THE DETERMINANTS OF AUDITOR CHANGES BY UNQUOTED COMPANIES OPERATING IN NAIROBI.

BY

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DECLARATION

THIS MANAGEMENT PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANY OTHER UNIVERSITY.

Signed _____ Date 02/11/93.

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THIS MANAGEMENT PROJECT HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS THE UNIVERSITY SUPERVISOR.

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DEDICATION

To my beloved Parents and family members

For their resourceful, unsurpassed support

and encouragement.

TABLE OF CONTENTS

LIST OF TABLES

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ABSTRACT

This study sought to determine the factors that influence auditor changes by unquoted companies operating in Nairobi. The study covered the period 1981-1990 and to achieve the objective of the study , a sample of 100 firms out of 25463 companies was selected . The Primary data was collected using a questionnaire .

Fifteen factors were obtained from pertinent literature . They included audit fees, quality of audit service, industry expertise , management change, reporting disputes, qualified opinion, auditor reputation, lacked confidentiality, influence of head office , need for non-audit services , size, organisation complexity , demand by shareholders and tax services.

The preliminary analysis showed that 32 out the 65 firms changed auditors during the period of study. More auditor changes occurred between 1986 and 1990 inclusive than the period between 1981 and 1985 inclusive. Quality of audit service had the highest sample mean whereas the dependent variable (AC) and tax services had wide variations when compared with the other variables. It was also shown that auditor change was common with small firms. The conditional logit model and correlation analysis were used for data analyses and and the results indicated that:

(1) Quality of audit service was very significant in explaining auditor switching.

(2) Organisation complexity , size and financial distress were also significant in explaining auditor changes.

(3) Multicollinearity was not a serious problem.

Most of the identified factors , however , did not show any significant influence of auditor switching.

The findings of this research should be understood and evaluated in light of the limitations of the study . In view of the results , it is recommended that audit firms be more sensitive to that clientele that seek specialised type of audit service tailored to suit them.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background.

An auditor occupies a very unique position in the business community and the society at large when called upon to perform an audit for a client. The society places a heavy responsibility on the auditor to diligently and competently attest to the financial statements and safeguard the interests of potential and existing investors, government agencies, employees, and the general public. The value of the auditors report to users of financial statements depend on the perceived auditors' independence of mind and honest opinions based on an objective and unbiased viewpoint[1]. In this paper it is generally assumed that the auditor is motivated to comply with professional ethics, generally accepted auditing standards and the terms of engagement letter when auditor change is about to occur.

Kanter [1990] defines auditing as :

> "A systematic process of objectively obtaining and evaluating evidence regarding the assertions about the economic actions and events to ascertain the degree of correspondence between the assertions and the established criteria and communicating the results to the interested parties".

Traditionally, certified public accountants in Kenya have been providing other services apart from the external audit services. These other services include management advisory services, Tax consultancy services, client lobbying services before the accounting standard setting body, investigation services into a going concern before the client decides to

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[1]Lavin, D: "Perception of the Auditor Independence." The Accounting Review. 1976.

purchase the going concern, recruitment services, Data processing, overseeing a merger among others.This is not meant to be an exhaustive list [Knapp :1985]. However, the scenario is a little different at the moment in that some of the services mentioned especially secretarial services are solely in the domain of certified public secretaries.

Nicholas and Price [1976 :335] define an auditor as:

> "A professional accountant who is hired by a company to perform an audit and render an opinion on the statements to be produced for a third party."

The auditors are able to perform the attestation function implied by the foregoing definition and to offer some of the services mentioned above. The external audit does benefit both the users of financial statements and management[2].

Modern corporations are characterised by a separation of management and ownership except where management owns part of the corporation's stock[3]. In addition, management has the control over the production of financial information. There exist an asymmetry of information whereby management is assumed to know more about the firm's present activities and financial status than the non-managing shareholders. Together with the asymmetry of information is the asymmetrical power in favour of

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[2] Chow and Rice : "Qualified Audit Opinions and Auditor Switching." The Accounting Review. April 1982.

[3] Muthamia A. H. : "Factors Considered by Publicly Quoted Companies in Kenya in Selecting External Auditors." Unpublished MBA Project 1990.

management[4]. This asymmetry of power between managers and auditors may seriously weaken auditors' ability to exercise freely their professional judgements to meet the expectations placed on them by the society[5].

Corporate owners are unable to observe the behaviour of management. The owners resort to public accountants to play the role of limiting the reporting bias that the unobservable managers may turn to if left alone. The corporate owners hire the services of auditors with the aim of increasing the probability that the information received from the firms' information system is true[6]. Though the auditors are engaged to give professional opinion on whether or not the information presented by management in financial statements give a true and fair view of the status of the firm's financial position and the results from operations, he is not called upon to act as a detective but to proceed with reasonable care and skill before he believes that what he certifies is true[7]. Though Lopes L.J. has been quoted as saying that an auditor "is a watchdog but not a

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[4] Nicholas and Price : "The Auditor-Firm Conflict: An Analyses Using Concepts of Exchange Theory." The Accounting Review. 1976.

[5] Chow and Rice: "Qualified Audit Opinions and Auditor Changes." The Accounting Review. April 1982.

[6] Ng, D.S.: "An Information Economic Analyses of the Financial reporting and External Auditing". The Accounting Review. 1978.

[7] Muthamia A. H.: "Factors Considered by Publicly quoted Companies in Kenya in Selecting External Auditors". Unpublished MBA project 1990.

bloodhound", it requires the auditor to make personal inquiries and checks if he has cause to be suspicious of any information presented to him. Lord Denning is on record as having said that "an auditor must approach his task with an inquiring mind not suspicious of dishonesty but suspecting that someone may have made a mistake somewhere and that a check must be made to ensure that there has been none[8].

Auditor change is the end result of a bargaining process which begins with a client requesting an auditor for an audit service. The client invites the auditor to make a proposal to an audit engagement. The auditor seeks permission to communicate with his/her predecessor. The auditor bargains for the terms of the audit engagement together with the scope of the services. This bargaining process represents a power struggle between management and the auditor. Management is often seen as having a broader power base than the auditor [Knapp :1985].

Responsibilities of public accountants like those of other professionals, have increased tremendously as a direct result of the dynamic and sophisticated changes that have rocked the business world. One dimension of the increased responsibilities of auditors has emanated from public pressure on them to detect management fraud and in effect the auditors have been coerced indirectly to broaden their scope of duty more than ever before. Some of the auditors have assumed legal liability for relying on generally accepted accounting

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[8] Farrar, Furey, & Hannington: Farrars company law. London Butterworths & Co Ltd, 1988.

principles without going out to disclose to investors information deemed to influence the investors decisions if an omission were to occur[9]. Apparently, financial statement users apart from demanding a lot from the CPA, are keen to know the relationships between them (Auditors) and management. The profession in promulgating audit operational guidelines and ethics to be followed in audit practice is striving to play well its role in the society. The provision of an audit service that later causes a loss to financial statement user(s) may eventually damage the credibility of the audit firm[10].

1.2 Statement of the problem :

In order for public accountants to effectively play the role placed on them by the society,it is necessary that auditors exercise their total independence and if necessary take positions that are not necessarily in league with the client-management preferences. If such degree of independence is lacking, there are increased chances for management and auditors to sever ties. The nature of audit services demanded by a company in the presence of a conducive audit environment is influenced to a great extent by a number of specific firm characteristics[11].

