FRAUD DETECTION AND AUDIT EXPECTATION GAP IN THE COMMERCIAL BANKS IN KENYA

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DECLARATION

I affirm that the paper presented herein is an original and independent work, not previously submitted for any academic qualification at another institution. The paper does not contain any material that has been published or under publication, and any external sources utilized are appropriately cited and acknowledged.

9th October 2023

ARTHUR G. **Date**

Approval

The research report has been reviewed and forwarded to examiners with our approval.

JAMES M NGANGA

24th November, 2023

Date

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ABSTRACT

Commercial banks play a very important role by providing financial services that support economic growth and development including the operation of a payment system and channelling of funds from where they are in excess to where they are needed for investment purposes. Kenya has experienced audit scandals that had led to the collapse of firms in the private and public sectors. Many fraudulent practices were discovered in the forensic audit conducted by KPMG. In this regard, the proposed study sought to examine whether there existed an AEG in the Kenyan banking sector and why auditors were not held liable despite corporate failures especially when the affected organizations had received unqualified audit opinions on review of their financials. The precise objectives of this research were to analyse an auditor's skill effect level on AEG, establish how the firm size of an auditor influences AEG, understand the effect of the nature of audit on AEG, understand the effect of participant's level of education on AEG and understand the impact of an investor perception on AEG. The research was based on stewardship, credibility, and inspired confidence theories. Employing a descriptive survey design, the study purposed to understand the interaction of investor perception and an audit expectation Gap (AEG) in commercial banks in Kenya. The target population consisted of 204 individuals, and a sample of 181 was selected. Data collection utilized a structured 5-point Likert self-administered questionnaire. The researcher presented descriptive data in tables, whereas inferential statistics employed regression as well as correlation analysis. Multiple regression revealed a statistically positive linearity association between investor perception and AEG in Kenyan commercial banks ($p=0.028$, $\rho<0.05$). Nonetheless, the study found a positive yet statistically insignificant linear relationship between auditor's skill level and AEG ($p=0.402$, $\rho>0.05$), auditor's firm size and AEG ($p=0.435$, $\rho>0.05$), the nature of audit and AEG ($p=0.954$, $\rho>0.05$), and the participant's level of education and AEG ($p=0.951$, $\rho>0.05$).The recommendation was that the commercial banks need to concentrate on investor perception to realize AEG effectively. The study findings will be of value both to the private and public users of financial statements by helping them better understand the benefits of audited financial statements in assisting them make sound investment decisions. Future studies should concentrate more on other aspects that may have influence on AEG besides the banking sector and to a wider population.

ABBREVIATIONS AND ACRONYMS

AEB	-	Audit Evidence Bias
AEG	-	Audit Expectation Gap
AICPA	-	American Institute of Certified Public Accountants
AIG	-	Audit Independence Group
ATM	-	Automated Teller Machines
CBK	-	Central Bank of Kenya
CMC	-	Cooper Motor Corporation
CRB	-	Credit Reference Bureau
ISA	-	International Standard on Auditing
KES	-	Kenya Shillings
KPMG	-	Klynveld Peat Marwick Goerdeler
MFB	-	Micro Finance Banks
MRP	-	Money Remittance Providers
NAO	-	National Audit Office
PWC	-	Price Waterhouse and Coopers

CHAPTER ONE

INTRODUCTION

1.1 Background

A series of accounting scandals were noted in the world over the last two decades, casting serious doubt on audited financial statements (FS)' integrities. External auditors' failure to detect fraud in instances like Palmalat, Enron, and WorldCom has eroded the confidence of stakeholders in financial reporting. Audit scandals in the local domain in institutions such as Uchumi, Nakumatt, Chase, and Imperial Banks also cast doubt on the integrity of the audit systems in the Kenyan market. These cases of fraud have resulted in a plethora of criticisms and litigations against auditors which are connected to the expectation gap in audit.

1.1.1 Audit Expectation Gap

Audit expectation gap (AEG) implies disparity between financial statements' users and their views of the professional functions that auditors' play and the actual role that auditors play in an organization. In broad terms, the AEG is defined as the variation between public expectations from auditing profession and what is provided.

As noted by ACCA (2019), AEG implies discrepancy noted in how the public understands auditors work and what they would like auditor to perform such works. Accordingly, AICPA perceives AEG being the variation between how financial statements consumers (general public view the auditor's functions and how auditors feel about own work. Financial statements users may have a variety of purposes in mind when they consult audited records, but it does not appear that those aims are being realized efficiently. Because the auditing profession is unable to live up to the expectations of its stakeholders, the profession as a whole has relevance, integrity, and potential problems.

1.1.2 Relationship Between Fraud Detection and Audit Expectation Gap

Fraud is a significant business risk that impacts both profits and reputation. Its detection leads to extreme disruption within the organization, with stakeholders demanding explanations and accountability.

Auditors and Financial statements users have disagreed on secondary goal of an audit, which is to discover and prevent errors and fraud. This is because the primary responsibility for preventing and detecting fraud and fraud depends on the organization management. In the end, the responsibility of the auditor should extend beyond just attesting to whether a financial statement provides a true and fair outlook of the company value. Instead, the auditor should ensure the integrity of the underlying records that were used in preparing the account. This is necessary to ascertain and report instances of management misfeasance, which is a significant part of this gap.

Sikka et al. (2009), poses that an audit as a process enables auditors to confirm financial statements of the company and provide entity's fair view of financial situation as of the time specified in the statements. Auditors are tasked with ensuring that investors are not given misleading information through their analysis of financial records. Equally, the users of financial accounts anticipate that auditors will safeguard their interests by locating and revealing any instances of fraud that may have occurred.

Irungu et al. (2013) found that most financial statements users perceive audit as a guarantee of financial statement integrity and a shield against fraud in a corporation. Since auditing is dependent on sampling, this may not be exactly the case and certain errors may likely go undetected.

Recently, there has been a rash of company failures and the uncovering of massive business scandals in Kenya and around the world that have escaped the auditors' notice. These findings

have put auditors on the defensive, leading many to doubt the use of audit services as well as audit quality. For this reason, various financial statement users, including investors, the general public, and regulators, feel that the auditors have abandoned their role as public watchdogs. Whittington & Pany (2016) associate the collapse of big corporations in the United States, such as Enron, WorldCom, Lehman Brothers, Royal Bank of Scotland, and others, with the failure of auditors to discover fraud.

Kenya has also had its share of audit scandals that have led to the collapse of firms in the private and public sectors. Many fraudulent practices were discovered in the forensic audit conducted by KPMG, leading to the collapse of Uchumi Supermarket Limited. Senior management officials were noted to have had a hand in the collapse of the retail giant through various malpractices including conflict of interest in issuing tenders and instances of unabated overcharge of the tenders (Wafula, 2016). In addition, employees working in the finance department at Uchumi had reported through whistleblowing that some of their co-workers were soliciting bribes to settle payments to suppliers and also that the company's financial accounts had been tampered with to make the books balance and mislead the board. Additionally, financial statements for Uchumi for financial periods 2010 to 2014, which had been audited by their auditors at the time, Ernst & Young, contained misleading information. It is posited that the audit firm sometimes may deliberately permit the publication of misleading data in an information memorandum such as the one used in Uchumi’s 2014 rights issue which raised KES 1.6 billion, which was more than the KES 896 million target.

Chase Bank and Imperial Bank, both in Kenya, had a similar demise. In the case of Chase Bank, the fraud was carried out within the institution, and key officials were the ones to get big loans and payments. The bank maintained two general ledger accounts, one of which had a balance of 9.2 billion Kenyan shillings and the other which had a balance of 1.45 billion Kenyan shillings which were classified as other assets (Amadala, 2019). During the statutory

audit in 2016, it was discovered that these two accounts were loans and advances that had been granted to insiders, even though they had previously been included in the company's assets section as other assets. The results were analogous to those that occurred in 2016, when another Kenyan financial firm, Imperial Bank, went bankrupt. The general ledger of the financial institution was allegedly tampered with by suppressed postings that did not appropriately reflect the financial status of the institution, as indicated by the forensic reports.

Fraud is manifested through incorrect reporting of the entity's financial situation, just as experienced in Nakumatt in which over a period covered by the accounting report, the corporation incurred a net loss of KES 6.5 billion. Further, the company's current liabilities were KES 17.9 billion more than its current assets in addition to a shareholder's deficit of KES 27 billion (Amadala, 2020). During this period, the director of the company indicated that the business was in a healthy financial position.

