptive research design enabled the

researcher to identify the status of the phenomena that is ARL and explain its determinants. This study analyzed the relationship between auditor-related factors, corporate governance-related factors, company-specific factors and ARL.

3.4 Population and sample

A population is the entire group of individuals, events or objects having a common observable characteristic (Saunders, Lewis, & Thornhill, 2009). For the purpose of this study the target population was all publicly listed companies in the NSE. Data was obtained from the annual reports of all listed companies for the period 2006-2015 as this were the more recent reports available as at the time of the study. Table 3.1 presents the companies targeted after removal of delisted companies, those listed after 2010 and those suspended from trading during the study period. Table 3.2 presents the sectoral distribution of listed companies in the study.

Table 3.1: Companies in the final sample

Category of companies	Number of firms	Number of firm-year observations
Total companies listed as of 31 December 2016	66	660
Less: Number of delisted companies	2	20
Number of companies listed after 2010	11	110
Number of companies suspended from trading	9	90
Total number of companies in the final sample	44	440

Source: NSE (2016)

Table 3.2: Sectoral distribution of listed companies in the study

Industry	No. of companies	Percentage %	# of observations
Agricultural	5	11	39
Commercial and services	6	18	60
Investment	2	6	20
Investment services	1	2	0
Automobile and accessories	2	5	20
Manufacturing and allied	5	15	50
Banking	10	17	100
Insurance	4	9	35
Telecommunication and Technology	1	2	10
Real Estate	1	2	0
Investment Trust			
Construction and Allied	5	8	50
Energy and Petroleum	4	8	40
Total	44	100	424

Source: NSE list of listed companies by industry as of 31st December 2016

3.5 Data collection

The study used both primary and secondary data. Secondary data was sourced from annual reports and keyed into an excel sheet with the variables being studied. A semi-structured questionnaire was used to collect primary data and corroborate findings of data obtained from the annual reports. The interview questionnaire targeted internal auditors of the 44 listed companies and their external auditors.

Secondary data were collected from the regulator, that is, the Capital Markets Authority, the NSE handbook and the various company websites. Primary data was used to corroborate secondary data to be collected. The semi-structured questionnaires (Appendix II) aided in obtaining information from the practitioners. The corporate governance quality index as presented in Appendix IV captured the aspects of corporate governance. Finally, the audit committee quality index captured aspects of audit committee (Appendix V).

3.6 Data Analysis and presentation

Data analysis has been defined the systematic application of statistical tools to process data into meaningful information (Saunders et al., 2009). Data was collected from the semi-questionnaires and annual reports it was cleaned, coded and classified in preparation of further analysis using regression models. To test the first objective the researcher employed a panel regression approach; this is because the study was looking at the cross sectional and time series nature of the data. Pooled regression model was not used because it would have denied the different companies heterogeneity or individuality since it assumes that all the companies are similar (Brooks, 2012; Wooldridge, 2015).

The researcher used the Hausman test to check whether to use Random or fixed effects models. The first model was regressed using fixed effects panel because the Hausman's Chi² was significant with a p-value of 0.066 (p<0.1). The second and third model was regressed using random effects because the Hausman's Chi² were statistically insignificant (p<0.1) p-values were 0.655, 0.371 respectively. Finally, the fourth model was regressed using was regressed using fixed effects model since the Hausman's Chi² was statistically significant (p< 0.05). To establish the significant determinants of ARL, the following regression model was utilized:

$$ARL_{it} = \beta_0 + \delta_1 \sum_i^n AUD_FACTORS_{it} + \delta_2 \sum_i^n COMPANY_CHAR_{it} \\ + \delta_3 \sum_i^n CORPORATE_GOV_{it} + \gamma_{it} + \phi_{it} + \varepsilon_t$$

Where: *AUD_FACTORS* represents audit fees, auditor type and audit risk. *COMPANY_CHAR* represents firm size, profitability, complexity, industry sector, profit warning, ownership concentration, leverage and foreign ownership. *CORPORATE_GOV* represents corporate governance quality score and audit committee quality score. γ_{it} and ϕ_{it} are industry and firm year controls. Finally, ε is the error term associated with the regression.

The study employed a two stage panel least squares regression model and therefore tests were conducted to check for any violations of the assumptions of linear regression. Test for normality was conducted using the skewness and kurtosis test. If the data was not normal the researcher would use regression standardized residual, p-p and q-q plots to check for normality. Multicollinearity was tested using correlation matrix and VIF in the event that there was multicollinearity the variable causing the multicollinearity would be dropped. Homoskedasticity

would be tested using Lagrange Multiplier (LM) test if the source of the heteroscedasticity is known GLS would be employed for the regression. In the event the source of the heteroscedasticity is not known the variables would be converted into logarithms. Autocorrelation would be tested using the Durbin-Watson (DW) test. In the event there was autocorrelation the study would use a general to specific model as done in prior studies (Mizon, 1995).

3.7 Research quality

3.7.1 Internal validity

Internal validity addresses whether or not an observed covariation should be considered a causal relationship (Calder, Phillips, & Tybout, 1982). To ensure internal validity the researcher conducted a pilot study before issuance of the questionnaire to the intended respondents. The questionnaire was issued to five MCOM students specializing in forensic accounting, three accounting lecturers and two external auditors. Feedback from the respondents led to the deletion of some questions due to their repetitiveness.

3.7.2 External validity

External validity addresses the concern of whether or not a causal relationship should be generalized (Calder et al., 1982). To ensure external validity the study ensured that majority of the listed companies were included in the sample as can be seen in table 3.1.

3.8 Ethical considerations

Ethical considerations in research is important especially when it involves human beings (Cooper & Schindler, 2010). Research ethics is defined as the appropriate behavior of research relative to norms of the society (Zikmund, 2010). Research may have adverse consequences and therefore research subjects have to be protected (Cooper & Schindler, 2010 ; Patton, 2002 ; Sekaran & Bougie, 2013). This research considered ethical considerations in the following ways. First, participation was voluntary and participants reserved the right to withdraw at any time. Secondly, the participants were informed of the purpose of this study using a cover letter approved by the university that accompanied the questionnaire. Thirdly, the cover letter assured the participants of total confidentiality. Finally, the identities of the participants were kept private and confidential.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents the findings of analysis done on data derived from annual reports and questionnaires. Data from questionnaires were collected from internal and external auditor of companies listed in the Nairobi securities exchange. The section is organized into two parts. Part A: results from secondary data analysis. Part B: results from primary data. Part A presents the diagnostic tests, correlation matrix, selecting the significant determinants of ARL, final model using most significant variables and robustness checks. Part B presents the demographic characteristics, auditor and manager perspectives on the drivers of ARL.

4.2 Results from secondary data analysis

4.3 Diagnostics tests

This section entails the diagnostic tests carried out prior to the multiple-regression.

4.3.1 Test for Heteroscedasticity

Heteroscedasticity is a problem that exists if the errors do not have a constant variance, that is, $\text{var}(u_t) = \sigma^2 < \infty$ (Brooks, 2012; Wooldridge, 2015). Consistent with prior studies the Lagrange Multiplier was used to check for heteroscedasticity (Yaacob & Che-Ahmad, 2012). The Lagrange Multiplier is calculated by using R^2 from the auxiliary regression and multiplying it by the number of observations, that is, $TR2 \sim \chi^2(m)$ where m is the number of regressors in the auxiliary regression (Brooks, 2012; Wooldridge, 2015). The null hypothesis was $H_0=0$, there is no heteroscedasticity. Table 4.1 shows how the Lagrange Multiplier (LM) was arrived at. According to these findings the calculated LM for model one was 270.297 and the 5% critical value from the χ^2 was 7.815 which lead to the conclusion that there was heteroscedasticity since the researcher rejected the null hypothesis. Similarly, the calculated LM for model two was 69.488 and the 5% critical value from the χ^2 was 21.026 which lead to the conclusion that there was no heteroscedasticity since the researcher did not reject the null hypothesis.

The calculated LM for model three was 5.936 and the 5% critical value from the χ^2 was 5.991 which lead to the conclusion that there was no heteroscedasticity since the researcher did not reject the null hypothesis. A possible solution is the use of generalized least squares (GLS) however since the cause of the heteroscedasticity was not known GLS could not be used.

Another suggested solution to heteroscedasticity is converting variables into logs (Brooks, 2012; Wooldridge, 2015). Therefore, total assets, audit fees were converted to logs.

Table 4.1: Lagrange Multiplier

	R ²	No. of observations	LM	Tabulated value (X ²)
Auditor related	0.639	423	270.297	7.815
Company specific	0.172	404	69.488	21.026
Corporate Governance	0.014	424	5.936	5.991

4.3.2 Test for Normality

Normality tests for ARL was done using skewness and kurtosis which are the standardized third and fourth moments of a distribution (Brooks, 2012). A symmetric distribution should be zero (Gujarati & Porter, 2009). According to Brooks (2012) the normality assumption that the disturbances are normally distributed ($u_t \sim N(0, \sigma^2)$) is required to conduct for one to conduct a regression analysis. According to Table 4.5 the skewness of ARL was 0.851, this indicated a slight skewness to the right. The coefficient for kurtosis related to the dependent variable ARL was 1.684 implying that the variable is flatly distributed. Data that have the asymptotic property that is, they are large enough ($n > 30$ or 40) the violation of the normality assumption should not be problematic (Ghasemi & Zahediasl, 2012). Additionally, normality checks were conducted using histograms, probability-probability plots and standardized residuals (Appendix VI, VII, VIII and IX) which revealed that the data was near normal.