Managers control auditor change and selection decisions.

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[9] Causey, D.Y.: "Newly Emerging Standards of Auditor Responsibility". The Accounting Review. 1976

[10] Knapp, M.C.: "Audit Conflict: An Empirical Study of the Perceived Ability of Auditors to resist Management Pressure". The accounting Review. April 1985.

[11] Schwartz & Menon: "Auditor switches by falling firms". The Accounting Preview. April 1985.

An examination of the auditor-client management relationship is in order to find out if management may use its powers to influence the auditor reporting behaviour[12]. A statement by Knapp [1985] is representative of this power:

> "The apparent increasing trend of management attention to influence its auditors' reporting behaviour stems primarily from its control over current and future audit fees that the audit firm hopes to get from the audit relationship".

The public accountant renders his services to all institutions that engage in economic activities and provision of services. Generally, these institutions can be categorized into profit seeking and non-profit seeking companies. The profit seeking companies can be split further into public and private companies whereas the non-profit organizations can be subdivided into governmental and non-governmental institutions.

Some companies do change auditors once in a while. Among the reasons cited for these changes are the need for lower audit fees and the need for a professional auditor who is adept at keeping clients confidential information. Auditor switching is a phenomena that affects the clients as well as the auditors. Auditor change can be regarded as a two step process[13]. The first process is where a decision is made to change the auditor(s). This is followed by the second process in which a new auditor is chosen. The decision to change an

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[12] Chow an Rice: "Qualified Audit Options and Auditor Changes" The Accounting Review. April 1982.

[13] Dye R.A.: "Informationally Motivate Auditor Replacement:. Journal of Accounting and Economics. December 1991.

auditor is a process which culminates into an uphill task of searching for and subsequent selection of a new auditor. It is a challenging task owing to the fact that audit service is intangible and is produced and consumed simultaneously. The author is not aware of any study that has been undertaken on auditor changes in Kenyan unquoted companies.The study undertaken by Muthamia [1990] addressed itself to the factors that influence selection of an auditor (the second step of the change decision). It is on the premise of this that the interest of this study is centred on the investigation of the determinants of auditor changes by unquoted companies. Auditor switching has received a lot of attention elsewhere [Chow & Rice : 1982, Johnson & Lys :1990, Roberts et al : 1990, Schwartz & Menon : 1985, Shiff & Ashton :1981]. Efforts were made to link some identified characteristics of companies to auditor changes.

1.3 Objective of the study :

The aim of the study is to determine the factors that influence auditor changes by unquoted companies.

1.4 Importance of the study :

The study may be of interest to the following people :

1. ICPA(K) in promulgating audit guidelines.
2. Scholars wishing to carry out further studies pertaining to auditor changes.
3. Auditors who may want to know factors that clients take into account when deciding to change an auditor.
4. Clients who deem it necessary to understand a auditor-oriented factors that lead to revocation of an

audit engagement.

CHAPTER TWO

2.0 LITERATURE REVIEW.

2.1 Introduction :

An audit engagement is a result of protracted negotiations between the audit firm and the client management. The agenda of the negotiation touches on details ranging from the scope of the audit and audit fees to the contents in the clients' published financial reports. In deciding whether to replace an auditor many factors come into play. For instance the firm needs to evaluate the cost of replacement, the report to which the firm anticipates the replacement will attest, and the effects of the replacement on the outsiders' perceptions of the firm's financial condition.

Auditing is widely viewed as a means of reducing agency costs. These agency costs arise due to a contractual relationship between the auditor and the client The client (principal) hires an auditor to control the stewards of the client's interests in the organization and to improve the risk sharing arrangement by management and owners of the company. This is because management is inclined to effect wealth transferring activities that are detrimental to the interests of non-managing shareholders. Management is able to do so now that modern firms are characterised by a separation of management and ownership. Management has incentives to allocate the firm's resources in ways that do not conform to shareholders' interests. Again this is due to the fact that shareholders can not observe the behaviour of management. Therefore, Shareholders contract an auditor to make an opinion on the financial statements

prepared by management. Agency costs are incurred by clients in trying to regulate the behaviour of the unobservable managers. Agency costs are also incurred because institutional requirements and regulations compel companies to hire auditors to safeguard the interests of other third parties (E.g Bond holders, Creditors, suppliers and Tax authorities). This is because shareholders have incentives to make suboptimal investment policies that have the effect of undermining the value of the firm. They do so by paying out liquidating dividends,issuing new debt to dilute the coverage of the existing debt, and changing the firm's variance of return. Some companies adopt mandatory auditor rotation policies in a bid to reduce agency costs. Rotation policies are adopted with the hope that past undetected or non-reported accounting irregularities will be uncovered during the intensive initial audits. These policies may act as a remedy for complacency, lack of innovation, less rigorous audit procedures, and a learned confidence with the client which are due to long association between the auditor and the client.

The value of the audit service to users of audited financial statements depends on the perceived usefulness of the information contained in the financial statements. In a market characterised by the existence of information asymmetry, an informed party may change an auditor to facilitate the release of its private information to uninformed party.Researchers have indicated that shareholders endeavour to induce management to disclose information to market participants by signalling through the act of selecting an auditor.

2.2 History of auditing :

Auditing and accounting disciplines started from humble beginnings and have been companions for well over 600 years[14]. Most public accounting firms provide audit and accounting services a clear manifestation of the twin growth of both auditing and accounting.

The genesis of auditing is not certain[15]. It is the origin of the word auditing that can be traced back to the Greek word "audire" which means "to hear" and is based on a procedure known as the "hearing of accounts". This procedure was employed by the Egyptians who required tax receipts to be recorded by two independent officials and the Romans who cross-checked the expenditure authorizations with the actual payments with express aim of preempting fraudulent and corruptible acts. The development of auditing was parallel to the growth of such Italian cities as Florence, Genoa, and Venice subsequent to the demise of the once powerful Roman empire[16].

Ricchiutte [1989] reports that the first contemporary audit related legislation appeared in British Joint stock companies Act of 1844. This Act was revised in 1845 and it required one or

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[14] Watts $ Zimmerman: Positive accounting Theory, New Jersey Prentice Hall Inc. 1986.

[15] Richiutte D. N.: "Auditing: Concepts and Standards, Cincinnati outh-Western Publishing Company, 1989.

[16] Kanter A. H.: "A study of the Importance of college Level Topics to the Performance of the First Year Staff Auditors in CPA firms in Chicago Area with Implications for Auditing curriculum Developers". Masters thesis, Michigan, Abell & Howel Information Company, 1990.

more shareholders to examine the balance sheets prepared by management and to question employees, company officers, and management as well.It was during this period that scores of shareholders made periodic visits to their corporations in quest of verifying the recorded data within their corporations. It became vivid to them that a well trained individual was required to carry out the audit[17]. This was a complete contrast of the past where one reputed with integrity and independence of mind automatically qualified to be an auditor[18].