There are four big auditing firms in Kenya, and all of them have been reprimanded for their failure to detect instances of fraud, corruption, and other financial wrongdoings that led to the bankruptcies of corporations in the country. For example, Deloitte got itself into a predicament when it failed to notice financial irregularities in the client accounts of numerous companies, such as Mumias Sugar Company, Dubai Bank, Tuskys Supermarket, Uchumi Supermarkets, and CMC Holdings. PWC has also been subjected to its fair share of criticism as a result of the profit scheme at Haco Tigers and has also been condemned by the media and lawmakers for hiding the rot in Kenya Airways.

1.1.3 The Kenya Banking Sector

The study aims at identifying an audit expectation gap extent and its determinants in commercial banks in Kenya. Kenya has a big banking sector comprising the banking sector regulator, banking institutions, microfinance institutions, credit reference bureaus, foreign exchange bureau, and mortgage refinance companies. As of December 31, 2022, the sector

comprised among other institutions, 38 Commercial Banks and 1 Mortgage Finance Company classified into three peer groups constituting 9 large banks classified as Tier 1 banks, 8 medium banks classified as Tier 2 banks, and 22 small banks classified as tier 3 (Central Bank of Kenya, 2022).

The current research sought to relate independent variable (fraud detection), and dependent variable (AEG). AEG, being the variance and the assumption of the public on FS regarding auditor's actual role, was highly dependent on the expectations relating to the fraud detection and prevention duty. The parameters for measuring expectation on responsibility for fraud detection and prevention included the skill level of the auditors; audit firm size; audit nature; participants' level of education and perceptions of investors. This research sought to determine this relationship, focusing on the commercial banks in Kenya.

1.2 Problem Statement

According to Humphrey (1997), the auditing industry was fraught with inconsistencies at every turn. These inconsistencies were the direct result of an increasing reliance on auditing as the primary management tool. Regrettably, the overreliance of management on auditing services had culminated in the growing instances of financial scandals that had been reported all over the world. According to a study that was conducted by KPMG in 2012 and given the label African Fraud Barometer 2011, Africa had a higher rate of fraud cases, with about 875 incidences of fraud reported for a total of 10,872 billion dollars (ICFP, 2012). Fraud committed by management was responsible for the majority of the cases, however, employee fraud accounted for thirty per cent of the total cases. Regrettably, Kenya finished in third place in terms of the prevalence of fraud, behind South Africa and Nigeria respectively.

While technological development in Africa continues apace, the continent faces a challenge in that advancements in technology have made it simpler for fraudsters to prosper in the banking

industry. A comparable survey conducted by PwC revealed that East African banks were concerned about the rise in fraudulent activity. Regrettably, employees and management at all levels were complicit in fraudulent activities within the financial industry. As a result of a new generation of highly skilled information technology workers, financial institutions are continuing to be put in a position where they face an increased danger of fraud. According to research conducted by PwC (2011), some of the most pressing problems regarding fraud are thefts of cash and credit, impersonation, thefts of personal information, fraudulent check payments, and fraudulent loan applications.

Given the challenges facing the audit industry in the local and international scope, there was a need to examine empirically the AEG in the Kenyan banking industry; more so the execution of current auditor's reporting standards effective December 2020 by the (IAASB). Although there existed an extensive literature on the AEG in developed economies, the strategies used to curb this gap cannot be easily implemented in developing economies like Kenya due to the legislative differences that exist. The studies that sought to examine the AEG in Kenya were not only a few, but their effectiveness was influenced by the use of a smaller sample size and a restriction of the sample to a section of the population. In addition, various studies in AEG in Kenya were carried out before implementing new auditor reporting standards in 2020.

According to ISA 500, an auditor must perform particular tests before forming audit opinion on a company's FS. An auditor can prove that financial statements are not misstated. The below questions guided the research:

1. What was the structure and nature of AEG in the Kenyan banking sector?
2. In Kenyan banking sector, what are the drivers of AEG?
3. In Kenyan banking sector, what strategies can reduce the AEG.

1.3 Research Objective

This scientific inquiry examined the existence of an AEG in the Kenyan banking sector and why auditors were not held liable despite corporate failures especially when the affected organizations had received unqualified audit opinions on review of their financials.

1.4 Value of the Study

The emphasis revolves around the disparity between auditors' actual responsibilities and the public's perception of their role. Sikka et al. (1992) emphasize the significance of AEG in auditing, stressing that unmet societal expectations can undermine the credibility and financial standing of audit firms, potentially causing harm to stakeholders. Professions are constructed on a foundation of public trust, and the erosion of confidence results in both a credibility crisis and a depreciation of the profession's value. Anderson's prosecution in the Enron case highlighted the legal system's ability to comprehend auditor negligence, serving as a wake-up call for the accounting profession. This incident underscores the necessity for the audit profession to promptly address societal expectations to safeguard its continued relevance (Sikka et al., 1992).

The Kenyan banking sector is a good study area for research on fraud detection and AEG because it is one of the oldest, largest, and most important industries in the Kenyan economy. Commercial banks play a very important role by providing financial services that support economic growth and development including the operation of a payment system and channelling of funds from where they are in excess to where they are needed for investment purposes.

This study may have a significant impact on the audit industry. In particular, auditors are going to benefit through the promotion of best practices for control. This study pursued to unravel how existing practices impacted the performance of auditors and therefore recommended the

best practices that enabled auditors to work effectively. The study will also benefit auditors by providing objective insight into the changing role of auditors. A significant percentage of individuals in the audit industry do not perform effectively due to a lack of knowledge of the role of auditors, and this result in the Audit Expectation Gap in the industry.

The research findings are relevant to the public users of financial statements. First, it will educate them on the role of auditors so that there are no differences in their expectations and the actual performance of the auditors. This will also clarify the role expected of management for better placing of accountability. Second, the research will benefit public users of financial statements by helping them understand the benefits of audited financial statements in helping them make sound investment decisions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Nature of Audit Expectation Gap

External audits are important for companies since they help to increase the credibility of their financial statements. In addition, public users of financial statements can benefit from audited financial statements since they can make informed investment decisions. Although Liggio presented the first interpretation in 1974, AEG has been around for a long period in the industry. The audit AEG, he explained, is the disparity between expected auditors' performance level and the anticipations of public consumers of FS.

According to Porter and Gowthorpe (2004), AEG in the audit market is the result of erroneous expectations regarding the auditors' responsibilities and roles, significant audit process aspects, and the amount of guarantee contained in audit reports. According to research, the failure of public consumers of FS to comprehend scope and limitation of audit is a key driver of AEG in the market.

According to Sidani (2007), the unrealistic expectations of public financial statements users significantly affect AEG rationality. Accordingly, there is an urgent requirement to educate financial statements users regarding the types of things they should anticipate from auditors. According to the findings of Sidani's investigation, all members of society required instruction to have reasonable expectations regarding the function of the auditor.

To make matters even worse, there was a widespread belief that the governments in the region were to blame for 39 per cent of the fraudulent cases (Institute of Commercial Forensic Practitioners, 2012). Sadly, audit companies who dealt with cases alleging malpractices on the part of the government were more likely to be intimidated than other audit companies. For instance, according to Cotterill and Marriage (2018) report, KPMG had been barred from

rendering audit services to public entities in South Africa due to its connections to Gupta family. There were allegations that members of the Gupta family took advantage of their connections to Jacob Zuma, the former president of South Africa, to get lucrative state contracts for themselves.

2.2 Theories Underlying the Study

The theories used in this study gave details of expectations that stakeholders usually had towards the auditors, such as protection against fraud and general assurance over the financial well-being of the company.

2.2.1 Stewardship Theory

This model was advanced by Donaldson et al. (1991), describing the relationship between an organization's management as an agent and its shareholders as the principals. It emphasized the importance of managers acting as stewards or caretakers of the organization they were managing and that they had a responsibility to act in organization and its stakeholder's best interests, rather than pursuing their interests. The agent was considered to have a greater advantage over the principal since they possessed more information regarding the company. This imbalance is referred to as information asymmetry and might lead to a conflict between shareholders and management interests. For this reason, companies must hire auditors to ensure that investors have adequate information regarding the company and its performance before making investment decisions. Soltani (2014) explained that although an audit did not eliminate information asymmetry, it helped to diminish the impact of this asymmetry on the organization value.

2.2.2 Credibility Theory

This credibility model establishes a tendency of audited financial statements to boost faith of stakeholders in stewardship of management. It focuses on adding credibility to financial

statements and reducing asymmetry between management and the shareholders. According to Tumwebaze et al. (2018), an organization's shareholders need a guarantee of fair representation of the firm's economic value. The theory of lending credibility can help to explain the information hypothesis. In a situation of uncertainty, the demand for auditors can be said to be driven by the need for assurance of the credibility and reliability statements. The demand for auditors can also be driven by the investor's need for information that helps to eliminate risk in making investments.