4.3.3 Test for Autocorrelation

Autocorrelation is the problem that exists if the disturbance terms are not equal to zero that is $cov(u_i, u_j) = 0$ (Brooks, 2012; Wooldridge, 2015). Presence of autocorrelation could lead to incorrect standard errors (Brooks, 2012). Consistent with prior studies the Durbin-Watson test was used to check for auto-correlation (Baatwah et al., 2015; Sultana et al., 2015). The null hypothesis being tested is $H_0=0$, no autocorrelation. Table 4.12 shows that for model 1 the Durbin Watson statistic was 1.197 which was close to 2 Durbin Watson statistic was 1.1656 for model 2 which was close to 2. Durbin Watson statistic was model 3 was 0.480 not close to two indicating that there was autocorrelation due to the rejection of the null hypothesis. In line with Mizon, (1995) who argued that autocorrelation presents an opportunity rather than a

problem and can be avoided by a “general to specific strategy” this study used a two-stage panel least squares regressions model (Mizon, 1995).

4.3.4 Test for Multi-collinearity

Multi-collinearity has been defined as the problem that arises when two or more independent variables are highly correlated (Brooks, 2012). Consistent with prior studies related to ARL multi-collinearity was tested using the correlation matrix (Mande & Son, 2011; Waweru et al., 2015). Evidence from the correlation matrix shows that the highest coefficient correlation was at 0.687 which was less than 0.8 meaning that multi-collinearity was not a problem. Therefore, there was also no multi-collinearity. Additional tests were conducted using the Variance Inflation Factor (VIF). Prior studies show that a VIF greater than five (tolerance <0.20) implies that the regression coefficients were poorly estimated (Hair, Ringle, & Sarstedt, 2013; Mardikyan & Çetin, 2008). Table 4.2 presents the multicollinearity test using VIF. Prior studies show that VIF that is less than ten implies no multi-collinearity (Dao & Pham, 2014). According to the findings in table 4.2 the VIF of the independent variables ranged between 1.17 and 8.331. The tolerance values ranged between 0.12 and 0.851. Therefore both the tolerance values and VIF values showed that there was no multi-collinearity since they were below 10 (Brooks, 2012; Dao & Pham, 2014). In conclusion, since there is no relationship between the independent variables in the ARL the relationship can be said to be orthogonal.

Table 4.2: Results of the Multicollinearity Check Using Tolerance and VIFs

Variable	Collinearity Statistics	
	Tolerance (1/ VIF)	Variance Inflation Factor (VIF)
(Constant)		
AUDITORTYPE	0.474	2.109
AUDITRISK	0.81	1.234
LNAUDITFEE	0.267	3.739
LNTA	0.12	8.331
PROFITABILITY	0.604	1.657
COMPLEXITY	0.371	2.695
IS_Man	0.341	2.934
IS_Agric	0.331	3.017
IS_AutoAccesso	0.477	2.098
IS_CommServ	0.334	2.992
IS_Construction	0.409	2.446
IS_EnergyPetr	0.541	1.849
IS_Insurance	0.577	1.733
IS_Investment	0.514	1.947
IS_Telecom	0.719	1.391
PWARNING	0.851	1.176
OWNCONC	0.621	1.609
LEVERAGE	0.708	1.413
FOROWN	0.697	1.434
CGQS	0.267	3.743
ACQS	0.382	2.615

Note: To avoid the dummy variable trap the IS_Banking variable was removed (Gujarati and Porter, 2009).

4.3.5 Descriptive statistics

Table 4.3 presents findings on descriptive statistics on the dependent variable ARL and independent variables relating to the auditor that determine ARL; these are the type of auditor and audit risk. These findings show that on average Kenyan listed companies have an ARL of 87 days a few more days than companies listed in the Australian stock exchange (80.67 days) (Lai & Cheuk, 2005; Sultana et al., 2015). This rate is significantly higher than that of previous studies in other countries (Australia 57%) (Sultana et al., 2015). Table 4.3 presents a summary of the descriptive statistics on the company specific variables that influence ARL. According to Table 4.7 most of the companies were making profits (91.56%) for the period under study. 65.26% of the listed companies for the period under study had at least one individual or entity

that controlled more than 30% of shares. At least 20.18% of listed companies had foreign ownership. The findings also show that on average Kenyan listed companies have a leverage level of 0.803 which shows a high level of financial risk contrary to countries like the US (0.218) and lower level of financial risk to countries like Australia (2.12) (Agus et al., 2015; Sultana et al., 2015). The descriptive statistics for the independent variables industry sector, profit warning and ownership concentration were not reported in detail because they were treated as dichotomous variable (Sultana et al., 2015).

Table 4.3 presents descriptive statistics on the items in the corporate governance quality index. The findings show that on average Kenyan listed companies have 9 board members, 8 board meetings in a year, 5 independent directors in the board, 4 audit committee members, 4 audit committee meetings in a year. These findings are in line with the recommendations of code of corporate practices for issuers of securities for the public, 2015. Training of board members, relevant qualification of AC members, presence of compensation committee, CEO member of compensation committee, presence of committees other than the board of directors, audit and compensation committee were treated as dichotomous variable hence descriptive statistics could not be used meaningfully (Sultana et al., 2015).

Table 4.3 shows findings of descriptive statistics on the elements in the audit committee quality index. The findings show that on average Kenyan listed companies have four independent non-executive directors and four meetings in a year. This is consistent with prior studies that indicate the average committee size exceeds three (Goodwin, 2003; Sultana et al., 2015). In addition these findings are also in line with the recommendations of code of corporate practices for issuers of securities for the public, 2015. Presence of audit committee, finance expertise and supervisory experience were treated as dichotomous variable hence descriptive statistics could not be used meaningfully (Sultana et al., 2015).

Table 4.3: Descriptive statistics

Variable	N	Mean	Median	Maximum	Minimum	Std. Dev.
ARL	424	86.4	83	212	26	27.812
Auditor-related characteristics						
Audit Risk	424	1.455	0.709	3.2	-0.471	28.676
Auditor type	424	0.868	1	1	0	0.339
Audit fees	424	9284	7339	7510	223	39194
Company-related characteristics						
Categorical variables						
IS_AGRIC	424	0.097	0	1	0	0.296
IS_AUTOACCESSO	424	0.05	0	1	0	0.217
IS_BANKING	424	0.231	0	1	0	0.422
IS_COMMSERV	424	0.144	0	1	0	0.351
IS_CONSTRUCTION	424	0.122	0	1	0	0.327
IS_ENERGYPETR	424	0.074	0	1	0	0.263
IS_INSURANCE	424	0.084	0	1	0	0.278
IS_INVESTMENT	424	0.05	0	1	0	0.217
IS_MAN	424	0.124	0	1	0	0.33
IS_TELECOM	424	0.025	0	1	0	0.156
OWNCONC	424	0.653	1	1	0	0.477
PROFITABILITY	424	0.916	1	1	0	0.278
PWARNING	424	0.077	0	1	0	0.267
Continuous variables						
LEVERAGE	424	0.803	0.583	87.213	0	4.325
LNAUDITFEE	424	8.796	8.91	10.576	5.407	0.932
LNTA	424	16.558	16.57	20.14	8.749	1.831
COMPLEXITY	424	0.175	0.076	1.7	0	0.388
FOROWN	424	0.176	0.014	0.997	0	0.247
ROA	424	0.066	0.045	0.538	-0.299	0.087
Corporate governance-related characteristics						
Size of board of directors	424	8.762	9	2.387	3	16
Number of board meetings in a year	424	7.616	7	2.123	1	13
Number of independent directors	424	4.455	4	2.39	0	12
Size of audit committee	424	3.366	3	1.069	0	7
Number of audit committee meetings per year	424	4.066	4	1.681	0	14
Number of independent non-executive directors	424	3.306	3	1.154	0	7
Size of AC board	424	3.366	3	1.069	0	7
Number of meetings in a year	424	4.066	4	1.681	0	14
CGQS	424	0.686	0.667	0.917	0	0.179

4.4 Correlation matrix

Pearson's correlation coefficient is a parametric rank statistic that measures the strength of a relationship between two variables (Piovani, 2008). The correlation matrix shows the highest coefficient correlation was 0.681 which was less than 0.8 meaning that multi-collinearity was not a problem. The variable profit warning had a positive relation with ARL however; it was not significant implying that it may not be related to ARL. Table 4.4 presents a summary of the Pearson's correlation matrix. The full matrix can be availed on request.