Subsequent companies Acts of 1855-56 provided for the appointment of independent auditors at the company's option. These Acts and that of 1862 that required independent audits, substantially increased the demand for trained accountants who could perform independent professional audits. It took approximately nine decades up to 1947 for legislation of compulsory audits to be enacted in Britain[19]. The development of auditing in Britain influenced to a great extent the development of auditing in the U.S safe for the stock market crash of 1929 that prompted the securities exchange commission (SEC) to enact the securities acts of 1933 and 1934. These Acts required companies making new issues and those whose securities were traded in the stock market to furnish the commission with audited financial statements. These legal requirements firmly

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[17] Ibid, p4

[18] Woolf, E.: Auditing Today. London, Prentice Hall International,UK.

[19] Richiutte D.M.: Auditing: Concepts and Standards. Cincinnati, South-Western Publishing Company, 1990.

established the accounting profession in the U.S[20].

2.3 Auditor Change - Legal Perspective:

When a company has decided to replace the incumbent auditor, it must do so within the provisions of the law A special notice is required for a resolution at a company's annual general meeting appointing as an auditor a person other than a retiring auditor or providing expressly that a retiring auditor shall not be reappointed. On receipt of the notice of such an intended resolution as aforesaid, the company shall send a copy to the retiring auditor. The auditor has the right to make representations in writing to the company with respect to the intended resolution. The company should disclose the representations by the auditor by sending a copy of representations to every member of the company. The retiring auditor has the right to require the representations to be read at the company's annual general meeting where these have not been sent to each member for whatever reason. However, the representations need not be sent out or read at the annual general meeting if the court is satisfied that rights conferred to any aggrieved party is being abused to secure needless publicity for defamatory matter. The law also provides that an auditor can give a notice in writing to the company of his unwillingness to be reappointed to continue as the auditor of the company. In Kenya no provision is made for the auditor to give

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[20] Kanter A.H.: "A study of the Importance of College Level Topics to the Performance of First Year Staff Auditors of CPA firms in Chicago Area with Implications for Auditing Curriculum". Masters Thesis. Michigan, Abell & Howell Information Company, 1990.

reasons for his unwillingness to continue auditing the company neither is there a provision requiring that the notice be registered. In the absence of the special notice seeking to replace the retiring auditor or expressing the auditor's unwillingness for reappointment, the auditor is deemed to be reappointed unless he is not qualified for reappointment.

2.4 Review of Related Studies:

Several studies have been undertaken in auditing to address the issue of auditor change. A number of authors have discussed the role of reporting disputes in influencing auditor changes [Schwartz & Menon :1985, Roberts et al :1990]. Schwartz & Menon [1985] asserted that auditors may find reporting methods and procedures advocated by management to be unsupportable. The disagreement between auditors and management that ensues causes auditor changes They found that ailing firms change auditors more often than financially sound firms because distressed firms are prone to effecting reporting procedures and accounting changes that auditors find untenable. Roberts et al [1990] report that school district officials would want to change auditors to avoid future unfavourable reports of noncompliance with reporting standards. Chow and Rice [1982] studied the influence of qualified audit opinions on auditor switches. Data for the study was obtained for 9460 companies that had qualified opinions in 1973 and changed auditors between the 1973 and 1974 fiscal year-ends. The results of the study supported the contention that firms switch auditors more frequently after receiving qualified audit opinions.In addition, they investigated the influence of other factors on auditor changes such as management

change, merger activity, new financing, and an accounting dispute with an auditor. The conditional logit model was formulated for analyzing the effect of the variables on auditor changes. Using the conditional logit model, qualification was found to be the only significant variable in explaining auditor switches.

Roberts et al [1990] carried out a study to investigate the determinants of auditor change in public sector using data from public school districts in Texas. The study examined the effect of audit fees, internal control weaknesses, change of superintendent in the preceding years, and school board noncompliance with reporting standards. The study employed a stepwise logistic regression model to test the relation between auditor change and the explanatory variables. The results indicated that audit fees, reports of material internal control weaknesses, and the school boards noncompliance with laws and regulations governing financial reporting were significantly related to auditor change in public sector.

Scwartz & Menon [1985] on the other hand, undertook an investigation into the motivations for failing firms to change auditors. In addition to financial distress,they included other factors cited in prior studies.The other factors included in their study were changes in corporate management, the need for additional audit services, disagreement over reporting matters, and conflict over audit fees. Their study used a sample of 132 firms that filed a bankruptcy petition during the years 1974 to 1982. The chi-square test of independence was employed to determine whether the tendency of failing firms to switch auditors is different from that of non-failing firms. It was

found that the timing of the auditor switches made by failing firms revealed that the closer a company gets to bankruptcy, the more likely it was to change its auditor. Unlike Chow and Rice, they did not find audit qualification as a significant factor influencing auditor changes. In addition to that, they did not find evidence to show that management change was related to auditor switches. According to their study, size did not appear to matter with respect to the observed auditor switching among the failing firms.

Ettredge and Greenberg [1990] studied the determinants of fee cutting on initial audit engagement. A sample of 389 firms that resorted to auditor switching during the period 1984 and 1987 was examined. The factors that were investigated in this study included client financial health, auditor class, industry expertise, number of bidding auditors, and technological efficiency. A regression model was used to test the relation between audit fee and the factors aforementioned. The results of the study supported the importance of auditor class, industry expertise, technological efficiency and number of auditor bidders in determining the percentage fee cuts. Fried and schiff [1981] were interested in market reaction to CPA switches. This study looked at the problem of auditor switching from a different perspective. Together with market reactions to auditor changes, the researchers undertook to isolate and observe the extent to which Securities Exchange Commission (SEC) requirement for disclosure of auditor changes was "justifiable". They studied the companies that switched auditors in 1972 through 1975. The results of the study did not support the SEC requirement for a

company to enumerate and describe disagreements with its auditors on auditing and accounting issues. The other aspect of the results indicated that negative market reactions followed the announcement of auditor switch.

Francis and Wilson in their study sought to test whether there is a positive association between a firm's agency costs and its demand for a quality differentiated audit. A sample of 196 firms that changed auditors during the period between june 1978 and april 1985 was selected for the study. The framework adopted in the study was aimed at finding whether or not there is an association between auditor changes and the firms agency costs. The study constituted a joint test of audit quality differentiation and the demand for higher quality audits as a function of agency costs. Efforts were made to control the confounding effects of client size and growth on the choice of the new auditor. The results of the study showed that neither client size nor agency costs could explain a large portion of the demand for larger size auditors. Agency costs were found to affect only marginally auditor choice. Shockley R.A. [1981] in studying the perceived effects of competition, audit firm size, and auditors tenure, on auditors' independence, mentioned that the reasons for auditor changes may range from minimization of audit fee to the search for a compliant auditor.

Chow [1982] used an agency framework to analyze firm's incentives to hire external auditors. Special attention was paid to the influences of size, debt and ownership on the firm's demand for external audit services. Univariate and multivariate tests were done on a sample of 165 firms. The results supported

the hypothesized effects of leverage and moderately supported the predicted role of firm size.

The recent study by Dye [1991] addressed the firm's decision to replace its auditor(s) when the replacement affects outsiders' perceptions of its financial condition and auditor's attestations.He asserts that the auditor is never replaced if the auditor and the firm possess common information about the firm's financial status, and this information can be communicated through financial statements to outsiders. According to him, the auditor is replaced if the firm possesses information superior to that of the auditor and financial reports reflect only the auditor's information. The action taken by the firm to replace the auditor is dictated by the outsiders' intelligent interpretation of the clients financial statements he adds. The study upheld DeAngelo's original conclusion that "low-balling" should be observed in the pricing of audit services.