2.2.3 Theory of Inspired Confidence

Limberg founded the inspired confidence, holding that involving external stakeholders in the organization directly culminates in demand for audit services. In the course of supporting the organization, the stakeholders require management accountability (Tumwebaze et al., 2018). According to the theory, an audit of information is vital since the information provided by management may be prejudiced and there may exist a conflict between management's interests and those of external stakeholders.

2.3 Empirical Review

This section involved reviewing related study literature:-

2.3.1 Audit Expectation Gap in Developed Economies

In their study, Porter et al. (2012) investigated how people in the UK and New Zealand perceived the function of auditors. Those being audited, beneficiaries of financial audits, and auditors themselves were all included as participants in this study. The research consisted of 55 different auditing responsibilities, which were all presented in the form of questionnaires. The findings indicated that the audit perception gap existed in both nations. In both countries, there was a general prevalence of unreasonable expectations regarding the obligations of auditors, including the belief that audited enterprises were in a healthy financial

position. According to the findings of the study, the AEG was found to be forty per cent broader in New Zealand than it was in the United Kingdom as a direct result of stricter auditing methods and better public knowledge of audit difficulties in the United Kingdom.

Hayek (2021) emphasized the critical importance of eradicating the AEG in the United Arab Emirates through the implementation of audit education. The questionnaire method was utilized throughout the market research. The outcomes of the study indicated that audit education was an essential component in bringing down the AEG in the UAE.

2.3.2 Audit Expectation Gap in Developing Economies

Study unveils that AEG in the banking sector happens due to the auditors not fully understanding their roles. Salehi and Azary (2008) examined the drivers of AEG in Iran, revealing that main reason the gap existed was because the bankers did not understand their roles in auditing. The bankers believed that the role of auditors included fraud detection and prevention, and production of the financial statements of an organization. The research also revealed a second factor contributing to the AEG in the Iranian banking sector; a lack of independence for auditors when performing their tasks since they worked directly under the management.

Noghondari and Foong (2013) conducted research in Malaysia to investigate factors that influenced AEG among loan officers, examining personal knowledge impacts on AEG, besides influence of AEG on the quality of loans in Malaysia. To collect data, questionnaires were given out across Malaysia to a total of four different banks that were chosen at random. The research findings pointed out that the AEG negatively impacted the individuals' decisions to lend money in Malaysia.

In their 2017 study, Füredi-Flop investigated the elements that contributed to the expectation gap that existed in the Hungarian audit market. They used structured questionnaires as a

primary form of data collecting hence determining the demographics of a potential population to target. The Audit Independence Group (AIG) served as the basis for the examination of the AEG. The respondents were provided with a list of potential challenges to the independence of auditors and requested to rate the threats on a scale from very serious to fairly serious to slightly dangerous to not dangerous at all. The research revealed that collaboration between auditees, auditors, and financial information users was essential to reducing the amount of audit evidence bias (AEB). In addition to this, auditors were necessary to modify various components of the regulatory framework. It had also been determined that auditees and consumers of public financial data were responsible for reducing the AEG by enhancing the amount of knowledge they possessed in this area.

Behzadian and Nia (2017) examined factors influencing audit market's expectation gap to the elements that influence audit quality in Sri Lanka. Various factors were important when determining the AEG including the size and rating of audit firms, as well as the professional role and professional experience of employees involved in the audit process, and these were mentioned frequently in the study. The research results revealed that there was no expectation gap from the elements affecting audit quality.

Ghandour (2019) explored the concept of AEG in Sudan with a focus on the causes of the gap and its effects on auditing. Data was obtained by use of a detailed literature review of material regarding the AEG in Sudan. Unfortunately, the research results revealed that Sudan exhibits information shortage on AEG. However, AEG in the Sudanese audit industry was partly attributable to factors like external rotation, auditor independence and providing non-audit services. However, further research was invited into factors such as auditing regulations, the existence of multi-responsibility auditing and shared audit responsibilities on the AEG in a developing economy.

The breadth and character of the AEG in Nigeria were examined by Olojede et al. (2020). Recent financial scandals at firms such as Enron, Xerox, Peck and Cadbury PLC had caused the Nigerian public to lose faith in the audit profession. Accordingly, auditors play a big role in regaining the public trust. The structured questionnaires helped collect data after while Smirnov Z test assisted in data analysis. The findings exhibited AEG in Nigerian audit industry mainly due missing auditor's responsibilities public knowledge, leading to unrealistic expectations.

Fossung et al. (2020) were interested in in the AEG drivers in the Cameroon audit sector and collected through surveys. The research found several factors to be affecting the AEG in the industry including the nature of the audits, skill level of the auditors and companies audited financial statements. Conversely, such factors as gender, field of experience and individual occupation did not impact the audit expectation gap.

A similar study was carried out in Vietnam by Nguyen & Nguyen (2020) to explore the AEG and associated factors. The research data was collected through surveys that were given to three groups of respondents comprising auditors, students in the audit specialty and public users of financial statements. Findings showed that several factors resulted in AEG including auditors' obligation in detecting swindle and errors safeguarding organizational assets. Nevertheless, the researchers invite further research to explore the impact of factors such as auditor independence, strengthening audit standards and issuing penalties to auditors for irregular practices in reducing the AEG.

The factors influencing the AEG in Tehran were also found to be the same as those in other developing economies (Salehi et al., 2020). The scholars specialized in companies listed in the stock exchange market. Hypotheses were formulated while data was analyzed through multiple regression. The research revealed that the opinion of auditors significantly influenced the AEG.

There was also a positive link between the audit record and the AEG in the stock exchange market. However, the research found no correlation between the audit fees and the AEG.

Ellul and Scicluna (2020) used a fresh approach to examining the AEG by focusing on the central government instead of the regional governments. Interviews and questionnaires were distributed to members of parliament, users of the National Audit Office (Nao) Malta reports, and auditors from that organization to acquire the required data. The results revealed considerable differences of opinion between the Nao Malta auditors and the user's statements over a variety of topics, such as the detection of fraud, auditor responsibilities and audit judgment. In addition, the scholars discovered a need for the provision of education FS consumers on auditors' obligations, as this would assist in narrowing the AEG.

2.4 Conceptual Framework

Figure 2.1 below depicted the link between the exogenous variables and endogenous variables.

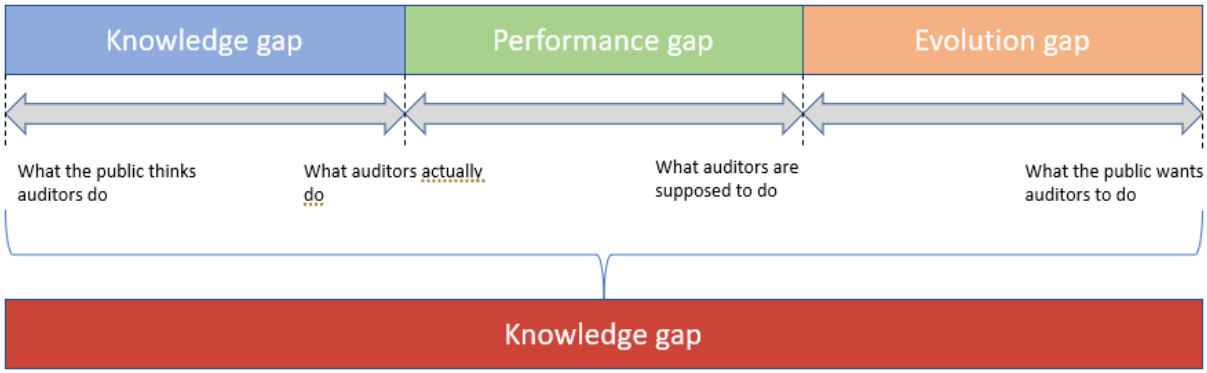

Figure 2. 1: The Audit Expectation Gap Conceptual Model

Source: ACCA, 2019

Figure 2.1 illustrated the ACCA definition of the AEG and was used as the base for developing our conceptual framework for this project. There are three components of the AEG, as illustrated in Figure 2.1 above including the knowledge, performance, and evolution AEG.

The knowledge AEG entailed the difference in public's perception of roles of auditors and what was done by auditors. The knowledge AEG considered that people often misinterpret auditors' role, resulting in an expectation gap.