The findings show that the correlation coefficients between ARL and auditor type was weak, negative and significant (coefficient = -0.348, $p = 0.000$). This implies that there is some relationship between audit fee and ARL. The correlation coefficient for audit fee was weak, negative and p-value was significant (coefficient= -0.210, p-value = 0.000). The correlation coefficient for total assets was weak, negative and p-value was significant (coefficient=-0.272, p-value= 0.000). This implied that companies with large asset had shorter ARL. The correlation coefficient for profitability was weak, negative and p-value was significant (coefficient= -0.183, p-value=0.000). This meant that companies that were profitable had shorter ARL. The correlation coefficient for FOROWN was weak, negative and p-value was significant (coefficient=-0.112, p-value=0.021). The correlation coefficient for leverage was weak, negative and p-value was significant (coefficient= -0.160, p-value=0.000). The correlation coefficient for CGQS was weak, negative and p-value was significant (coefficient= -0.119, p-value=0.014).

Table 4.4: Correlation matrix

Correlations													
	ARL	AUDITOR TYPE	AUDITRI SK	LNAUDIT FEE	LNTA	PROFITA BILITY	COMPLEX ITY	PWARNIN G	OWNCON C	LEVERAG E	FOROWN	CGQS	ACQS
ARL	1												
AUDITOR TYPE	-.348**	1											
AUDITRI SK	-.039	-.084	1										
LNAUDIT FEE	-.210**	.311**	.150**	1									
LNTA	-.272**	.122*	.205**	.684**	1								
PROFITA BILITY	-.183**	.151**	.021	.149**	.134**	1							
COMPLEX ITY	.048	.021	-.156**	-.099*	-.377**	-.088	1						
PWARNIN G	.023	-.042	-.026	-.025	-.080	-.284**	.137**	1					
OWNCON C	.009	-.078	.161**	-.125*	-.176**	.066	.160**	.019	1				
LEVERAG E	.046	.027	-.005	.066	-.190**	.012	-.033	-.012	.030	1			
FOROWN	-.112*	-.002	-.105*	.078	-.001	-.038	.240**	.010	-.064	-.034	1		
CGQS	-.119*	-.188**	.100*	.388**	.667**	.073	-.319**	-.051	-.215**	-.015	-.038	1	
ACQS	-.087	-.122*	.059	.350**	.469**	-.040	-.184**	-.026	-.190**	.033	.105*	.681**	1

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

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

4.5 Selecting the significant determinants of ARL

This study used panel regression method to select the determinants of ARL. Consistent with prior studies this study used panel regression to identify the significant determinants of ARL (Henderson & Kaplan, 2000; Yaacob & Che-Ahmad, 2012). Table 4.5 shows a summary of the regression statistics for models 1, 2 and 3. According to the findings all the models were significant since the F-statistic was significant ($p < 0.05$). The most significant auditor related variable influencing ARL is Auditor type that has a p-value of 0.003. The most significant company specific variables are total assets, profitability, ROA, IS-Banking, IS-Investment, IS-Manufacturing. Table 4.5 also shows that the corporate governance quality score is significant ($P < 0.1$). The study used panel data and therefore, it was necessary to carry out the Hausman test. The Hausman test is used to determine whether to use a fixed or random effects model to run the regression (Brooks, 2012). The study used model 1 to represent the auditor-related characteristics (objective 1), model 2 to represent company specific characteristics (objective 2) and model 3 to represent the corporate governance characteristics (objective 3). Therefore, the Hausman test was conducted for models 1, 2 and 3 to determine whether to use random effects or fixed effects model. The null hypothesis was the random effects model was sufficient. For Model 1 the Hausman χ^2 (χ^2) (p-value=0.066) was significant, hence the null hypothesis was rejected and the fixed effect model was selected. Model 2 the Hausman χ^2 (χ^2) p-value (0.655) was not significant level hence the null hypothesis was not rejected; hence the random effects model was selected. Model 3 the Hausman χ^2 (χ^2) (p-value=0.371) was not significant hence the null hypothesis was not rejected; hence the random effects model was selected.

Table 4.5 reveals that Model 1 had an adjusted R-squared of 58.5% indicating that the 58.5% of the variability of the dependent variable (ARL) was explained by the independent variables and 41.5% was explained by variables not in the model. Model 2 had an R-squared of 17.2% implying that 17.2% of the variability in ARL was explained by the independent variables and 82.8% was explained by variables not in the model. Model 3 R-squared of 1.4% indicating that only 1.4% of the variability in ARL was explained by the independent variables and 98.6% was explained by variables not in the model. According to the findings in table 4.5 the most significant variables were auditor type ($t = -3.028$, $p\text{-value} = 0.003$). LNTA ($t = -1.651$, $p\text{-value} = 0.099$). PROFITABILITY ($t = -1.790$, $p\text{-value} = 0.074$). ROA ($t = -4.282$, $p\text{-value} = 0.000$). DIV ($t = -2.424$, $p\text{-value} = 0.016$), IS-BANKING ($t = -2.028$, $p\text{-value} = 0.043$), IS-INVEST ($t = -1.700$, $p\text{-value} = 0.090$), IS-MAN ($t = -1.775$, $p\text{-value} = 0.076$). CGQS = ($t = -1.689$, p

value=0.092). These variables were then regressed together against ARL and the results presented in table 4.6.

Table 4.5: Regression results

Dependent variable : ARL										
Variables	Auditor related variables			Company specific variables			Corporate governance variables			
	Coefficient	p-value	Std. Error	Coefficient	p-value	Std. Error	Coefficient	p-value	Std. Error	
Constant	58.128* (-1.813)	0.071	32.057	140.216*** (-5.271)	0	26.602	100.110*** -15	0	6.674	
<i>LNAUDITFEE</i>	5.408 (-1.479)	0.14	3.656							
<i>AUDIT RISK</i>	0.222 (-0.418)	0.676	0.532							
<i>AUDITOR TYPE</i>	-22.547*** (-3.028)	0.003	7.445							
<i>LNTA</i>				-2.539* (-1.651)	0.099	1.53				
<i>PROFITABILITY</i>				-7.988* (-1.790)	0.074	4.464				
<i>COMPLEXITY</i>				-1.147 (-0.170)	0.865	6.733				
<i>PWARNING</i>				3.543 (-0.968)	0.333	3.662				
<i>OWNCONC</i>				-0.795 (-0.147)	0.883	5.395				
<i>FOROWN</i>				8.829 (-1.196)	0.232	7.381				
<i>LEVERAGE</i>				0.256 (-1.041)	0.298	0.245				
<i>ROA</i>				-74.525*** (-4.282)	0	17.405				
<i>CGQS</i>							-17.702* (-1.689)	0.092	10.478	
<i>ACQS</i>							-1.636 (-0.171)	0.864	9.558	
Firm-year controls	Included			Included			Included			
Cross-sectional controls	Included			Included			Included			
R-squared	0.639			0.172			0.014			
Adjusted R ²	0.585			0.129			0.01			
S.E of regression	17.913			17.765			27.653			
F-statistic	11.833			3.987			3.078			
p-value	0			0			0.05			
Durbin-Watson stat	1.197			1.166			0.48			
Hausman chi ² (χ^2)	7.21			8.643			1.983			
d.f	3			11			2			
Significance χ^2	0.066			0.655			0.371			
Model used	Fixed Effects			Random Effects			Random			
Observations	423			404			424			
Most significant variables	Auditor type***			LNTA,PROFITABILIT Y,ROA, DIV,IS- BANKING, IS- INVEST, IS-MAN			CGQS			
Cross section weights (PCSE) errors & covariances Period 2006-2015 Panel least squares										

Note: Values in brackets are the t-statistics

4.6 Final model using the most significant variables

The final model was arrived at by selecting the most significant variables from the auditor related variables company specific variables and corporate governance variables. Table 4.6 presents summary statistics of the regression using the most significant variables identified in model 1, 2 and 3. The overall model was significant since the F-statistic was significant ($p < 0.05$). The Hausman test was conducted and found that the chi square statistic of 10.022 had a p-value of 0.348 which means that it was not significant ($p > 0.1$). The null hypothesis tested was random effect model is appropriate, with a p-value of 0.348 was not significant ($p < 0.05$) we failed to reject it. Therefore, these variables were regressed using the random effects model and the output is presented in table 4.6. The regression revealed that the most significant variables were auditor type ($t = -5.24$, $p\text{-value} = 0.000$) return on assets ($t = -5.786$, $p\text{-value} = 0.000$), IS-Banking ($t = -6.253$, $p\text{-value} = 0.000$), IS-Investment ($t = 3.94$, $p\text{-value} = 0.000$), IS-manufacturing ($t = -4.66$, $p\text{-value} = 0.000$). The adjusted R-squared for the model was 37.1%. This implies that 37.1% of the variability in ARL was explained by the independent variables and 62.9% was explained by variables not in the model.