Johnson and Lys [1990] obtained evidence of voluntary auditor changes by 698 companies in their study of the market for audit services. They concluded that voluntary auditor changes are caused by market forces. They identified the market forces as:

1. Specialization that enables audit firms to obtain competitive advantages.
2. clients tendency to purchase audit services from the least costly suppliers in the market.
3. The changes in clients' operations and activities that erode the competitive advantage of an incumbent auditor. The study covered voluntary auditor changes that occurred from 1973 through 1982. They concluded that the changes could be explained

as an efficient response to the sting of competition among audit firms.

Muthamia A.H. [1990] investigated the factors that public companies consider when selecting an external auditor. She studied a total of 58 firms. The study cites competence of audit staff, need for a fresh look at the company and inability of auditors to meet deadlines as some of the reasons given by companies for changing auditors. The results of her study showed that the reputation of the auditing firm was the most important factor considered in selecting external auditors. She ranked the importance of other factors as ability to meet deadlines, professional skills of audit staff, accessibility of top audit seniors for consultations, ability of auditors to communicate well, audit fees, disputes with auditors, unqualified audit reports, and provision of non- audit services in that order.

2.5 Auditor Change Determinants.

The purpose of this study is to identify and examine the factors that may have significant influence as determinants of auditor changes by unquoted companies. Efforts were made to include many of the factors that may affect auditor switches by unquoted companies.

Audit fees.

Prior studies suggest that audit fee variable influences auditor change. It has been argued that management bases its auditor selection decision on economic plausibility of the intended action. Naturally, management is motivated to purchase audit services from the least costly suppliers among the

competing audit firms[21]. Rational managers do so in order to minimize audit fee. The reduction in audit fee gives management some room to transfer wealth from the auditor to the company and subsequently to themselves via executive compensation. That being the case, management would be expected to change to an auditor who can offer the same level of and type of audit service as the incumbent at a reduced fee. It is assumed that management will only replace its auditor if the benefits to be derived from the reduced audit fee exceeds the cost of such a replacement. The study undertaken by Roberts et al [1990] reports that respondents stated that they sought for auditors who were willing to perform the audit for a lower fee. Perhaps this was a special case of public schools in that they depend on grants from the government but then Johnson and Lys report that changes in clients' operations and activities over time can erode the existing auditors competitive advantage thus giving management a leeway to change to a new auditor who is able to underbid the incumbent.

Audit Quality.

Audit quality may be the prime factor that management takes into account when changing an auditor. There exists some difference in the level of quality offered by CPA firms.Surrogate measures of audit quality include the probability that a detected error is disclosed and the size of the auditor,though the latter is said to be theoretically unsatisfactory [Bar-Yosef & Livnat:

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[21] Johnson and Lye: "The market for Audit Services: Evidence from voluntary Auditor Changes". Journal of Accounting and Economic Review, 1990.

1984] DeAngelo claims that larger audit firms provide a higher audit quality than small firms because they are better able to resist management pressure. In contrast, smaller audit firms may perform more thorough audits due to their intimate relations with management that enables them to uncover a greater number of errors[22]. It has been hypothesized that firms facing greater risks change to high quality auditors whereas those facing lower risks hire lower quality auditors[Datar, Feltham, & Hughes :1991]. The deterioration of the quality of audit service offered by a CPA may motivate management to replace its auditor.

Industry Expertise.

Management may be keen to change to an auditor who is well versed with clients industry characteristics. Management expects an experienced auditor to approach the audit task with efficiency that enables the release of timely reports.

Management Changes.

Management failure to guide the organization into achieving its stated objectives may invite the suppliers of capital to intervene and demand the sacking of the weak management team. This brings to an abrupt end the tenure of the management team identified as too incompetent to bring about organizational success. Such a change results in the engagement of a new management team. In practice it may not be possible to fire the entire management team but it is feasible to remove the chief

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[22] Gul, F.A: "Size of the Audit Fees and Perceptions of Auditors ability to Resist Management Pressure in audit Conflict situations". Abacus, Sept, 1991.

executive. The new management team composed of new executives may be dissatisfied with the quality of past services provided by the company's auditor, as well as the cost the cost of the audit.The new team may embark on new programmes for resuscitating the company which may include the selection of new reporting and accounting methods meant to appease the suppliers of capital. They may find it necessary to change to a new auditor who will be willing to sanction the methods advocated by management for restoration of the company. Additionally, new managers may resent the existing auditor's concurrence with old management practices and policies viewed wrong by the new team. Alternatively, the new team may prefer an auditor they have dealt with before. The change of the chief executive of a company will be used as a surrogate for capturing the effect of management change on auditor switch.

Reporting Disputes.

Corporate management is responsible for and has the control over the production and disclosure of financial information. Management may make income increasing changes in order to enhance their compensation package. Management may also select accounting methods that mask economic attributes of the company's financial position. Auditors may oppose such moves when they catch their (auditors) attention. The opposition stepped up by some professional auditors pits them against management over the appropriateness of accounting principles and disclosure policies. Management may switch from the existing auditor to a new auditor whose views on important reporting issues are more acceptable to management.

Qualified Audit Opinions.

Auditors qualify audit reports after they are satisfied that the points at issue are fundamental and material in nature and only after protracted negotiations with client management. The following circumstances lead to qualification of audit opinion:

(a) The occurrence of uncertainty which prevents the auditor from forming an opinion on a given matter.

(b) The disagreement that occurs between the auditor's opinion and the view given by financial statements.

These circumstances give rise to the following types of qualified audit opinions :

The first type is the " disclaimer opinion" where the auditor is unable to form an opinion as to whether the financial statements give a true and fair view. This kind of opinion obtains where the source of uncertainty is fundamental.

The second type is "an adverse opinion" in which case the auditor states that in his opinion the financial statements do not give a true and fair view This type of opinion is given when the disagreement is of fundamental nature. This is the most harsh of all the qualified audit opinions.

The third type of qualified audit opinion is "the subject to" where the auditor disclaims a particular matter which is not considered material but not fundamental.

The fourth type of audit opinion is the "except " opinion. The auditor expresses an adverse opinion on a particular matter which is not considered fundamental. Even though there may exist sufficient grounds for qualifying audit opinions, it is surprising to note that some companies receive clean audit

opinions only to collapse a little while later [for example Bank of Commerce and Credit International in 1991 and the collapse of financial institutions in 1986]. One among some of the reasons advanced for this state of affairs are that management succeed to mask the true economic attributes of the company through " a web of enormous and complex fictitious transactions" that manage to escape even the most sophisticated auditing procedures employed by auditors. The other could be that in the process of the protracted negotiations auditors and management strike a deal to conceal the true status of the company For this reason to hold water it is assumed that the auditor prefers the benefits of the deal after taking all precautionary measures in the event of any legal suit should the company collapse into bankruptcy. It is the fervent wish of management to avoid qualified audit opinions because such qualifications would spell doom to their otherwise lucrative careers, the morale of the company's employees, the firm's ability to raise capital from banks, the firm's ability to obtain credit facilities from suppliers, and managements' compensation. Therefore, management may attempt to pressure auditors to issue clean

opinions by threatening to switch to other auditors. This alone may trigger an exodus of auditors who stick to their guns and be able to defy pressure exerted by management. Even if auditors go ahead to issue a qualified opinions contrary to the wishes of management for clean opinions by not leaving the audit assignment uncompleted,management may refuse to reappoint them come the end of the financial year following the receipt of a qualified audit opinion.