According to ACCA (2019), the performance gap could arise whenever auditors failed to perform their duties as required by regulations. There were various reasons why the performance gap could occur, including an insufficient emphasis on audit quality, variations in the interpretation of audit standards, and the complexities involved in certain auditing standards.

Although not much emphasis has been placed on the evolution gap, it is applied in situations where a need for evolution arises. The evolution gap considered factors such as technological advances and public demand on how the audit could be improved.

Using the definition of the AEG by ACCA (2019), as illustrated in Figure 2.1 above, the factors affecting the AEG can be generated, as shown in Figure 2.2 below. These included auditors' skill level, audit firm size, audit nature, participants' level of education, and perceptions of investors.

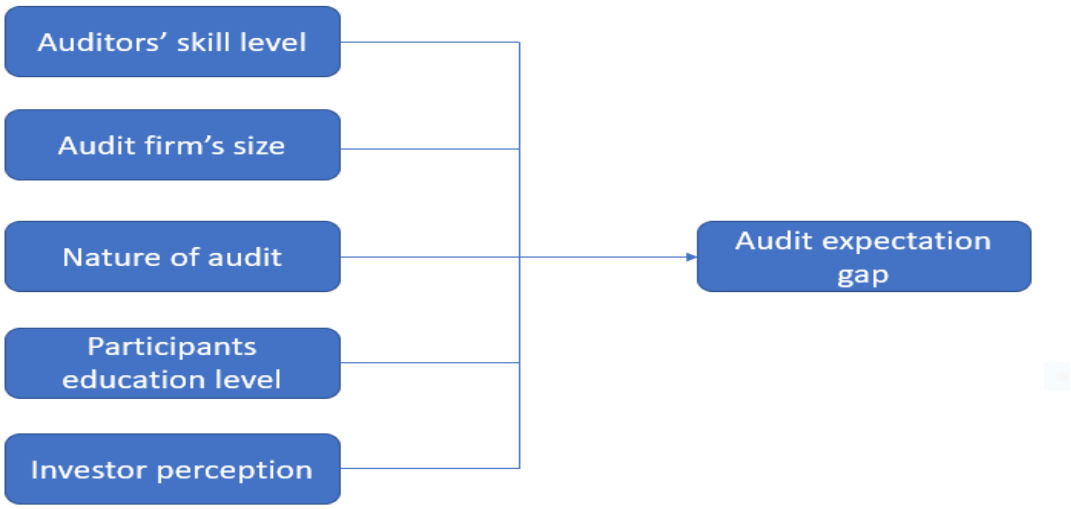

Figure 2.2: Conceptual Framework

Source: Researcher, 2023

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

An approach that helps researchers collect, analyse, and interpret data. An investigator's decisions about subjects, sample size, study goals, data collection, and analysis were guided by the research design as well. The research utilized a descriptive survey design approach that helped to collect a wide range of information from the sources as possible. Secondary data was used from a review of previous literature on the field of AEG in banking sector while primary data was gathered through questionnaires.

3.2 Population and Sample

The study took place in three different Kenyan cities: Nairobi, Mombasa, and Kisumu. This was required to increase data heterogeneity. The population (target) entailed 39 commercial banks in Kenya. This sample was drawn from bank personnel, auditors, and investors as they were users of financial statements. The research participants were selected based on their working experience in the audit profession with those who qualified having worked in the industry for at least ten years. Investors had used financial statements that made investment decisions for at least five years. Since the study was conducted in cities, the research excluded those employees in the banking and audit sectors from the rural areas. Even the users of financial statements from rural areas were excluded from the study.

To reach the respondents to the study instruments, a purposive technique of sampling selected qualified respondents based on the predetermined criteria by the researcher (Somekh & Lewin, 2005). This ensured that only those qualifying respondents to the study were reached and answered the questionnaire. In each of the 39 commercial banks in Kenya, the researcher selected four (4) personnel who were directly concerned with the bank’s finances and audit processes. Among the auditors, the researcher purposefully selected within Nairobi, Mombasa

and Kisumu only those that met the 10 years plus in practice and were actively involved in auditing the 39 commercial banks in Kenya. A total of 12 auditors in each city were targeted with questionnaires to study the phenomenon of the AEG in Kenya. The study also targeted 4 investors in these three cities to answer the questionnaire questions. The investors used the audit reports in the banks to inform their investment choices. Therefore, a total of 204 (156 bank personnel, 36 auditors and 12 investors) respondents, were subjected to the study's data collection instrument.

3.3 Data Collection

Collecting data encompasses data gathering from target population (Kothari, 2004). It is a process that begins with the preparation of the instruments for collecting data, training data collection assistants, actual collection and cleaning of collected data (Burns & Groove, 2001). A five-point likert scale questionnaire (closed-ended) aided primary data collection using. The questions had short statements on each of the concepts under investigation. These statements allowed the respondents to express themselves in the manner of the likelihood of the occurrence to which answers were sought. A questionnaire is an ideal data collection instrument where the researcher seeks to investigate a phenomenon that can be described best by the parties involved when answered at an individual level without causing harm to other parties (Creswell, 2015).

Before actual collection of data, the scholars sought permission from the graduate school to collect data. Equally, the researcher was further permitted by National Commission on Science and Technology Innovation (NACOSTI) and allowed to investigate the phenomenon from the commercial banks in Kenya. The researcher also trained 3 research assistants who assisted in data collection and data cleaning. This ensured that data was collected within an allowable time frame and following the requisite quality standards.

3.4 Data Analysis

Mosby (2009) argue that analysis of data involves classifying, coding, and tabulating to carry out qualitative and quantitative analyses of the data. The current research determined the factors associated with AEG in Kenya banking industry. The dependent variable in research was the AEG, and the independent variables were the participants' level of education, the employees' professional experience, the audit firms' size, audit nature, and the perception of investors. The study adopted multiple linear regression model to analyze quantitative inferential statistics, where:

$$Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5$$

Hence:

Y = audit expectation gap

β_0 = the y - intercept (value of y when all the other parameters are zero).

β_1X_1 = the regression coefficient (β_1) of the auditor's skill level (X_1).

β_2X_2 = the regression coefficient (β_2) of the audit firms' size (X_2).

β_3X_3 = the regression coefficient (β_3) of the nature of the audit (X_3).

β_4X_4 = the regression coefficient (β_4) of participant's level of education (X_4).

β_5X_5 = the regression coefficient (β_5) of the perception of investors (X_5).

Both descriptive and inferential statistics were analyzed. Bhattacherjee (2012) states that descriptive statistics is the statistical description, aggregation, and presentation of constructs the study is interested in and their associations with each other. Descriptive statistics included mean, standard deviations, percentages, median, mode, frequency, range, and skewness (Taherdoost, 2016) with mean and percentages being presented in tables.

Pearson correlations and regression analysis aided in analysing inferential statistics with Pearson correlation showing the direction and strength of business sustainability, strategic innovation, corporate culture, and human capital against each other. Multiple regression helped determine the effect of a set of predictor variables used in predicting an outcome (Wagner *et al*., 2006). The goal of multiple regression was to reveal the relationship among variables which might not necessarily imply a causal relationship (Bowden *et al*., 2016).

Correlation Analysis (r) was employed to assess the magnitude and direction of the link between the endogenous variable and each exogenous variable (Kothari, 2004). Additionally, the researcher used coefficient of Determination (r^2) to gauge the variance proportion of endogenous construct that is described by the endogenous construct (Creswell, 2013). The researcher presented results in tables and elaborated in statements to bring about the relationship between the observed, the hypothesized and the research objectives as detailed in the conceptual framework.

The participants' level of education and the audit firms' size being ordinal data was measured using the Mann-Whitney U-test. Perception of investors and the nature of the audit being nominal data, was measured using Chi-square tests, while the employees' professional experience being a continuous ratio data, measurements were done through measures of central tendency.

CHAPTER FOUR

DATA ANALYSIS, RESULTS, AND DISCUSSION

4.1 Introduction

The section outlines the outcomes derived from analysis of primary data obtained via questionnaire. Further, descriptive statistics were applied to examine response rates, general information, and research outcomes related to fraud detection and AEG within Kenya commercial banks.

4.2 Response Rate

Out of targeted 204 questionnaires, 181 stood accurately completed and returned, achieving an 88% response rate, deemed suitable for analysis based on Kothari (2007), who suggests a rate of response exceeding seventy percent as appropriate, as illustrated in Table 4.1.