Table 4.6: Regression statistics most significant variables

Dependent variable: ARL			
Variable	Coefficient	p-value	Std. Error
Constant	144.085*** (-11.183)	0.000	12.89
<i>AUDITORTYPE</i>	-19.331*** (-5.239)	0.000	3.69
<i>LNTA</i>	-1.658 (-1.737)	0.083	0.955
<i>PROFITABILITY</i>	-7.156 (-1.556)	0.121	4.6
<i>ROA</i>	-90.004*** (-5.786)	0.000	15.56
<i>IS_BANKING</i>	-21.640*** (-6.253)	0.000	3.461
<i>IS_INVESTMENT</i>	22.370*** (-3.936)	0.000	5.684
<i>IS_MAN</i>	-17.110*** (-4.658)	0.000	3.673
<i>CGQS</i>	-5.627 (-0.601)	0.548	9.359
R-squared	0.384		
Adjusted R-squared	0.371		
S.E. of regression	22.212		
F-statistic	27.954		
Prob(F-statistic)	0		
Durbin-Watson stat	0.709		
Firm-year controls	Included		
Cross-sectional controls	Included		
Hausman $\chi^2(\chi^2)$	10.022		
d.f	9		
Significance χ^2	0.348		
Model used	Random Effects		
Observations	413		

Note: Values in brackets are the t-statistics

*** p< 0.01

** p< 0.05

* p< 0.10

4.6.1 Robustness check using Fixed Effects

This study further conducted a robustness check on the final model using the fixed effects model and the output was presented in table 4.7. According to the findings the overall model was significant since the F-statistic was significant ($p < 0.05$). The findings reveal that the most significant variables were Profitability consistent with (Khasharmeh & Aljifri, 2010), Return on Assets ($t = -5.804$, $p\text{-value} = 0.000$), IS-Banking ($t = -5.924$, $p\text{-value} = 0.000$), IS-Investment ($t = 3.775$, $p\text{-value} = 0.000$). The finding on profitability was consistent with that of Khasharmeh and Aljifri (2010). The fixed effects model contrasts the random effects model in that that the auditor type and IS-Man are not significant. However, the adjusted R-squared increased to 37.2%. This implies that 37.2% of the variability in the ARL is can be predicted by the model and 62.8% can be explained by variables not in the model.

Table 4.7: Regression statistics (fixed effects model)

Dependent variable: ARL			
Variable	Coefficient	p-value	Std. Error.
Constant	152.942*** (-11.346)	0.000	13.48
AUDITORTYPE	-18.993 (-5.134)	0.015	3.7
LNTA	-2.474 (-2.447)	0.259	1.011
PROFITABILITY	-5.316*** (-1.130)	0.000	4.705
ROA	-90.474*** (-5.804)	0.002	15.589
IS_BANKING	-20.700*** (-5.924)	0.000	3.494
IS_INVESTMENT	21.533*** (-3.775)	0.000	5.704
IS_MAN	-17.122 (-4.659)	0.778	3.675
CGQS	-2.669*** (-0.282)	0.000	9.451
Firm-year controls	Included		
Cross-sectional controls	Included		
R-squared	0.4		
Adjusted R-squared	0.372		
S.E. of regression	22.181		
F-statistic	14.576		
Prob(F-statistic)	0		
Durbin-Watson stat	0.712		
Hausman $\chi^2(\chi^2)$	10.022		
d.f	9		
Significance χ^2	0.348		
Model used	Fixed Effects		
Observations	413		

Note: Values in brackets are the t-statistics

*** p < 0.01, ** p < 0.05, * p < 0.10

4.7 Robustness check using all variables in one model

The study also did robustness check by using one model to regress the auditor related variables, company-specific variables, corporate governance variable and the output was presented in table 4.8. The overall model was significant since the F-statistic was significant ($p < 0.05$). According to the findings the most significant variables were audit fees ($t = -2.762$, $p\text{-value} = 0.006$), auditor type ($t = -3.981$, $p\text{-value} = 0.000$), CGQS ($t = -2.094$, $p\text{-value} = 0.004$), IS_banking ($t = -3.374$, $p\text{-value} = 0.001$), IS_investment ($t = 3.368$, $p\text{-value} = 0.001$), IS_man ($t = -3.275$, $p\text{-value} = 0.001$), IS_telecom ($t = -2.750$, $p\text{-value} = 0.006$), LNAUDITFEE ($t = 2.173$, $p\text{-value} = 0.030$), LNTA ($t = -2.100$, $p\text{-value} = 0.040$), ROA ($t = -4.030$, $p\text{-value} = 0.000$). The R-squared increased by 7.7% implying that this model could explain slightly more of the variability of the ARL. However, the Durbin-Watson stat was 0.800 implying there was autocorrelation. The previous model tends to take care of autocorrelation because it tends to use a “general to specific” approach as recommended by Mizon (1995).

Table 4.8: Regression statistics (all variables)

Dependent variable : ARL			
Variable	Coefficient	p-value	Std. Error
Constant	112.956 (-0.459)	0.647	246.054
<i>ACQS</i>	8.758 (-0.953)	0.341	9.19
<i>ASSETGROW</i>	-0.158 (-0.566)	0.572	0.28
<i>AUDITFEES</i>	-0.001*** (-2.762)	0.006	0
<i>AUDITORTYPE</i>	-18.456*** (-3.981)	0	4.635
<i>AUDITRISK</i>	-0.252 (-0.682)	0.496	0.37
<i>CGQS</i>	-25.163*** (-2.094)	0.037	12.014
<i>COMPLEXITY</i>	0.174 (0.063)	0.983	0.232
<i>FOROWN</i>	1.364 -3.23	0.775	3.658
<i>LEVERAGE</i>	-0.009 (-2.750)	0.977	9.774
<i>LNAUDITFEE</i>	8.118** (-0.030)	0.03	0.308
<i>LNTA</i>	-4.290** -2.173	0.037	3.736
<i>OWNCONC</i>	1.605 (-2.099)	0.576	2.044
<i>PROFITABILITY</i>	-6.42 (-0.559)	0.206	2.87
<i>PWARNING</i>	0.4 -1.266	0.928	5.072
<i>ROA</i>	-74.301*** (-0.09)	0	4.447
Firm-year controls	Included		
Cross-sectional controls	Included		
R-squared	0.477		
Adjusted R-squared	0.424		
S.E. of regression	21.398		
F-statistic	8.998		
Prob (F-statistic)	0		
Durbin-Watson stat	0.8		

Note: Values in brackets are the t-statistics

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

4.9 Results from questionnaire

4.9.1 Demographic characteristics

Results from the questionnaire show that most of the respondents were male, that is, 74.42% N=32 while 25.58% N=11 were female. These findings show that women are under-represented in both audit firms and listed companies this is consistent with findings from Anderson-Gough, Grey, & Robson (2005) who found that organizations have processes to ensure gender domination. The results of the respondents' main occupation show majority of the respondents were external auditors at 56.8%, N=25, then internal auditors at 38.6%, N=17, then those from other professions like forensic accounting and management consultants were 6.80 % and finally those from who were accountants were represented by 2.3% N=1. Generally, these results show that majority of the respondents were from the targeted respondents of practitioners in the Kenyan listed firms audit firms of these listed firms. The results of the respondents length of experience is shown in figure 4.3 below. The results show that majority of the respondents had between 1 to 4 years of experience in their current occupations represented by 30.95%,N=13 followed by those who had between 5 to 10 years of experience at 38.10% N=6. Additionally, the findings show that those with between 11 to 15 years of experience were represented by 9.52% N=4, those with over 15 years of experience were 14.29% N=6. Finally, those with less than a year of experience were represented by 7.14% N=3. All in all, these findings show that majority of the respondents had the necessary years of experience to comprehend the questions in the questionnaire. The findings revealed that majority of the respondents had CPA as a professional qualifications represented by 93.75%. In addition to CPA the respondent had CIA and CISA each represented by 6.25% N=2. Finally, those who had CPA had ACCA, CIFA, CPS and Indian CA each represented by 3.13% N=1. In conclusion, these findings show that the respondents had the necessary knowledge to comprehend the questions in the questionnaire.

4.9.2 Practitioners' perspectives on the determinants of ARL

The study used factor analysis to analyze the practitioners' on the drivers of ARL (objective 4). Factor analysis was selected because it attempts to bring together inter-correlated variables under a more general, underlying variable (Costello & Osborne, 2005; Field, 2009). Table 4.9 reports the variance explained by from the initial solution and the extracted components. The total column presents the amount of variance in the original variances accounted for by each component. The percentage of variance column presents the ratio of the variance accounted for by each component to the total variance expressed as a percentage. The cumulative percentage

column presents that percentage of variance accounted for by the first n components (Costello & Osborne, 2005; Field, 2009). Findings from the initial solution indicate that there are as many components as variables. According to the findings from table 4.9, factor 1 to 5 explained approximately 52.161% variability in the original forty five variables respectively.