Need for Non-audit Services.

A controversy still exists as to whether the provision of non-audit services by audit firms impairs auditors' independence. This controversy centres around the ability of public accounting firms to evaluate objectively a set of financial statements while simultaneously providing consulting services to the client. The results of the studies on auditor independence and the provision of non-audit services are inconsistent. The possibility of impairment of auditor independence for providing non-audit services is likely to be insignificant in Kenya because public secretaries offer most of the non-audit services. The major types of non-audit services required by firms include Tax services, executive recruitment services, management advisory services, data processing services among others [Cowen:1980]. A company may change from the existing auditor to a new auditor who can offer a wider scope of services. A company may desire to optimize the package of services it receives from an audit firm, by switching auditors in order to benefit from the various dimensions of the audit product subject to the constraint of the audit cost.

Competition Among Audit Firms.

Auditor switches can be a recurring phenomena especially where stiff competition among the audit firms is the order of the industry. A high competition among the audit firms occurs where the suppliers of audit services compete for fewer beneficiaries of audit services.In a market characterised by high competition for the provision of audits, management tend to encourage bidding by audit firms to enable them to purchase the services of the

most economical supplier(s). This action by management tends to fuel auditors turnover. The result is an audit performed at a reasonable price to the public. The natural byproduct of competition is that some auditors will gain new clients and lose older clients. The gaining and losing of clients is nothing other than auditor changes[Ricchiutte:1989].

Client Financial Health

A company is deemed to be in good financial condition when it can meet its obligations as they fall due. On the other hand, a company in red is said to be unable to meet its debts as they fall due. Firms at the verge of financial collapse may resort to auditor switching in order to avoid qualified audit opinions though there is no guarantee that the new auditor will not qualify the reports. The more appealing hypothesis is to assume that distressed firms replace their auditors in their quest for lower audit fees. Financially sound firms may change auditors for some reasons different from those of financially trapped companies.

Auditor reputation.

Most if not all of the accounting firms strive to build good image and reputation. In doing so they are creating a brand name for themselves. Poor image posited by an accounting could lead to auditor changes.

Lack of Confidentiality.

An auditor should not disclose any of the client's confidential information obtained in the course of professional engagements except with the express consent of the client. An auditor encounters clients' confidential information in the

course of conducting compliance, substantiative, and analytical review procedures. An auditor is only allowed to disclose clients' confidential information in response to court issued summons. The purpose of prohibiting the disclosure of clients' confidential information is to safeguard the clients' competitive edge in the industry. Management may replace an existing auditor with a new auditor if the present auditor has failed to keep the clients' secret and confidential information [Muthamia : 1990]. This represents a damage control exercise done to seal one of some of the conduits serving as channels through which clients' secrets are conveyed to their competitors.

Influence of head office

Some of the public companies in kenya are subsidiaries whose parent companies influence their decisions including those on auditor changes. Management of subsidiaries may be prevailed upon by the head office to change their local auditors to correspond with changes made by the headquarters. This is expected to be a common practice of multinationals which are represented here in Kenya by subsidiaries.

Organizational Complexity

Organizational complexity refers to the degree of sophistication and specialisation that results from differentiation, integration, and spatial dispersion [Hodge and Anthony : 1988]. The relevant elements of organizational complexity in this regard concern the decentralisation and diversification of the financial reporting entity. These dimensions of complexity increase the number of decision centres in an organization whose activities need to be monitored. Some

of the most complex firms have numerous subsidiaries and operate in different industries. The factors that influence auditor switches in complex firms may not necessarily be the same as those factors in less complex organizations [Simunic : 1980].

Size

A company can be designated as either a small firm or a large firm. Size refers to the degree of smallness or largeness of a firm and is measured by a company's turnover (sales), total assets employed, and number of employees among other measures. The first two measures of size are obtained from the company's financial statements whereas the third measure comes from the company's personnel records. Large firms may demand different audit service packages from those demanded by small companies. The frequency of auditor switches may depend on the size of a company [Simunic :1980, Gosman : 1973]. Size will be measured by the number of employees of a company.

Ownership

Firms are either wholly owned by shareholders or are partly owned by management, employees, and shareholders. If a firm is wholly owned by shareholders, management may falsify reports in its favour. In the absence of an external auditor, shareholders would discount the reports produced by management. If the company is jointly owned by management, employees, and shareholders there is very little by way of divergence of management's and shareholders' interests. Changes in ownership of an auditee brought about by merging of two or more entities may lead to auditor changes. This may be due the desire of the owners of the resultant entity to have their once separate

entities to be audited by one auditor. A change of ownership resulting from the takeover of a firm may also trigger a change of auditor of the firm taken over.

Income Tax services.

Companies are known to hire services of public accountants to audit their accounts for tax purposes. Auditors are engaged by companies to prepare their tax returns to be filed with the commissioner of income tax.

CHAPTER THREE

3.0 RESEARCH DESIGN

3.1 The Population :

The population of interest to this study comprised all the unquoted companies. This population was considered appropriate to gather the requisite information needed in a reasonable amount of time. The list of all companies was obtained from the records in the registrar of companies' office. The publicly quoted companies were then deleted from the list. The remaining firms formed the population of interest. Only auditor changes that occurred between 1981 and 1990 were considered. A ten year period was considered reasonably long enough to facilitate the collection of sufficient data.

3.2 Sampling Plan.

A sample 100 firms was selected from the population of 25643 companies that were operational in 1990. The procedure for sample selection was as follows: All the companies were assigned numbers. The companies were then selected using the random numbers obtained from the random number table. A sample of 100 companies represented by the random numbers was chosen.

3.3 Data collection procedure :

A questionnaire was used as the primary tool to gather the pertinent information required for this study. The questionnaire was designed to tap information on factors that determine auditor changes(Appendix 6B). The questionnaire was administered by the "drop-and-pick" method so as to encourage the response.

3.4 Data Analysis.

The study involved quantal responses or binary responses in

that companies indicated whether or not they had changed their auditor(s). The data obtained was analyzed using the conditional logit model. This is a statistical tool for analyzing data for which the response variable is dichotomous in nature. The dependent variable in this study was auditor change, a qualitative variable symbolised by AC.It had only two possible outcomes which took the values 1 if the company changed the auditor and 0, otherwise. The values 1 and 0 are indicator variables which rely on the data to show the differential effects that occur[23].

3.5 Features of the conditional logit model.

(i) The error terms do not follow normal distribution.

(ii) The variances of error terms are heteroscedastic because these variances depend on the conditional expectation of the response variable, which in turn, depend on the value taken by the independent variable. This problem of heteroscedasticity will be solved by transforming the data by dividing both sides of the model by the square root of the variance.

(iii) The estimating equation is unbounded for there is no guarantee that the predicted value of the dependent variable will be in the [0,1] interval[24].

(iv) It is a maximum likelihood procedure which applies a transformation to the dependent variable.

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[23] Neter, J, Wesserman, W. & Kurtner, M.H.: Applied Statistical Model. Illinois, Richard D. Irwin, Inc. 1985

[24] Gujarati, D.N.: Basic Econometrics. New York, McGraw-HIll Publishing Co., 1988.