Table 4. 1: Response Rate

Return Rate	**Frequency**	**Percent**
Returned Questionnaires	181	88
Unreturned Questionnaires	23	12
Total	**204**	**100**

4.3 Reliability Statistics

As per Sekaran et al. (2016), the index for reliability surpassing 70% signifies an instrument reliability satisfactory level. Therefore, with a threshold for reliability set at 0.8, the instrument used in this study is considered reliable. Table 4.2. indicates.

Table 4. 2: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.759	.766	6

4.4 General Information

This research aimed to gather demographic information from participants, focusing on gender, education level, career description, years in the profession, the most recent participation in an audit process, and the reasons for their involvement in the last audit process. This information is detailed in the corresponding tables.

4.4.1 Gender of Respondents

The analysis of gender is outlined in Table 4.3, revealing that the study's conclusions highlight a predominant male representation, accounting for 65% of the respondents, whereas females make up 35%.

Table 4. 3: Respondents Distribution by Gender

Gender	Frequency	Percent
Male	117	65
Female	64	35
Total	**181**	**100**

4.4.2 Education Level

This research aimed to gather data on the highest education level accomplished by the respondents. Table 4.4 presents the findings. The outcome showed that the greater fraction of respondents, constituting 59%, were university graduates. Additionally, 27% of respondents held a college-level education, while 15% had achieved a postgraduate level of education. These results underscored the high literacy levels among the respondents, contributing to the quality of responses obtained.

Table 4. 4: Highest Educational Level

Level of Education	Frequency	Percent
College	48	27
University Graduate	106	59
University Postgraduate	27	15
Total	**181**	**100**

4.4.3 Career Description

Information relating to respondents' career description in their respective organizations was sampled and revealed as per table 4.5.

Table 4. 5: Respondents Distribution by Career Description

Career	Frequency	Percent
Certified Auditor	23	13
Bank Personnel	137	76
Diverse Investor	11	6
General Auditor	10	6
Total	**181**	**100**

Most of the respondents as highlighted in table 4.5 above were specialized as bank personnel at 76%, followed by certified auditors at 13%. 6% each represented diverse investors and the general auditors. This clearly depicted a reasonable representation of the different profession in achieving the study outcomes.

4.4.4 Amount of Worked Years in this Career.

The researcher sought information on the amount of years worked in this career. Table 4.6. presents the findings.

Table 4. 6: Respondents Distribution by Amount worked Years in this Career

Number of Years	Frequency	Percent
Less than 1	2	2
1 - 2	20	11
3 - 5	25	14
5 - 10	55	30
10 years and more	78	43
Total	**181**	**100**

The study results on table 4.6 demonstrated that a great proportion of the participants at 43% had already worked for over 10 years whereas 30% had between five and ten working years. 14% and 11% indicated working for 3 - 5 years and 1 - 2 years respectively while only 2% of the respondents had worked for less than a year. This was an equally good balance on representation by work experience which supported in achieving the quality responses of the study conclusions.

4.4.4 Last Time Participation in an Audit Process

The researcher collected data on the participants' most recent involvement in an audit process, highlighted as per Table 4.7.

Table 4. 7: Respondents Distribution by Participation in Audit Process

Participation Time (years)	Frequency	Percent
Less than one year ago	77	43
2 - 3	64	35
4 - 5	21	12
6 - 10	12	7
Never Participated	7	4
Total	**181**	**100**

The study outcomes on table 4.7 displayed that most of respondents at 43% had last participated in an audit process less than one year ago while 35% of the respondents had last participated in an audit process between 2 - 3 years. 12% and 7% of the respondents had last participated in an audit process between 4 - 5 years and 6 - 10 years correspondingly while merely 4% had never participated in an audit process.

4.4.5 Reason behind last Audit Process Participation

The study gathered information on the reasons behind respondents' participation in the last audit process, as presented in Table 4.8.

Table 4. 8: Respondents Distribution by Reason behind Audit Process Participation

Reason	Frequency	Percent
I was the auditor	33	18
For compliance requirements	137	76
For investment decision	11	6
Total	**181**	**100**

The outcome presented as per Table 4.8 revealed that large number of participants, comprising 76%, participated in the last audit process due to compliance requirements. Additionally, 18% of respondents indicated that they were the auditors, while only 6% mentioned their participation was driven by investment decision considerations.

4.5 Auditor's Skill Level

The study sought the understanding of the effect of an auditor's skill level on the AEG and the analysis indicated as per Table 4.9.

Table 4. 9: Respondents Distribution by Auditor's Skill Level

Statements		f	%	Mean	Std. Dev.
I am aware that the skill level of an auditor greatly impacts the audit outcome	Strongly Disagree	7	4		
	Disagree	14	8		
	Neither Agree Nor Disagree	6	3		
	Agree	91	50		
	Strongly Agree	63	35		
	Total	**181**	**100**	**4.04**	**1.021**
I am certain that a skilled auditor produces a bankable audit report for various users	Strongly Disagree	14	8		
	Disagree	17	9		
	Neither Agree nor Disagree	4	2		
	Agree	88	49		
	Strongly Agree	58	32		
	Total	**181**	**100**	**3.88**	**1.186**
My bank depends on the auditor's skills to navigate tough to overcome financial challenges	Strongly Disagree	13	7		
	Disagree	35	19		
	Neither Agree nor Disagree	6	3		
	Agree	76	42		
	Strongly Agree	51	28		
	Total	**181**	**100**	**3.65**	**1.272**
I am aware that skilled auditors are expected to give a true reflection of the firm’s financial position	Strongly Disagree	8	4		
	Disagree	15	8		
	Neither Agree nor Disagree	9	5		
	Agree	62	34		
	Strongly Agree	87	48		
	Total	**181**	**100**	**4.13**	**1.118**
Composite Mean and Std. Dev.				**3.93**	**1.149**

As per Table 4.9, the revelation indicated that the most participants, with a mean of 4.13 (SD= 1.118), were aware that skilled auditors were expected to provide an accurate representation of

the firm’s financial position. Respondents, with a mean 4.04 (SD=1.021), acknowledged that they were aware of the importance of the auditor's skill level to the audit outcome. Conversely, participants with a mean of 3.88 (SD= 1.186) expressed certainty that skilled auditors produce bankable audit reports for various users. Those with a mean of 3.65 (SD= 1.272) disclosed that their bank relied on the auditor's skills to navigate challenging financial situations.

In summary, a cumulative mean of 3.93 (SD= 1.149) meant that statements concerning the understanding the effect of an auditor’s skill level on AEG significantly influenced detecting fraud and AEG in the commercial banks in Kenya.

4.6 Auditor’s Firm Size

The study focused on investigating the impact of a firm size on the audit expectation gap, and outcomes stood scrutinized as showcased from Table 4.10.

Table 4. 10: Respondents Distribution by Auditor's Firm Size

Statements		f	%	Mean	Std. Dev.
I am aware that the firm size of an auditor significantly influences the auditor's report	Strongly Disagree	14	8		
	Disagree	21	12		
	Neither Agree nor Disagree	8	4		
	Agree	82	45		
	Strongly Agree	56	31		
	Total	**181**	**100**	**3.80**	**1.218**
I am aware that small audit firms' reports are perceived to be influenced by the audited firm	Strongly Disagree	7	4		
	Disagree	24	13		
	Neither Agree nor Disagree	6	3		
	Agree	74	41		
	Strongly Agree	70	39		
	Total	**181**	**100**	**3.97**	**1.142**
My company prefers large audit firms to small ones on grounds of credibility and investor confidence	Strongly Disagree	8	4		
	Disagree	14	8		
	Neither Agree nor Disagree	24	13		
	Agree	74	41		
	Strongly Agree	61	34		
	Total	**181**	**100**	**3.92**	**1.085**
I am aware that large audit firms' audit reports do not attract much scrutiny from investors	Strongly Disagree	21	12		
	Disagree	43	24		
	Neither Agree nor Disagree	13	7		
	Agree	72	40		
	Strongly Agree	32	18		
	Total	**181**	**100**	**3.28**	**1.318**
Composite Mean and Std. Dev.				**3.74**	**1.191**

Based on outcomes from Table 4.10, the study observations revealed that most participants, mean 3.97 (SD=1.142), were cognizant that reports from small audit firms were perceived to

be influenced by the audited firm. Respondents, mean 3.92 (SD= 1.085), concurred that their company preferred large audit firms over small ones for reasons related to credibility and investor confidence. Additionally, respondents, mean 3.80 (SD= 1.218) expressed awareness that the firm size of an auditor significantly influenced the auditor's report. Conversely, participants with a mean 3.28 SD= 1.318) indicated awareness that audit reports from large audit firms did not attract much scrutiny from investors. In summary, the collective mean 3.74 (SD= 1.191) affirmed that impact of an auditor's firm size on the AEG significantly influenced detecting fraud and AEG within commercial banks.