Table 4.9: Results of factor analysis: Total Variance Explained

Component	Total Variance Explained					
	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.872	19.715	19.715	8.872	19.715	19.715
2	5.631	12.513	32.229	5.631	12.513	32.229
3	3.676	8.168	40.397	3.676	8.168	40.397
4	2.813	6.252	46.649	2.813	6.252	46.649
5	2.481	5.512	52.161	2.481	5.512	52.161
6	2.359	5.242	57.403			
7	2.230	4.956	62.359			
...			
42	5.636E-16	1.252E-15	100.000			

Extraction Method: Principal Component Analysis.

Additional evidence on the extraction of the five factors was provided by the Scree plot below. Figure 4.1 represents the scree plot which determines the optimal number of components. This was plotted using the Eigen value of each component in the initial solution. Factors on the steep slope should be retained and those on the flat slope removed (Field, 2009). The components extracted were on the steep slope these were factors 1 to 5.

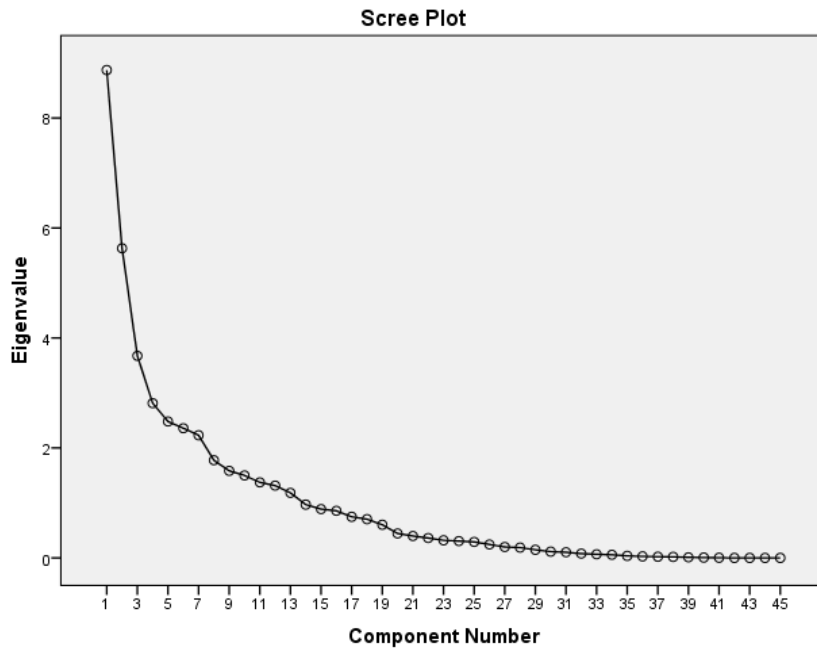


Figure 4.1: Scree plot

Table 4.10 shows a summary of the factor loadings after rotating using a significant criterion of 4.10. Factor loadings explain the relationship between the underlying variables with each factor. The factors are arranged in the descending order based on the most explained variance. According the findings in table 4.10, factor one contains company specific variables. The company-specific factors have a strong correlation with profitability (0.567), complexity (0.490, 0.576), leverage (0.407), foreign ownership (0.421), ownership concentration (0.546, 0.517), board size (0.633), gender diversity (0.544), number of meetings (0.693), number of non-executive directors (0.779), firm (0.462, 0.620) . This implies that factor 1 has very similar characteristics to these variables.

Factor two contains auditor-related and corporate governance factors which have strong correlation with auditors' fees (0.408), auditor type (0.440), size (0.556), gender diversity (0.535), financial expertise (0.511), number of independent members (0.456). This means that factor two had similar characteristics with these variables. Factor three contains auditor-related and company-specific variables characteristics and auditor experience with client has a correlation industry sector (0.552). This means that factor three had similar characteristics with industry sector. Factor four contains auditor-related factor and company-specific characteristics which have a strong correlation with audit risk (0.457), complexity (0.488). This means that factor four also had similar characteristics with audit risk and complexity. Factor five contains auditor related and company-specific variables which have a correlation with

audit fees (0.504), industry sector (0.402), and number of independent members (0.430). This means that factor five had similar characteristics with audit fees and industry-sector.

Table 4.10: Component Matrix

		Component Matrix^a				
		Component				
		FACTOR 1: Corporate- related factors and governance	FACTOR 2: Auditor-related factors and governance	FACTOR 3: Industry characteristics and auditor experience with client	FACTOR 4: Auditor-related factor and client complexity	FACTOR 5: Audit fees and governance
F1	Auditors take a longer time to release the audit report if they are paid lower fees		0.408			0.504
F3	Generally big 4 audit firms take a shorter period to release the audit report		0.44			
F5	Auditors who follow a structured audit approach or established audit methodology have longer audit delays				0.766	
F6	Auditors with a previous audit experience with the client take a shorter period to release the audit report				0.412	
F7	Previous audit experience with the client does not affect the time taken to release the audit report			0.406		
F9	If an auditor perceives high risk to their reputation in auditing a client, they take longer to release the audit report				0.457	
F14	The size of a client firm does not influence the period taken to release the audit report		0.556			
F15	Strong financial condition is associated with shorter audit report delays	0.567				
F17	ARL is longer for companies with more than one subsidiary	0.49				
F18	Companies with large inventory and receivables take longer to release the audit report	0.576			0.488	
F20	Auditors take longer to release the audit report for firms in the financial sector			0.552		
F22	industry sector has no influence on the time taken to release the audit report					0.402
F25	Auditors take longer period to release the audit report for companies which are a high debt to equity ratio	0.407				
F27	Auditors of companies with foreign ownership take a longer period to release the audit report	0.421				
F28	Auditors take longer to audit firms with directors who own majority of the firm's shares	0.546				
F29	Auditors take longer to release the audit report for family owned companies	0.517				
F32	ARL is longer for companies with more than five board members	0.633				
F34	ARL is shorter for companies with more than a third of the board members being from one gender	0.544	0.535			
F36	Auditors take longer to release audit reports where board of directors meet more than eight times in a year	0.693				
F39	ARL is longer for companies with few non-executive directors	0.779				
F40	ARL is longer for companies with directors who have served as directors before	0.54	0.463			
F41	ARL is longer for companies with directors who have financial expertise		0.511			
F42	ARL is longer for companies with audit committee of three or more independent members		0.456			0.43

Extraction Method: Principal Component Analysis.

a. 5 components extracted.

Table 4.11 presents findings from the open ended questions. The findings in table 4.11 revealed that some of the variables identified by the practitioners were similar to those identified by literature of the study. The company specific variables were: complexity of the company (Che-Ahmad & Abidin, 2009), size and financial stability (Baatwah et al., 2015). The auditor-related factors were: audit risk (Sultana, Singh, & Mitchell Van der Zahn, 2015), financial expertise, audit fees, industry sector, financial stability (Mathuva, Mboya, & Mcfie, 2016), industry (Baatwah et al., 2015), audit fee (Abbott, Parker, & Peters, 2012). These findings are consistent with that of the factor analysis that identified the main components explaining the interrelationship among the variables in the questionnaire to be auditor-, company- and corporate governance related.

However, there were variables identified by practitioners that were not identified by literature of the study. The auditor related characteristics were: use of Computer-Assisted Audit Techniques (CAATs), auditor expertise and experience, commitment of audit team, disagreements with management over matters arising in management letter, auditing of subsidiaries by a different auditor, audit planning and staffing, sample size, scope, audit methodology. The company-specific characteristics were: maturity of the company, geographical presence, management experience, client understanding of audit findings, speed of information provision, speed of management response to audit queries, nature of company, regulatory framework, business risk, organization of the client and management experience. These findings are consistent with findings from factor analysis that implied that audit-, company- and corporate governance-related factors.

Table 4.11: Summary results for open ended questions

Auditor-related factors = 38	Client-related factors = 57	Governance-related factors = 2	Regulatory-factors = 8
Computer-Assisted Audit Techniques (CAATs)	Size	Corporate governance	Regulatory Requirements and framework
Strength and effectiveness of Internal Controls	Corporate governance		
Industry	Management Support and Cooperation		
Auditor Specialist Expertise in the Sector	Complexity of the Client		
Number of Audit Staff Members performing the Audit	Geographical Presence		
Commitment of the Audit Team	Management Experience		
If Subsidiaries and Associates are Audited by Different Auditors not from the Network	Client Risk Rating by Auditor		
Audit fees charged	Speed of Information Provision		

4.10 Chapter summary

The chapter began with an analysis of secondary data then primary data. Diagnostics tests were carried out to test for violation of OLS assumptions. The two-stage panel least squares regressions. Factor analysis was conducted on the results from the questionnaire. The chapter concluded with an analysis of the open ended questionnaire. Generally the findings showed a negative relation between ARL and: the auditor type, ROA, IS_Banking, IS_manufacturing and CGQS. The findings also show a positive association between ARL and IS_Investment. This implies that managers of listed companies should take advantage of selecting the appropriate auditor type given their resource capabilities and adopt strategies that would help maintain stable ROA such as increasing their revenue without increasing their asset costs. The Company's Act 2015, the code of corporate practices for issuers of securities for the public 2015 and regulations by the Central Bank of Kenya have enabled companies in the banking sector to have a favorable ARL. It is important for other sectors to adopt stringent regulation to improve timeliness of audit reports. The findings illustrate the importance of examining the influence of auditor-, company- and corporate governance-related characteristics as drivers of ARL.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provided a summary of findings, conclusions and recommendations based on the research objectives and the existing empirical literature. The objectives were analyzing the influence of company-related factors, auditor-related factors, and corporate governance-related factors on ARL by listed companies in Kenya. Furthermore, the study sought to obtain auditor and management perspectives on the drivers of ARL by listed companies in Kenya.