(v) Appropriate for issues in which the response variable is dichotomous in nature.

The model was chosen because of the following advantages associated with it. First, the model yields estimators that are asymptotically efficient and normally distributed. Second, It is a reasonably good approximation procedure even for quite small samples. This takes care of the inherent problem of non-response. The significance of the model was tested by multiplying -2 by the log likelihood ratio. A statistic distributed as a chi-square with degrees of freedom equal to the number of independent variables was obtained. The correlation matrix of all the variables was used to determine the variables which had multicollinearity effect on the model[25].

To facilitate the testing of whether or not the factors identified significantly influence auditor switching, the relation was expressed as an equation of the form :

$$Ac = a + b_1AF + b_2AQ + b_3IE + b_4MG + b_5RD + b_6QO + b_7NS + b_8LQ + b_9AR + b_{10}LC + b_{11}IH + b_{12}SZ + b_{13}OW + b_{14}OC + b_{15}DS + b_{16}TS + b_{17}OT$$

Where,

AC = Changed auditor, takes the value 1, 0, otherwise.

AF = Unaffordable fees, takes 1, 0, otherwise.

AQ = Unsatisfactory quality of audit service, takes 1, 0, otherwise.

IE = Auditor lacked industry expertise,takes 1, 0 otherwise.

MG = Management change took place, takes 1, 0, otherwise.

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[25] Chow and Rice: "Qualified Audit opinions and Auditor Switching". The Accounting Preview. April. 1982

RD = Reporting dispute occurred, takes 1, 0, otherwise.

QO = Received qualified opinion, takes 1, 0, otherwise.

NS = Need for non-audit services, takes 1, 0, otherwise.

LQ = Had liquidity problems, takes 1, 0, otherwise.

AR = Poor reputation, takes 1, 0, otherwise.

IH = Influence of head office, takes 1, 0 otherwise.

SZ = Small size, takes 1, 0, otherwise.

OC = Organization is complex takes 1, 0, otherwise.

DS = Demand by shareholders, takes 1, 0, otherwise.

TS = Unsatisfactory tax services, takes 1, 0, otherwise.

OT = Other, takes 1, 0, otherwise.

a = Constant.

bi = The coefficients which indicate the probability by which AC changes for a unit change in any of the independent variables, holding other things constant.

where i = 1,2,3..... 17.

CHAPTER FOUR

4.0 DATA ANALYSIS AND RESULTS.

4.1 INTRODUCTION.

This chapter is devoted to analysis of data collected from 65 companies that responded and the presentation of the results thereof. It commences with an overview of the results, followed by tabulation and finally the presentation of results obtained f rom the use of conditional logit model.

4.2 OVERVIEW.

The total number of questionnaires distributed to the selected companies were 100 out of which 65 were later collected from the companies. The response rate therefore was 65% which compares favourably with a prior study here in kenya (Muthama A.: 1990, 58%). An analysis of auditor switches showed that thirty two (49.23%) firms changed auditors whereas thirty three (50.77%) firms did not. Almost all companies did change auditors between 1986 and 1990 inclusive.Firms were classified as "Switchers" if they had changed auditors during the period 1981 and 1990, and as "Non-switchers" if they did not change auditors during the same period of study.

4.3 TABULATION

Several tables were set up to capture the association between auditor switching and various factors cited by the companies that were interviewed. From the contingency table 1, 8 of the 32 firms that changed auditors cited unaffordable fees as the significant factor for changing their auditors though of course 24 firms felt that they could afford the audit fees were it not for one or more of the other factors.

20 companies of those categorised as non-switchers felt that the fees were high but did not change their auditors since they were satisfied with them for one reason or another. 13 non-switchers revealed that their auditors charged affordable audit fees.

Table 2 indicates that 12 firms switched auditors because of unsatisfactory quality of audit service whereas 20 of them changed auditors despite satisfactory quality of audit service. 31 firms categorised as non-switchers cited

Table 1

The association between audit fees(AF) and auditor switching(AC).

Category	Unaffordable Audit Fee	Affordable Audit Fee	Total
Switchers	8	24	32
Non-Switchers	20	13	33
Total	28	37	65

Table 2

The association between Quality of audit service(AQ)and Auditor switching(AC).

Category	Satisfactory Quality of Audit Service	Unsatisfactory Quality of Audit service	Total
Switchers	20	12	32
Non-Switchers	31	2	33
Total	51	14	65

factor responsible for the decision to retain the auditor during the period under study. Only 2 companies did not change auditors though the auditors offered unsatisfactory quality of audit service.

Table 3 shows that 7 companies changed auditors for lack of industry expertise and that 25 companies switched auditors despite unsurpassed industry expertise. 24 firms did not change auditors their auditors although the auditors lacked industry expertise whereas 9 companies believed that their auditors had unsurpassed industry expertise.

Table 3

The association between lack of industry expertise(IE) and Auditor switching(AC).

Category	Lack of Industry Expertise	Industry Expertise	Total
Switchers	7	25	32
Non-Switcers	24	9	33
Total	31	34	65

Table 4 captures the fact that 9 firms switched auditors as a result of management change that took place during the period under study whereas the change auditors by the other 23 firms was accounted for by other factors. Only one company did not change the auditor(s) despite change in management that took place.

Table 4

The association between management change (MG) and Auditor switching (AC).

Category	Management Change Took Place	No Management Change	Total
Switchers	9	23	32
Non-Switchers	1	32	33
Total	10	55	65

Table 5

The association between the occurrence of a reporting dispute (RD) and Auditor switching (AC).

Category	Reporting Dispute Occurred	Lack of Reporting Dispute	Total
Switchers	4	28	32
Non-Switchers	19	14	33
Total	23	42	65

From table 5 it can be deduced that 4 firms changed auditors because of reporting disputes that occurred between the companies and their auditors whereas 28 companies did change auditors despite lack of reporting disputes. Although reporting disputes occurred, 19 firms did not change their auditors. It can be safely assumed that the points of disagreements were ironed out to the satisfaction of the companies and their auditors.

Table 6 shows clearly that 5 companies resorted to auditor switching as result of receiving qualified audit

opinion whereas 4 companies did not change their auditors though they received qualified audit opinions.

Table 6

The association between qualified audit opinion (QO) and Auditor Switching (AC).

Category	Received Qualified Audit Opinion	Received Unqualified Audit Opinion	Total
Switchers	5	27	32
Non-Switchers	4	29	33
Total	9	56	65

From this one can reservedly conclude that companies in Kenya rarely receive qualified audit opinions. This is a reserved comment because there was no access to the financial statements of companies studied to verify whether or not they received qualified audit opinions.

Table 7 indicates that 7 companies changed auditors in search of a new one who would offer non-audit services whereas 5 companies did not change them despite the inability of the auditors to offer non-audit services.

Table 7

The association between the need for non-audit services (NS) and Auditor switching (AC).

Category	Need for non-Audit Services	Did not need non-Audit Services	Total
Switchers	7	25	32
Non-Switchers	5	28	33
Total	12	53	65

From table 8 it is discernable that only 2 companies encountered liquidity problems and one of the two changed auditors. A total of 63 companies responded that their liquidity position was good during the period under study.