4.7 Nature of Audit

This research concentrated further on comprehending the impact of the nature of audit on the AEG, with the results scrutinized and outlined as from Table 4.11.

Table 4. 11: Respondents Distribution by Nature of Auditor

Statements		f	%	Mean	Std. Dev.
I am aware that the reason behind the audit influences the audit process and outcomes	Strongly Disagree	1	1		
	Disagree	6	3		
	Neither Agree nor Disagree	17	9		
	Agree	100	55		
	Strongly Agree	57	31		
	Total	**181**	**100**	**4.14**	**0.758**
My firm places significance on the reasons for auditing its books save for the regular corporate culture	Strongly Disagree	12	7		
	Disagree	28	15		
	Neither Agree nor Disagree	14	8		
	Agree	80	44		
	Strongly Agree	47	26		
	Total	**181**	**100**	**3.67**	**1.206**
I am aware that the nature of the audit places increased concern on the top management of our firm	Strongly Disagree	7	4		
	Disagree	15	8		
	Neither Agree Nor Disagree	11	6		
	Agree	87	48		
	Strongly Agree	61	34		
	Total	**181**	**100**	**3.99**	**1.041**
I am aware that non-routine audits yield undesirable consequences in various firms and organizations	Strongly Disagree	3	2		
	Disagree	21	12		
	Neither Agree Nor Disagree	6	3		
	Agree	85	47		
	Strongly Agree	66	36		
	Total	**181**	**100**	**4.05**	**1.007**
Composite Mean and Std. Dev.				**3.96**	**1.003**

The outcome from Table 4.11 indicates that an important proportion from participants, a mean 4.14 (SD= 0.758), acknowledged the awareness that the purpose behind the audit influenced

the audit process and outcomes. Moreover, participants, with a mean 4.05 (SD= 1.007), agreed that they were aware that non-routine audits resulted in undesirable consequences for various firms and organizations. Additionally, participants, mean 3.99 (SD= 1.041) indicated their awareness that the nature of the audit heightened concerns for the top management of their firm. Conversely, respondents with a mean 3.67 (SD= 1.206) approved that their firm attached importance to the reasons for auditing its books, excluding the regular corporate culture. In summary, the combined mean of 3.96 (SD=1.003) affirmed that understanding the impact of the nature of the audit on the AEG significantly influenced detecting fraud and AEG within commercial banks in Kenya.

4.8 Participant's Educational Level

The study comprehended the action of participants' educational level on the audit expectation gap, with the results analysed and outlined as per Table 4.12.

Table 4. 12: Respondents Distribution by Participant Educational Level

Statements		f	%	Mean	Std. Dev.
I am aware the education level of an audit process participant influences the audit report quality	Strongly Disagree	2	1		
	Disagree	10	6		
	Neither Agree Nor Disagree	18	10		
	Agree	82	45		
	Strongly Agree	69	38		
	Total	**181**	**100**	**4.14**	**0.887**
I am aware that those with higher education levels are likely to query an audit outcome	Strongly Disagree	14	8		
	Disagree	33	18		
	Neither Agree Nor Disagree	9	5		
	Agree	60	33		
	Strongly Agree	65	36		
	Total	**181**	**100**	**3.71**	**1.327**
My firm only engages individuals with a higher level of education during our routine audit process	Strongly Disagree	9	5		
	Disagree	32	18		
	Neither Agree Nor Disagree	7	4		
	Agree	71	39		
	Strongly Agree	62	34		
	Total	**181**	**100**	**3.80**	**1.227**
My understanding of the audit outcome is limited to my level of education irrespective of years of experience	Strongly Disagree	13	7		
	Disagree	49	27		
	Neither Agree Nor Disagree	15	8		
	Agree	104	57		
	Strongly Agree	-	-		
	Total	**181**	**100**	**3.16**	**1.055**
Composite Mean and Std. Dev.				**3.70**	**1.124**

Results presented from Table 4.12 unravelled thus, a majority of participants, mean 4.14 (SD= 0.887), acknowledged their awareness that the education level of a participant in auditing

influenced the audit report quality. Additionally, respondents, mean 3.80 (SD= 1.227), agreed that their firm exclusively engaged individuals with a higher level of education during routine audit processes. Conversely, participants with a mean 3.71 (SD=1.327) indicated their awareness that individuals with higher education levels were more likely to question an audit outcome. Participants with a mean 3.16 (SD= 1.055) mentioned that their understanding of the audit outcome was limited to their level of education, regardless of years of experience. In summary, the combined mean 3.70 (SD=1.124) affirmed that participants understood the impact of participants' levels of education on the AEG, significantly influencing detecting fraud and AEG within commercial banks in Kenya.

4.9 Investor Perception

The research focused on comprehending the investor perception impacts on audit expectation gap, analysing and presenting outcomes in in Table 4.13.

Table 4. 13: Respondents Distribution by Investor Perception

Statements		f	%	Mean	Std. Dev.
I am aware that investors are interested in audit reports to make investment decisions	Strongly Disagree	7	4		
	Disagree	20	11		
	Neither Agree Nor Disagree	10	6		
	Agree	81	45		
	Strongly Agree	63	35		
	Total	**181**	**100**	**3.96**	**1.095**
I am aware that investors perceive a firm's profitability through their audit reports	Strongly Disagree	5	3		
	Disagree	17	9		
	Neither Agree Nor Disagree	9	5		
	Agree	74	41		
	Strongly Agree	76	42		
	Total	**181**	**100**	**4.10**	**1.044**
I am aware that firms may misrepresent information in their audit reports to influence investors	Strongly Disagree	4	2		
	Disagree	18	10		
	Neither Agree Nor Disagree	14	8		
	Agree	105	58		
	Strongly Agree	40	22		
	Total	**181**	**100**	**3.88**	**0.941**
My firm’s financial health is represented in our audit reports irrespective of the nature of the audit	Strongly Disagree	-	-		
	Disagree	18	10		
	Neither Agree Nor Disagree	13	7		
	Agree	85	47		
	Strongly Agree	65	36		
	Total	**181**	**100**	**4.09**	**0.909**
Composite Mean and Std. Dev.				**4.01**	**0.997**

Outcomes from Table 4.13 revealed that most participants, mean 4.10 (SD= 1.044), acknowledged their awareness that investors perceive a firm's profitability through audit

reports. Additionally, respondents, mean 4.09 (SD= 0.909), indicated that their firm's financial health was conveyed in audited reports regardless of audit nature. Furthermore, participants, mean 3.96 (SD= 1.095) remained conscious that investors were interested in audit reports to make investment decisions. Conversely, participants, mean 3.88 (SD=0.941) agreed that they were aware that firms might misrepresent information in their audit reports to influence investors. In summary, the combined mean 4.01 (SD= 0.997) affirmed that respondents understood the impact of investor perception on AEG, significantly influencing detecting fraud and AEG within commercial banks in Kenya.

4.10 Auditor Expectation Gap

The study endeavored to comprehend factors related to AEG within commercial banks in Kenya, with the results analysis and presentation as per Table 4.14.

Table 4. 14: Respondents Distribution by Auditor Expectation Gap

Statements		f	%	Mean	Std. Dev.
I am aware that the auditor's role is to ensure that the financial statements of the firm reflect the true position	Strongly Disagree	4	2		
	Disagree	7	4		
	Neither Agree Nor Disagree	20	11		
	Agree	98	54		
	Strongly Agree	52	29		
	Total	**181**	**100**	**4.03**	**0.869**
I am aware that the public expects auditors to perform their roles of auditing with requisite integrity	Strongly Disagree	5	3		
	Disagree	16	9		
	Neither Agree Nor Disagree	8	4		
	Agree	73	40		
	Strongly Agree	79	44		
	Total	**181**	**100**	**4.13**	**1.035**
I am aware that there are instances where the role of auditors and public expectation mismatches	Strongly Disagree	12	7		
	Disagree	29	16		
	Neither Agree Nor Disagree	22	12		
	Agree	60	33		
	Strongly Agree	58	32		
	Total	**181**	**100**	**3.68**	**1.259**
My firm’s responsibility is required to meet the public’s expectations of its financial audits	Strongly Disagree	8	4		
	Disagree	17	9		
	Neither Agree Nor Disagree	11	6		
	Agree	78	43		
	Strongly Agree	67	37		
	Total	**181**	**100**	**3.99**	**1.100**
Our organization has at least realized an audit gap that requires an improvement action	Strongly Disagree	8	4		
	Disagree	41	23		
	Neither Agree Nor Disagree	15	8		
	Agree	63	35		
	Strongly Agree	54	30		
	Total	**181**	**100**	**3.63**	**1.248**
Composite Mean and Std. Dev.				**3.89**	**1.102**