5.2 Discussion of findings

The purpose of the study was to examine the drivers of ARL in Kenyan listed companies. It was carried out using two-stage panel regression on four hundred and forty four firm year observations. The findings of the study were discussed below.

5.2.1 The influence of auditor-related factors on ARL

This study sought to establish the influence of auditor related variables on ARL of Kenyan listed companies. Model 1 which used fixed effects model revealed that the auditor type had a beta of -22.547 with p-value of 0.003 and significant implying that a change of auditor from a non-Big 4 firm to Big 4 firm caused a decrease of ARL of approximately 23 days. The final model using the random effects model selected auditor type as the most significant auditor related variable. The significant negative association was consistent with that found by Mohamad-Nor, Shafie and Wan-Hussin (2010). According to the findings auditor type had a beta of -19.331 and a p-value of 0.000 implying that it was highly significant. This implied that changing from a non-Big 4 audit firm to a Big 4 audit firm reduced the ARL by approximately 20 days. These findings are consistent with prior studies which found that companies audited by big four audit firms tend to have shorter audit lags as compared to non-big four audit firms (Carslaw & Kaplan, 1991). However, according to findings from the questionnaire majority of the respondents indicated that the auditor type may not influence ARL. This implies that there may be other reasons practitioners consider other than auditor type on ARL.

5.2.2 The effect of company related factors on ARL

This study sought to establish the effect of company related variables on ARL of Kenyan listed companies. Model 2 using random effects model revealed that LNTA had a beta of -2.59 with a p-value of 0.10 significant implying that a unit increase in total assets may lead to a decrease

in ARL of approximately 3 days. Profitability had a beta of -7.99 with a p-value of 0.07 significant implying that companies that make profit have lesser ARL by approximately 8 days in comparison to loss making companies. ROA had a beta of -74.525 with a p-value of 0.000 significant implying that a unit change in ROA caused a decrease in ARL of 75 days. Companies in the banking sector had a beta -21.504 and p-value of 0.043 was significant implying that companies in the banking sector have a shorter ARL of approximately 22 days than other sectors. Companies in the Investment sector had a beta 26.005 with a p-value of 0.09 significant implying that they had a longer ARL of approximately 26 days than other sectors. Companies in the manufacturing sector had a beta -20.393 with a p-value of 0.077 significant implying that they had a shorter ARL of approximately 26 days than other sectors.

The final model used Panel regression, employing a random effects approach revealed ROA had a beta of -90.004 with a p-value 0.000 significant implying that unit change in ROA caused a decrease in ARL of 90 days. This was consistent with prior studies found a significant negative relationship (Baatwah et al., 2015). Companies in the banking sector had a beta of -21.640 with a p-value 0.000 implying that their ARL was 22 days shorter than other listed other sectors. This is consistent with prior studies which found that banks tend to have shorter audit delays than companies in other sectors (Henderson & Kaplan, 2000). This implies that due to the heavy regulation in the banking sector banks are expected to have shorter ARL than other listed sectors.

Companies in the investment sector had a beta of 22.370 with a p-value 0.000 significant meaning that they their ARL were 23 days longer than other listed sectors. Companies in the manufacturing sector had a beta of -17.11 with a p-value of 0.000 significant implying that their ARL was approximately 17 days shorter than other listed sectors. Practitioners' perspective from the questionnaire shows that majority find that ROA companies in the banking, investment and manufacturing sector as having significant influence on ARL.

5.2.3 The influence of corporate governance related factors on ARL

This study sought to establish the influence of corporate governance related variables on ARL of Kenyan listed companies. Model 3 using random effects model found that the CGQS had a beta of -17.702 with p-value 0.092 significant this implies that a unit increase in corporate governance quality results in a decrease in ARL of approximately 18 days. Using random effects model the final model found that corporate governance quality was insignificant with a beta of -5.626 and p-value of 0.548. This implies that a unit change in corporate governance

would result to a decrease in ARL of approximately 6 days. Findings from the questionnaire show that majority of the respondents corporate governance quality is significant in determining ARL. These findings show there is need for emphasis of corporate governance quality in Kenyan listed companies.

5.2.4 Practitioners' perspectives on ARL.

The study used semi-structured questionnaires to obtain auditor and management perspectives. The findings from the questionnaire were analyzed using factor analysis. The findings from factor analysis indicated that auditor-, company specific- and corporate governance-related characteristics explained the interrelationship between the variables in the questionnaire. Results from the open-ended questionnaire revealed that some of the variables identified by the practitioners were similar to those identified by literature of the study. The company specific variables were: complexity of the company (Che-Ahmad & Abidin, 2009), size and financial stability (Baatwah et al., 2015). The auditor-related factors were: audit risk (Sultana, Singh, & Mitchell Van der Zahn, 2015), financial expertise, audit fees, industry sector, financial stability (Mathuva, Mboya, et al., 2016), industry (Baatwah et al., 2015), audit fee (Abbott, Parker, & Peters, 2012). These findings are consistent with that of the factor analysis that identified the main components explaining the interrelationship among the variables in the questionnaire to be auditor-, company- and corporate governance related.

However, there were variables identified by practitioners that were not identified by literature of the study. The auditor related characteristics were: use of Computer-Assisted Audit Techniques (CAATs), auditor expertise and experience, commitment of audit team, disagreements with management over matters arising in management letter, auditing of subsidiaries by a different auditor, audit planning and staffing, sample size, scope, audit methodology. The company-specific characteristics were: maturity of the company, geographical presence, management experience, client understanding of audit findings, speed of information provision, speed of management response to audit queries, nature of company, regulatory framework, business risk, organization of the client and management experience. These findings are consistent with findings from factor analysis that implied that audit-, company- and corporate governance-related factors were the main drivers of ARL.

5.3 Conclusion

This study guided by the agency theory, signaling theory and stakeholder theory reviewed literature on determinants of ARL and found auditor related variables, company specific variables and corporate governance variables that influenced ARL. Additionally, the study found interrelationships between the independent variables ARL and leverage. According to the findings ARL was significantly influenced by auditor type, ROA, companies in the banking, investment and manufacturing sectors and governance measured by corporate governance quality score. According to the findings these variables were significant influence on the ARL. This study finds that knowledge of the determinants of ARL is essential for Kenya listed companies in promoting efficiency in the corporate sector.

5.4 Research implications

5.4.1 Policy recommendations

The findings of this study provide insights to policy makers and regulators interested in increasing awareness of the importance of focusing on the type of auditor return on assets, industry sector and corporate governance quality as significant drivers of ARL. These insights may act as catalysts for economic growth because they may reduce information asymmetry between managers and end users of audited financial reports.

5.4.2 Managerial recommendations

Given the importance of the auditor type managers need to ensure that they exercise caution in selecting the appropriate auditor and not only focusing on audit fees which was found not to be a significant driver of ARL. Additionally, given the significance of ROA managers should maintain good and stable ROA by increasing revenue without increasing asset costs. The findings imply managers should dedicate resources to continuous improvement of corporate governance quality for example having a corporate governance committee so as to nurture and enhance a culture of timely reporting of audited financial reports.

5.5 Contribution to knowledge

In advancement of the Agency theory, this study performed a comprehensive analysis of the drivers of ARL in a developing country, Kenya. The study employed a two-stage panel least squares regressions to determine the drivers of ARL in Kenya. Prior studies investigated the individual characteristics of corporate governance. The study contributes to literature by incorporating the corporate governance and audit committee quality indices as composite measures of quality.

5.6 Areas of further studies

The study relied heavily on annual reports as the main source for the drivers of ARL. Further studies can use other platforms for accessing drivers of ARL such as the internet, focus groups and publications. In determining the drivers of ARL the study used a binary coding system. Despite its popularity in prior studies it has its limitations. Future studies can consider other coding system such as effects or contrast coding.

5.7 Limitations of the study

A number of limitations were encountered during the study. Due to unavailability of some annual reports the study used unbalanced panel data. This provides an avenue for further studies to investigate drivers of ARL using balanced panel data. The study removed some companies from the study because they were delisted or suspended or listed quite late into the period of study. However, this allows future research to investigate on these companies. The study focused on the drivers of ARL in a developing country, Kenya. Due to the different culture, regulatory frameworks, institutional set ups and country specific factors it may not possible to generalize findings since it was constrained to Kenya and may differ with other countries. Prior studies have measured ARL as the number of days from the financial year end to when the audit report date is released this is not the most accurate measure of ARL since the actual date that the audit work began may not be the financial year end. Future research can use a different measure of ARL that captures the exact date the audit began to when the audit report is released.