Table 8

The association between liquidity problems (LQ) and Auditor change (AC).

Category	Had Liquidity Problems	Had no Liquidity Problems	Total
Switchers	1	31	32
Non-Switchers	1	32	33
Total	2	63	65

Table 9 shows that 4 firms changed auditors citing poor reputation of the audit firms whereas 15 companies were not disturbed by the poor reputation of the auditor. 28 companies did change their auditors despite good reputation.

Table 9

The association between auditor reputation (AR) and Auditor switching (AC).

Category	Poor Reputation	Good Reputation	Total
Switchers	4	28	32
Non-Switchers	15	18	33
Total	19	46	65

Table 10 indicates that only one company changed the auditor because it felt that the auditor was in breach of trust in divulging the company's confidential information. In contrast, 12 companies ignored auditors lack of confidentiality by not changing their auditors.

Table 10

The association between lack of confidentiality (LC) and Auditor switching (AC).

Category	Lack of Confidentiality	Auditor Keeps Confidential Information	Total
Switchers	1	31	32
Non-Switchers	12	21	33
Total	13	52	65

From table 11, 8 companies did change auditors as demanded by the head office. As expected, these companies were subsidiaries of multinational corporations.

Table 11.

The association between influence of head office (IH) and Auditor Change (AC).

Category	Influence of Head Office	No Influence of Head Office	Total
Switchers	8	24	32
Non-Switchers	3	30	33
Total	11	54	65

Table 12 shows 19 firms out of 37 small size companies did change the auditors whereas 13 firms out of 28 medium or large size companies did change the auditors. There were more small firms that changed auditors than medium or large companies. Small firms that did switch auditors were more in number than those that did not change auditors.

Table 12

The association between size (SZ) and Auditor switching (AC).

Category	Small Size	Medium or Large	Total
Switchers	19	13	32
Non-Switchers	18	15	33
Total	37	28	65

Table 13 indicates that 5 companies were classified as complex as indicated by their number of branches in the country. 3 out of these changed auditors. It is quite clear from the above table that most of the companies (60) were less complex when the same surrogate was used.

Table 13

The association between organisational complexity (OC) and Auditor change(AC).

Category	Organization is Complex	Organization is not Complex	Total
Switchers	3	29	32
Non-Switchers	2	31	33
Total	5	60	65

From table 14 the demand for the change of auditors by shareholders influenced auditor switching by 12 companies. 20 companies successfully resisted the demand by shareholders for auditor change. 20 companies classified as switchers did change even though the shareholders did not demand such a change. It is to be presumed that auditor changes by these companies (switchers) were precipitated through management initiatives.

Table 14

The association between demand by shareholders (DS) and Auditor switching (AC).

Category	Demand By Shareholders	Shareholders did not Demand	Total
Switchers	12	20	32
Non-Switchers	20	13	33
Total	32	33	65

Table 15

The association between tax services (TS) and auditor switching (AC).

Category	Satisfactory Tax Services	Unsatisfactory Tax Services	Total
Switchers	5	27	32
Non-Switchers	9	24	33
Total	14	61	65

Table 15 shows that 5 firms out of 14 companies that were dissatisfied with tax services offered by their auditors did switch the auditors. Though satisfied with the tax services, 27 companies, nonetheless, switched auditors. Overall, 51 companies were satisfied with the tax services offered their auditors.

Table 16 captures the association between auditor switching and other factors that did not appear in the questionnaire. 13 companies did change auditors because of other reasons not mentioned in the questionnaire whereas 28 did not change auditors. Among the reasons cited for not changing auditors include the mutual business benefits that arise in arrangement where auditors give business to their clients. For instance giving valuation jobs to a firm of registered valuers which they audit.

Table 16

The association between other factors (OT) and auditor switching (AC).

Category	Other Factors	Reasons Already Considered	Total
Switchers	13	19	32
Non-Switchers	28	5	33
Total	41	24	65

4.4 DESCRIPTIVE STATISTICS

The descriptive statistics for the dependent variable(AC) and all the independent variables are presented in table 17. The descriptive statistics shown in table 17 were obtained from computer print out(See Appendix 1). The SPSS computer software package at the institute of computer science, chiromo campus, was used to obtain the descriptive statistics presented in the above table and all subsequent regression results. The sample mean for the dependent variable (AC) is 0.492. The dependent variable is associated with a higher variation compared with all the independent variables. The independent variable AQ (Quality of audit service) had the highest sample mean (0.662) among the independent variables whereas LQ (Liquidity problems) had the lowest sample mean (0.031). This implies that more companies in the sample cited quality of audit service as a factor responsible for either auditor switching or auditor retention. The independent variable symbolised as TS (Tax services) was subject to higher variation than any of the other independent variables.

Table 17
The descriptive statistics.

Variable	N	Mean	Standard Deviation
AC	65	0.492	0.504
AF	65	0.431	0.499
AQ	65	0.662	0.477
IE	65	0.246	0.434
MG	65	0.154	0.364
RD	65	0.262	0.443
QO	65	0.138	0.348
NS	65	0.185	0.391
LQ	65	0.031	0.174
AR	65	0.338	0.477
LC	65	0.323	0.471
IH	65	0.123	0.331
SZ	65	0.569	0.499
OC	65	0.077	0.269
DS	65	0.375	0.488
TS	65	0.446	0.501
OT	65	0.631	0.486

4.5 REGRESSION RESULTS

The conditional logit analysis was carried out for the equation on page 32. The data that was fed into the computer appear in appendix 2. A variable was assigned the value 1 if the tick was against significant and very significant and 0 otherwise. Table 18 below presents the results from the logistic regression model.

Table 18

VARIABLES RELATED TO AUDITOR SWITCHING.

Variable	Coefficient	Asymptotic t-score
AF	-0.07290	-0.630
AQ	-0.37697	-3.006
IE	0.18940	1.603
MG	0.19880	1.565
RD	-0.07786	-0.651
QO	-0.01115	-0.088
NS	0.01522	0.126
LQ	-0.49360	-1.685
AR	-0.09654	-0.714
LC	-0.17327	-1.274
IH	-0.06742	-0.449
SZ	0.17000	1.708
OC	0.48540	2.345
DS	0.05082	0.537
TS	-0.09021	-0.785
OT	-0.21791	-1.953
Constant	0.86142	7.473

Adjusted R^2 = 0.57301

Chi-square(16 d.f.) = 1221.87148 (see appendix 3)

The t-scores in table 18 show clearly that the quality of audit service(t-value = -3.006) and organisation complexity (t-value = 2.345) are the significant variables at 0.05 in explaining auditor changes(Refer to computer print out in appendix 5). The quality of audit service is significant and negatively related to auditor switching whereas organisation complexity is also significant but positively related to auditor changes.Two other variables are significant at 0.1. These are size and liquidity problems. From these results it appears that auditor switching by unquoted companies operating in Nairobi is not strongly associated with audit fees, industry expertise, management change, auditor reputation, lack of confidentiality, demand by shareholders, influence by head office, satisfactory

tax services, reporting disputes and need for non-audit services.