Analyses from Table 4.14 demonstrated thus, a majority of participants, mean 4.13 (SD= 1.035), were aware that the public expected auditors to perform their roles with requisite integrity. Additionally, respondents, mean 4.03 (SD= 0.869), were cognizant that the auditor's obligation was to guarantee that the financial statements of the firm reflected true position. Moreover, participants, mean 3.99 (SD= 1.100) mentioned that their firm's responsibility was required to meet the public's expectations of its financial audits. Conversely, participants, mean 3.68 (SD= 1.259) agreed that they were aware that there were instances where the role of auditors and public expectations mismatched. Participants with a mean 3.63 (SD= 1.248) agreed that their organization had at least identified an audit gap that required improvement action. In summary, the combined mean 3.89 (SD= 1.102) affirmed that participants' understanding of issues associated with AEG within commercial banks significantly influenced fraud detection and the AEG in Kenyan commercial banks.

4.11 Inferential Statistics

Additionally, this study conducted inferential statistics employing regression as well as correlation analyses to demonstrate inter-relationships among variables, including other exogenous construct and the endogenous construct.

4.11.1 Analysis of Correlation

Pearson correlation coefficient (r) evaluated the magnitude linking constructs, and the findings are presented in Table 4.15. The findings showed that auditor's skill level showed a positive and insignificant correlational effect on AEG ($r=0.054$, $p=0.468>0.05$). Similarly, the outcomes exposed that the auditor's firm size displayed an insignificant but positive correlation with AEG ($r=0.036$, $p=0.634>0.05$). Additionally, the nature of the audit was positively and insignificantly correlated with AEG ($r=0.024$, $p=0.752>0.05$). Similarly, the participant's level of education showed a positive and insignificant correlation with AEG ($r=0.014$,

p=0.852>0.05). However, the findings indicated that investor perception was positively and significantly correlated with AEG (r=0.169, p=0.023<0.05).

Table 4. 15: Analysis of Correlation

Correlations							
		Audit Expectation Gap	**Auditor's Skill Level**	**Auditor's Firm Size**	**Nature of Audit**	**Participant's Level of Education**	**Investor Perception**
Audit Expectation Gap	Pearson Correlation	1	.054	.036	.024	.014	.169*
	Sig. (2-tailed)		.468	.634	.752	.852	.023
	N	181	181	181	181	181	181
Auditor's Skill Level	Pearson Correlation	.054	1	-.360**	.051	-.186*	.063
	Sig. (2-tailed)	.468		.000	.494	.012	.401
	N	181	181	181	181	181	181
Auditor's Firm Size	Pearson Correlation	.036	-.360**	1	.016	.217**	-.025
	Sig. (2-tailed)	.634	.000		.833	.003	.736
	N	181	181	181	181	181	181
Nature of Audit	Pearson Correlation	.024	.051	.016	1	.182*	.137
	Sig. (2-tailed)	.752	.494	.833		.014	.066
	N	181	181	181	181	181	181
Participant's Level of Education	Pearson Correlation	.014	-.186*	.217**	.182*	1	.053
	Sig. (2-tailed)	.852	.012	.003	.014		.477
	N	181	181	181	181	181	181
Investor Perception	Pearson Correlation	.169*	.063	-.025	.137	.053	1
	Sig. (2-tailed)	.023	.401	.736	.066	.477	
	N	181	181	181	181	181	181

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

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

4.11.2 Regression Analysis

The inquiry's primary aim was to explore the presence of fraud detection and the audit expectation gap within commercial banks. Accordingly, the researcher concentrated on four specific objectives, namely auditor's skill level, auditor's firm size, nature of audit, participant's level of education, and investor perception.

4.11.2.1 Model Summary

Examining the outcomes presented from Table 4.16 indicated an auditor's skill level, auditor's firm size, nature of audit, participant's level of education, and investor perception exhibited a positive correlation with the audit expectation gap (AEG) of up to 18% (R= 0.184). Furthermore, the findings indicated that these variables, including auditor's firm size, auditor's skill level, nature of audit, participant's level of education, and investor perception, contributed to a variation of only 3% (R2=0.034 and adjusted R2 =-0.006) in AEG. This implies that the 97% of variation stood influenced by additional factor unincorporated in this model.

Table 4. 16: Effect of Auditor's Skill Level, Auditor's Firm Size, Nature of Audit, Participant's Level of Education and Investor Perception

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.184[a]	.034	.006	.535

a. Predictors: (Constant), Auditor's Skill Level, Auditor's Firm Size, Nature of Audit, Participant's Level of Education, Investor Perception
b. Dependent Variable: Audit Expectation Gap

4.11.2.2 Variance Analysis

Researcher carried out ANOVA analyses thereby assessing model's efficacy in elucidating presumed associations between variables. Table 4.17 shows 1.230 f-statistic value, with a 0.297a significance level, surpassing 0.05 conventional level. Consequently, statistical

insignificance of this model was established, suggesting that each exogenous variable never contributed significantly to endogenous variable changes.

Table 4. 17: ANOVA Test

Anuva						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	1.758	5	.352	1.230	.297[a]
	Residual	50.043	175	.286		
	Total	51.801	180			

a. Predictors: (Constant), Auditor's Skill Level, Auditor's Firm Size, Nature of Audit, Participant's Level of Education, Investor Perception
b. Dependent Variable: Audit Expectation Gap

4.11.2.3 Model for Regression Analysis

Similarly, this model demonstrated the correlation among auditor's skill level, auditor's firm size, nature of audit, participant's level of education, and investor perception, as depicted as per Table 4.18.

Table 4. 18: Model for Regression Analysis

Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	2.636	.691		3.817	.000
	Auditor's Skill Level	.067	.079	.068	.840	.402
	Auditor's Firm Size	.066	.084	.063	.783	.435
	Nature of Audit	-.005	.078	-.004	-.058	.954
	Participant's Level of Education	.005	.089	.005	.061	.951
	Investor Perception	.186	.084	.166	2.212	.028

a. Predictors: (Constant), Auditor's Skill Level, Auditor's Firm Size, Nature of Audit, Participant's Level of Education, Investor Perception
b. Dependent Variable: Audit Expectation Gap

As shown per Table 4.18 the regression model is:

$$Y= \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5$$

$$Y=2.636+0.067X_1+0.066X_2+-0.005X_3+-0.005X_4+ 0.186X_5$$

Where:

Y = the audit expectation gap

β_0 = the y - intercept (value of y when all the other parameters are zero)

β_1X_1 = the regression coefficient (β_1) of the auditor's skill level (X_1)

β_2X_2 = the regression coefficient (β_2) of the audit firms' size (X_2)

β_3X_3 = the regression coefficient (β_3) of the nature of the audit (X_3)

β_4X_4 = the regression coefficient (β_4) of participant's level of education (X_4)

β_5X_5 = the regression coefficient (β_5) of the perception of investors (X_5)

The equation indicated that a 2.636 constant change corresponding to a unit increase of 0.067 in AEG for the auditor's skill level. Similarly, per unit change in auditor's firm size results in a 0.066 surge in AEG. Conversely, per unit change in the nature of the audit leads to a decline of 0.005 in AEG, whereas per unit alteration in the participant's level of education prompts a surge of 0.005 in AEG. Furthermore, per unit change in the perception of investors corresponds to a rise of 0.186 in AEG.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The results are summarized in this chapter, including conclusions and recommendations, while acknowledging limitations, and finally proposing future research.

5.1 Findings Summary

The overarching goal of this investigation was to explore the presence of fraud detection and the AEG in Kenyan commercial banks. This research homed in on key variables: auditor's skill level, auditor's firm size, nature of audit, participant's level of education, and investor perception regarding fraud detection and the audit expectation gap in these banks.

5.1.1 Effect of Auditor's Skill Level on AEG

The initial examination envisaged to grasp the effect of an auditor's skill level on AEG. Correlation analysis revealed a positive but insignificant link between the skill level and AEG in commercial banks. Similarly, regression analysis indicated a positive yet insignificantly linear relationship between auditor's skill level and AEG in Kenyan commercial banks, with proof of $p=0.402$, $\rho>0.05$.