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APPENDICES

Appendix I: Letter of introduction



22nd February, 2017

TO WHOM IT MAY CONCERN

Owino, Fredrick J Otieno-56633

Mr Fredrick Otieno Owino is a postgraduate student in our Master of Commerce (MCom) programme. In partial fulfilment of the MCom degree, students are required to carry out a research project and write a thesis on a contemporary subject within their field of specialisation. Among other activities, the project involves data collection and analysis.

Fredrick is requesting to gather information to be used in his research. The information he will obtain from your organization will be used for this academic purpose only and will be kept confidential. The results of the survey will be in summary form and will not disclose any individual, company name or company information in any way

The research study is entitled "AN EMPIRICAL INVESTIGATION OF THE DRIVERS OF AUDIT REPORT LAG BY LISTED COMPANIES IN KENYA."

We hope that your organization can assist by providing information to the above named student.

Yours faithfully,

A handwritten signature in black ink, appearing to read "J. Manani".

Josphat Manani
MCOM Coordinator
School of Management and Commerce
Email: jmanani@strathmore.edu

Appendix II: Questionnaire

Dear Participant,

My name is **Fredrick J. Otieno** a Master of Commerce student at Strathmore University conducting a research on *“The drivers of ARL by Kenyan listed companies”*. At this point of my proposal I am concerned with collecting data from practitioners in audit firms and listed companies that should lead to insights and recommendations for practitioners, investors and Academicians. Your contribution will go a long way in achieving the objectives of this study. I would be grateful if you could spare some time to fill this questionnaire. I assure you that all information provided for this study will be treated with strict confidentiality and will be used for the sole purpose of this research. For any queries my contacts are: fotieno@strathmore.edu or fotieno50@gmail.com

SECTION A: GENERAL INFORMATION

The information in this section will serve as background to the answers that will be provided in the other sections.

1. Kindly tick against your gender. Male Female

2. Kindly indicate your main occupation?

Finance manager Accountant Internal auditor External auditor

Other

3. Length of experience in this position?

Less than 1 year Between 1 to 4 years Between 5 to 10 years Between 11 to 15 years Over 15 years

4. Which professional certification do you hold? (CPA, ACCA, CFA, CFE etc).....

SECTION B: AUDITOR RELATED FACTORS

The purpose of this section is to establish the audit related factors that affect the period taken to complete an audit. Please indicate the extent to which you agree or disagree with the following statements by ticking the cell that corresponds to your choice.

	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Auditors are likely to take a longer time to release the audit report if they are paid lower fees					
Generally audit fees have no effect on the time taken to release the audit report					
Generally big 4 audit firms take a shorter period to release the audit report					
The type of auditor has no influence on the time taken to release the audit report					
Previous audit experience with the client does not affect the time taken to release the audit report					
If an auditor perceives high risk to their reputation in auditing a client, they take longer to release the audit report					
Audit risk perception by auditors does not influence the time taken to release the audit report					

SECTION C: COMPANY SPECIFIC FACTORS

The purpose of this section is to establish the company specific factors that affect the period taken to complete an audit. Please indicate the extent to which you agree or disagree with the following statements by ticking the cell that corresponds to your choice.

	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Auditors who audit large firms take a longer period to release the audit report					
The size of a client firm does not influence the period taken to release the audit report					
Companies with strong financial condition are associated with shorter audit report delays					
Generally the financial condition of the firm does not affect the time taken to release the audit report					
Auditors take longer to release audit report for companies with more than one subsidiary					
Companies with large inventory and receivables take longer to release the audit report					
The size of inventory and receivables does not affect the time taken release the audit report					
Auditors take longer to release the audit report for firms in the financial sector					

Auditors take shorter period to release the audit report for firms in the non-financial sector					
Generally the industry sector has no influence on the time taken to release the audit report					
Auditors of companies that have issued profit warnings take a shorter period release the audit report					
The issuance of a profit warnings has no effect on the time taken release the audit report					
Auditors take longer period to release the audit report for companies which are high debt to equity ratio					
The debt to equity ratio of a firm does not affect the time taken to release the audit report					
Auditors of companies with foreign ownership generally take a longer period to release the audit report					
Auditors take longer to audit firms with directors who own majority of the firm's shares					
Auditors take longer to release the audit report for family owned companies					
Auditors take a shorter period Family owned or controlled companies to release audit reports					
Generally, auditors take longer to release audit reports for publicly listed companies					

SECTION D: CORPORATE GOVERNANCE RELATED FACTORS

The purpose of this section is to establish the drivers of ARL that are related to corporate governance. Please indicate the extent to which you agree or disagree with the following statements by ticking the cell that corresponds to your choice

	1	2	3	4	5
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Auditors tend to take longer to release audit reports for companies with more than five board members					
Board size does not affect the time taken to release audit reports					
Auditors tend to take longer to release audit report for companies with more than a third of the board members being from one gender					
The gender of the board members does not affect the time taken to release the audit report					

Auditors tend to take longer to release audit reports where board of directors meet more than four times in a year					
The number of times board of directors meet does not affect the time taken to release the audit report					
Auditors take longer period to release audit reports for companies with few non-executive directors					
Auditors take a longer period to release audit reports for companies with directors who have served as directors before					
Auditors take a longer period to release audit reports for companies with directors who have financial expertise					
Auditors take a longer period to release audit reports for companies with audit committee of three or more independent members					

SECTION F: TIME TAKEN BY AUDITORS TO RELEASE AUDIT REPORT

1. In your opinion what is the average time it takes auditors to complete and audit?

Between 0-30 days [] Between 31- 60 days [] Between 61 – 90 days [] Between 91-120 days [] Between 120-150 days []

Other

2. What factors do you think influence the time taken to release the audit report by auditors?

I thank you for taking the time to fill this questionnaire

Appendix III: Companies included in the study

NAME OF COMPANY	INDUSTRY	Year End	Auditor's Report Date	ARL (Days)
BAT	MANUFACTURING & ALLIED	31-Dec-16	25-Feb-17	47
Kapchorua	AGRICULTURAL	31-Mar-12	15-Aug-12	198
Kakuzi	AGRICULTURAL	31-Dec-15	16-Mar-16	75
Limuru T.	AGRICULTURAL	31-Dec-12	16-Mar-13	75
Sasini	AGRICULTURAL	30-Sep-15	16-Dec-15	77
William T.	AGRICULTURAL	31-Mar-12	28-May-12	89
Car and G.	AUTOMOBILES AND ACCESSORIES	30-Sep-15	17-Dec-15	78
Sameer	AUTOMOBILES AND ACCESSORIES	31-Dec-15	7-Apr-16	97
Barclays	BANKING	31-Dec-15	4-Apr-16	94
I&M	BANKING	31-Dec-15	22-Mar-16	81
DTB	BANKING	31-Dec-15	10-Mar-16	69
HF Group	BANKING	31-Dec-15	24-Feb-16	55
KCB	BANKING	31-Dec-15	1-Mar-16	60
Nat. B	BANKING	31-Dec-15	31-Mar-16	90
NIC	BANKING	31-Dec-15	3-Mar-16	62
SCB	BANKING	31-Dec-15	23-Mar-16	82
Equity	BANKING	31-Dec-15	29-Mar-16	88
Co-op	BANKING	31-Dec-15	31-Mar-16	90
Express	COMMERCIAL AND SERVICES	31-Dec-15	29-Apr-16	88
Kenya A.	COMMERCIAL AND SERVICES	31-Mar-15	29-Aug-15	151
Nation M.	COMMERCIAL AND SERVICES	31-Dec-15	18-Mar-16	77
Standard	COMMERCIAL AND SERVICES	31-Dec-15	24-Mar-16	83
TPS EA.	COMMERCIAL AND SERVICES	31-Dec-15	28-Apr-16	118
Scan G	COMMERCIAL AND SERVICES	31-Dec-15	27-Apr-16	117
Athi R.	CONSTRUCTION AND ALLIED	31-Dec-15	29-Apr-16	119
Bamburi	CONSTRUCTION AND ALLIED	31-Dec-15	28-Apr-16	118
Crown	CONSTRUCTION AND ALLIED	31-Dec-15	29-Apr-16	119
EA Cables	CONSTRUCTION AND ALLIED	31-Dec-15	10-Feb-16	41
EA Port	CONSTRUCTION AND ALLIED	30-Jun-15	22-Oct-15	114
Kenol K	ENERGY AND PETROLEUM	31-Dec-15	17-Mar-16	76
Total K	ENERGY AND PETROLEUM	31-Dec-15	1-Apr-16	94
KenGen	ENERGY AND PETROLEUM	30-Jun-15	12-Oct-15	104
Kenya P.	ENERGY AND PETROLEUM	30-Jun-15	29-Oct-15	121
Jubilee	INSURANCE	31-Dec-15	31-Mar-16	90
Pan Afr.	INSURANCE	31-Dec-15	9-Mar-16	68
Kenya Re	INSURANCE	31-Dec-15	27-Mar-16	86
Liberty	INSURANCE	31-Dec-15	7-Apr-16	97
Olympia	INVESTMENT	28-Feb-15	19-Sep-15	203
Centum	INVESTMENT	31-Mar-15	7-Jun-15	68
EABL	MANUFACTURING & ALLIED	30-Jun-15	30-Jul-15	30
Mumias	MANUFACTURING & ALLIED	30-Jun-15	28-Oct-15	120
Unga	MANUFACTURING & ALLIED	30-Jun-15	30-Oct-15	121
Eveready	MANUFACTURING & ALLIED	30-Sep-15	30-Jan-16	122
Safcom	TELECOMMUNICATION AND TECHNOLOGY	31-Mar-15	6-May-15	36