5.1.2 Effect of Auditor's Firm Size on Audit Expectation Gap

The second assessment envisaged establishing the impact of firm size on AEG. Correlation analysis indicated a positive but insignificant connection between auditor's firm size and AEG in commercial banks. Likewise, regression analysis revealed a positive but insignificantly linear linkage between auditor's firm size and AEG in Kenyan commercial banks, with proof of $p=0.435$, $\rho>0.05$.

5.1.3 Effect of Nature of Audit-on-Audit Expectation Gap

Third assessment delved into understanding the effect of the nature of the audit on AEG. Correlation analysis unveiled a positive but insignificant link between the nature of audit and

AEG in commercial banks. Similarly, regression analysis showcased a positive yet insignificantly linear association between the nature of audit and AEG in Kenyan commercial banks, with proof of $p=0.954$, $\rho>0.05$.

5.1.4 Effect of Participant's Level of Education on Audit Expectation Gap

The fourth assessment attempted to grasp participant educational level effects on AEG. Correlation analysis indicated a positive but insignificant connection between participant's level of education and AEG in commercial banks. Similarly, regression model exhibited a positive yet insignificantly linear connection between participant's level of education and AEG in Kenyan commercial banks, with proof of $p=0.951$, $\rho>0.05$.

5.1.5 Effect of on Investor Participation on Audit Expectation Gap

The fifth assessment aimed to understand impact of investor perception on AEG. Correlation examination exposed a significant and positive connection between investor perception and AEG in commercial banks. Similarly, regression model presented a significant and positive linear association between investor perception and AEG in Kenyan commercial banks, with proof of $p=0.028$, $\rho<0.05$.

5.2 Conclusions

As per the aforementioned results, this investigation concluded that auditor's skill level, auditor's firm size, nature of audit, and participant's level of education had a positive yet insignificant effect on AEG in Kenyan commercial banks. These factors were not deemed significant contributors to fraud detection and AEG in commercial banks. However, the study concluded that investor perception played a significant role in AEG in Kenyan commercial banks, signifying its crucial impact on fraud detection and AEG.

5.3 Recommendations

It is proposed that commercial banks pay more attention to investor perception to effectively manage AEG. While the study revealed statistically insignificant relationships between auditor's skill level, auditor's firm size, nature of audit, and participant's education level, a statistically significant association was observed between investor perception and AEG.

5.4 Limitations of the Study

The investigator met challenges in achieving a 100% response rate, attributed to respondents' apprehension due to the confidential nature of their work and busy schedules. However, this was mitigated by allowing respondents to complete questionnaires at their convenience, assuring them of data confidentiality and anonymity for academic purposes.

5.5 Suggestions for Further Research

This inquiry concentrated solely on commercial banks. Future research endeavour should broaden their scope beyond the banking sector and explore other factors influencing AEG in a more diverse population.

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APPENDICES

Appendix 1: Letter of Introduction

Dear Respondent,

I am a student at the University of Nairobi conducting a study on the existence of audit gap expectations among commercial banks in Kenya**.** This study will contribute to enhanced audit processes, improve audit expectations by the public, and contribute to investor confidence in commercial banks. To facilitate this research, kindly fill out the provided questionnaire. The data gathered is exclusively employed for academic purposes and will be handled with the utmost confidentiality and integrity. Your participation is greatly appreciated, and it contributes to this inquiry being successful. Thank you for your cooperation in advance.

Yours Sincerely,

……..

Arthur G
D61/60132/2011

Appendix II: Research Questionnaire

Instructions for Use

This questionnaire is divided into seven parts namely part 1, part 2, part 3, part 4, part 5, part 6, and part 7. You are requested to be as honest as possible in filing this questionnaire. You are to put a tick in the spaces provided and as instructed where applicable.

Part 1: GENERAL INFORMATION

1. What is your gender?

   Male ☐ Female ☐ Choose not to say ☐

2. What is your level of education?

   College ☐ University Graduate ☐ University Postgraduate ☐

   Other ☐ *Specify* ……...

3. How can you best describe your career?

   Certified Auditor ☐ Bank Personnel ☐ Diverse Investor ☐

   General Auditor ☐ None of the above ☐

4. How many years have you been in this career?

   Less than 1 year ☐ 1 – 2 years ☐ 3 – 5 years ☐

   5 – 10 years ☐ 10 years and more ☐

5. When last did you participate in an audit process?

   Less than one year ago ☐ 2 – 3 years ago ☐

   4 – 5 years ago ☐ 6 – 10 years ago ☐

   Never participated ☐

6. What was the reason behind your participation in the last audit process?

I was the auditor ☐ For compliance requirements ☐ For investment decision ☐

Part 2: AUDITOR'S SKILL LEVEL

This section aims at understanding the effect of an auditor's skill level on the audit expectation gap. To what extent do you agree or disagree with the following statements? Kindly put a tick (✓) where applicable. **Use a scale of 1-5 where; 1= Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = Strongly Agree**.

		1	2	3	4	5
1.	I am aware that the skill level of an auditor greatly impacts the audit outcome					
2.	I am certain that a skilled auditor produces a bankable audit report for various users					
3.	My bank depends on the auditor's skills to navigate tough to overcome financial challenges					
4.	I am aware that skilled auditors are expected to give a true reflection of the firm's financial position					

Part 3: AUDITOR'S FIRM SIZE

This section aims to establish the interaction of an auditor's firm size on the audit expectation gap. To what extent do you agree or disagree with the following statements? Kindly put a tick (✓) in the spaces provided. Use a scale of 1-5 where; **1= Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = Strongly Agree.**

		1	2	3	4	5
1.	I am aware that the firm size of an auditor significantly influences the auditor's report					
2.	I am aware that small audit firms' reports are perceived to be influenced by the audited firm					
3.	My company prefers large audit firms to small ones on grounds of credibility and investor confidence					
4.	I am aware that large audit firms' audit reports do not attract much scrutiny from investors					

Part 4: NATURE OF AUDIT

This section aims at understanding the relationship of the nature of audit on the audit expectation gap. To what extent do you agree or disagree with the following statements? Kindly put a tick (✓) in the spaces provided. Use a scale of 1-5 where; **1= Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = Strongly Agree.**

		1	2	3	4	5
1.	I am aware that the reason behind the audit influences the audit process and outcomes					
2.	My firm places significance on the reasons for auditing its books save for the regular corporate culture					
3.	I am aware that the nature of the audit places increased concern on the top management of our firm					
4.	I am aware that non-routine audits yield undesirable consequences in various firms and organizations					

Part 5: PARTICIPANTS' LEVEL OF EDUCATION

This section will attempt to examine the effect of participant's level of education on the audit expectation gap. To what extent do you agree or disagree with the following statements? Put a tick (✓) in the spaces provided. Use a scale of 1-5 where; **1= Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = Strongly Agree.**

		1	2	3	4	5
1.	I am aware the education level of an audit process participant influences the audit report quality					
2.	I am aware that those with higher education levels are likely to query an audit outcome					
3.	My firm only engages individuals with a higher level of education during our routine audit process					
4.	My understanding of the audit outcome is limited to my level of education irrespective of years of experience					

Part 6: INVESTOR PERCEPTION

This section will attempt to elucidate the importance of investor perception on the audit expectation gap. To what extent do you agree or disagree with the following statements? Put a tick (✓) in the spaces provided. Use a scale of 1-5 where; **1= Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = Strongly Agree.**

		1	2	3	4	5
1.	I am aware that investors are interested in audit reports to make investment decisions					
2.	I am aware that investors perceive a firm's profitability through their audit reports					
3.	I am aware that firms may misrepresent information in their audit reports to influence investors					
4.	My firm's financial health is represented in our audit reports irrespective audit's type.					

Part 7: AUDIT EXPECTATION GAP

This section will attempt to understand issues surrounding the audit expectation gap among the commercial banks in Kenya. To what extent do you agree or disagree with the following statements? Put a tick (✓) in the spaces provided. Use a scale of 1-5 where; **1= Strongly Disagree, 2 = Disagree, 3 = Neither Agree nor Disagree, 4 = Agree, 5 = Strongly Agree.**

		1	2	3	4	5
1.	I am aware that the auditor's role is to ensure that the financial statements of the firm reflect the true position					
2.	I am aware that the public expects auditors to perform their roles of auditing with requisite integrity					
3.	I am aware that there are instances where the role of auditors and public expectation mismatches					
4.	My firm's responsibility is required to meet the public's expectations of its financial audits					
5.	Our organization has at least realized an audit gap that requires an improvement action					

THE END

Thank you for your participation!