Source: NSE (2016)

Appendix IV: Corporate governance quality index

No	Description	Criteria	Score	Criteria	Score
1	Size of board of directors	=> 8	1	<8	0
2	Number of board meetings in a year	> 5	1	<5	0
3	Training of board members	Yes	1	No	0
4	Number of independent directors	=>1/3 of total	1	< 1/3 of total	0
5	Presence of audit committee	Yes	1	No	0
6	Size of audit committee	=>3	1	< 3	0
7	Number of audit committee meetings per year	=> 4	1	< 4	0
8	Relevant qualification of AC members	Yes	1	No	0
9	Presence of compensation committee	Yes	1	No	0
10	CEO member of compensation committee	No	1	Yes	0
11	Gender diversity in the board	=>1/3 of total	1	<1/3 of total	0
12	Presence of committees other than the board of directors, audit and compensation committee	Yes	1	No	0

Source: The code of corporate practices for issuers of securities for the public 2015, Mathuva, Mefie, & Mboya (2016) and Zitouni (2016)

Appendix V: Audit committee quality index

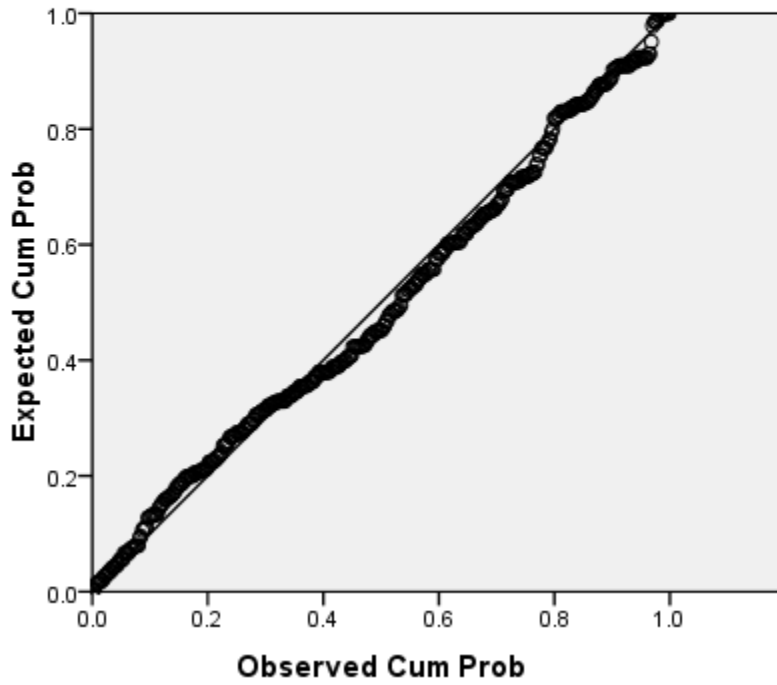
No	Description	Criteria	Score	Criteria	Score
1	Presence of audit committee	Yes	1	No	0
2	Number of independent non-executive directors	≥ 3	1	> 3	0
3	Size of AC board	≥ 3	1	> 3	0
4	Number of meetings in a year	≥ 3	1	> 3	0
5	Finance expertise	Yes	1	No	0
6	Supervisory experience	Yes	1	No	0

Source : (Habiba Al-Shaer aly salama Steven Toms, 2017; Zitouni, 2016)

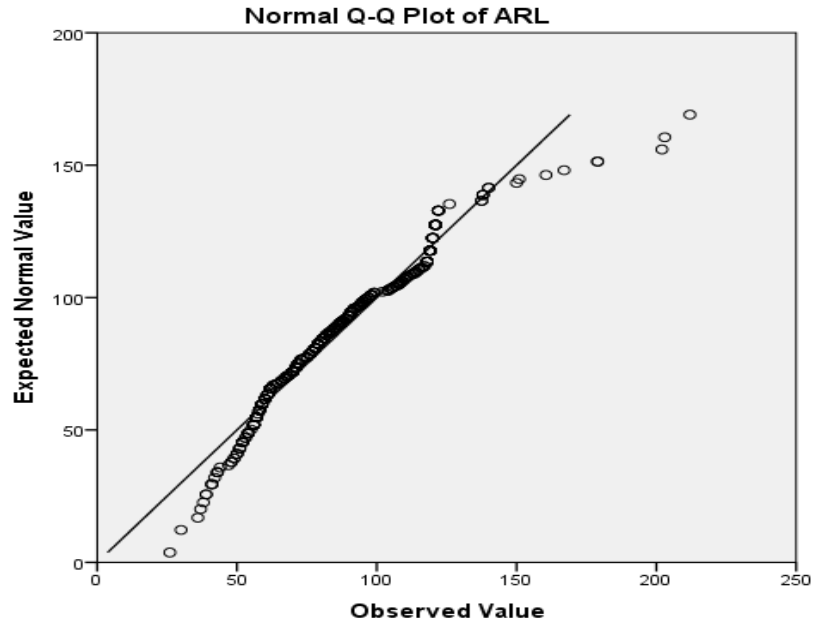
Appendix VI: Normal probability-probability plot for ARL

Normal P-P Plot of Regression Standardized Residual

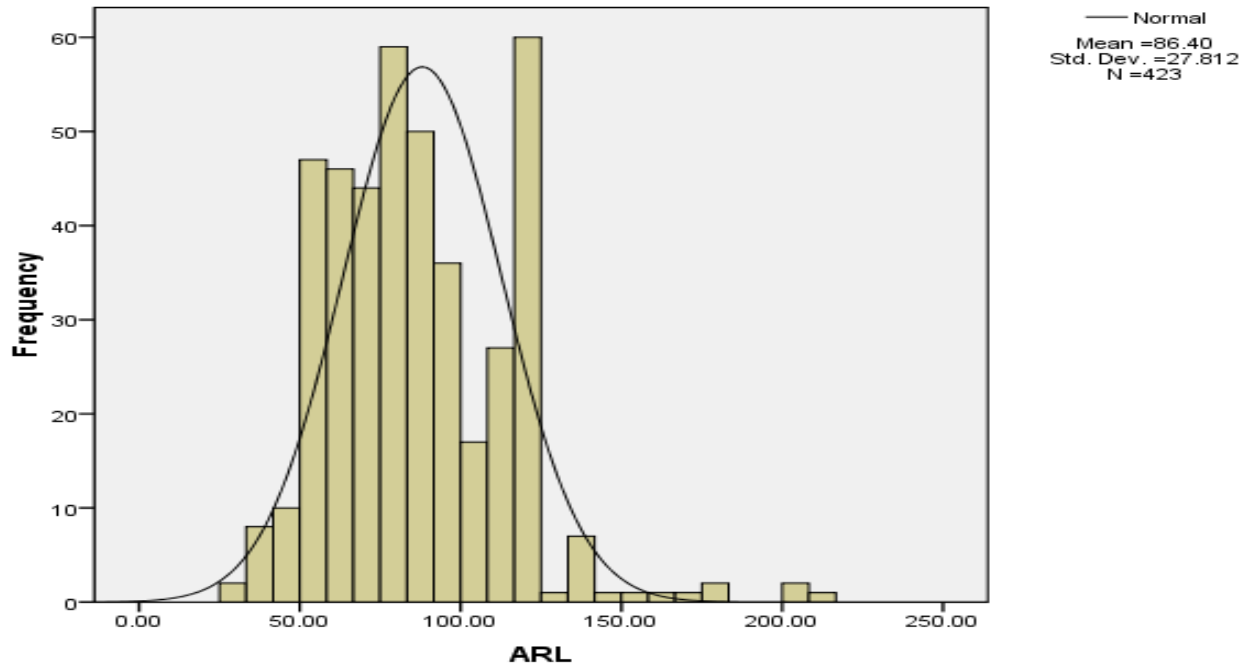
Dependent Variable: ARL



Appendix VII: Normal quantile-quantile plot for ARL



Appendix VIII: Histogram on ARL



Appendix IX: Regression standardized residual for ARL

Histogram

Dependent Variable: ARL