The chi-square statistic was computed by multiplying -2 by the log likelihood ratio for use in testing the significance of the model. This statistic was found to be 1221.87148 (refer to computer print out in appendix 3) compared with that of Chow and Rice : 1982 (79.1398). This statistic is significant at 0.005 level. The value for adjusted R^2 is 0.57301 compared to that Ettredge and Greenberg [1990], 0.64. This means that 57.301% of the variation in auditor change is explained by the independent variables jointly. The adjusted R^2 was preferred because the estimated R^2 tends to give an overly optimistic picture of the fit of the regression, particularly where the number of explanatory variables is not very small compared with the number of observations[Theil H. as quoted in Gujarati D.N, Basic Econometrics, New york, McGraw-Hill Publishing company, 1988, p. 183].

Though there is no unique method of detecting the presence or the strength of the effect of multicollinearity (which is essentially a sample phenomenon), a pair-wise correlation among the regressors were carried out. Table 19 presents the correlations among the variables extracted from the computer print out (see appendix 4).

Table 19 : CORRELATIONS AMONG VARIABLES

	AC	AF	AQ	IE	MG	RD	QO	NS
AC	1.00000							
AF	-0.4216	1.00000						
AQ	-0.5963	0.2939	1.00000					
IE	-0.0626	0.0078	0.2578	1.0000				
MG	0.3477	-0.1126	-0.2357	-0.144	1.0000			
RD	-0.3059	0.4720	0.1298	0.2288	-0.156	1.0000		
QO	0.0507	0.0111	0.0985	0.0811	0.0760	0.0655	1.0000	
NS	0.0866	0.1466	0.0890	0.1883	0.1268	-0.012	0.0389	1.000
LQ	0.0027	0.0249	-0.2491	-0.101	0.1709	0.096	-0.071	-0.08
AR	-0.5093	0.3626	0.5116	0.1951	-0.124	0.3881	-0.004	-0.00
LC	-0.5487	0.3955	0.3551	0.2926	-0.203	0.337	-0.086	0.010
IH	0.0994	-0.1368	-0.2269	0.1121	-0.030	-0.009	-0.014	-0.05
SZ	0.0488	0.3176	0.0343	-0.079	0.1126	0.0935	0.0789	0.253
OC	0.1777	-0.0179	-0.1596	-0.030	-0.039	0.0910	0.0514	0.160
DS	0.0645	0.1225	0.0849	0.1048	0.0222	0.0000	0.1509	0.074
TS	-0.5743	0.4067	0.5766	0.1337	-0.296	0.2405	0.0882	0.051
OT	-0.5857	0.4724	0.3286	-0.080	-0.203	0.2377	-0.062	-0.04

	LQ	AR	LC	IH	SZ	OC	DS	TS
LQ	1.00000							
AR	-0.1274	1.00000						
LC	0.0674	0.6182	1.00000					
IH	-0.0668	0.0289	0.1417	1.0000				
SZ	0.1550	0.0313	0.0031	-0.336	1.0000			
OC	0.2829	0.0375	0.0475	0.2433	-0.098	1.0000		
DS	-0.1391	0.2148	-0.0348	0.0976	0.0976	0.0667	1.0000	
TS	-0.1599	0.4699	0.4388	-0.147	0.0933	-0.142	0.0325	1.000
OT	0.1363	0.3451	0.4604	-0.101	0.1070	-0.018	0.0000	0.430

Kmenta(as quoted by Chow & Rice:1982) argues that some degree of multicollinearity almost always exists but the point at which it becomes "harmful" has never been satisfactorily

determined.According to one criterion, if the overall equation is significant, but none of the t-statistics(except the constant) for the regression coefficients is significant,then multicollinearity is regarded as "harmful". According to this first criterion, there is no "harmful" multicollinearity. Another criterion has it that if pair-wise correlation coefficient between two independent variables is high, say in excess of 0.8, then multicollinearity is serious problem. Again, none of the pair-wise correlations among independent variables is high enough as to warrant a serious multicollinearity problem(see table 19).

CHAPTER FIVE

5.0 SUMMARY AND CONCLUSION

This final chapter summarizes and gives conclusions on the major findings in relation to the objective of the study. The chapter highlights the limitations of the study and ends with some recommendations for future research.

5.1 SUMMARY AND CONCLUSIONS.

A questionnaire was designed for use in collecting pertinent information. A sample of 100 firms was selected out of which 65 responded to the questions asked. The rudimentary analysis of data obtained showed that 32 firms did change auditors over the period 1981-1990. It turned out that most of the auditor switches occurred between 1986 and 1990 inclusive. The data was tabulated and it was found that there were more small firms that changed auditors than medium or large firms.The descriptive statistics showed that quality of audit service had the highest sample mean. The dependent variable AC and tax services (TS) exhibited wide variations compared to the other variables. The data was analyzed using the conditional logit model. The results suggest that auditor switching is significantly associated with the quality of audit service offered by audit firms. At 0.05 organisation complexity was significant and positively associated with auditor switching. Two more factors were significant at 0.01. These factors were size of the company and financial distress (Liquidity problems). It was found that the other factors for instance audit fees, industry expertise, management

change, qualified audit opinion, reporting disputes, lack of confidentiality, need for non-audit services, influence of head office, demand by shareholders, tax services and auditor reputation were not significantly associated with auditor changes. The model was found to be significant at 0.005. The correlation analyses that was carried out showed that multicollinearity was not a serious problem in this study. Several conclusions were reached on the basis of the results obtained. First and foremost was that many companies cited quality of audit service as a factor responsible for auditor change or the retention of the auditor.This came out clearly from the descriptive statistics presented in table 17. Secondly, it was concluded that there was a high auditor turnover among the small firms. Third, it was concluded that quality of audit service was highly significant in explaining auditor changes by unquoted companies. This points out that firms pay closer attention to the quality of service offered by auditors.The contention is that unquoted companies in Kenya are overly concerned with the quality of audit service provided by audit firms. Many of the companies interviewed preferred an auditor who did a satisfactory quality job to them. They summarised the basic tenets comprising the quality of audit service as quality of recommendations made by auditors, the release of audit report in time, the detection of material errors in financial statements, the support of auditors in implementing the recommendations, and the confidence that outsiders (e.g bankers) have on the audit report. Not many of those companies that cited quality of audit service as a

significant reason for changing or retaining the auditor, wanted their auditors to detect errors but expressed the willingness to accept to remedy the occurrence of errors if any were detected. Companies were concerned about the release of audit report in time to enable the companies to fulfil the requirements of income tax act and also to present the report to interested parties(e.g Bankers). This finding tends to suggest that firms switch auditors once they discern a deterioration of the quality of audit service offered by the incumbent auditors.

It was also found that more complex organisations tend to switch auditors more than less complex companies. The number of branches a company had in kenya was used as a surrogate measure for organisation complexity. This was based on the reason that the more the branches the more complex would be the audit work required. Companies that have branches located in different places in the country face many challenges in each environment in which they operate.They would therefore prefer to engage an auditor whose recommendations when fused together with those of management enables the companies to compete favourably in their respective business environments.

The variable proxying for size is also significant at 0.1 This means that size is associated with auditor switching. From table 12, we find that there were more small size companies that changed auditors than the medium or large size companies.This finding suggests that auditor switching is a common phenomenon among the small firms. This may due to the fact many small companies in are run as a one man show. The owner cum the manager may want to select accounting methods that mask the true

economic of the company's financial affairs.Managers of this calibre will always keep trying auditors one by one with the aim of getting who will accept the accounting methods sought by such managers. It was not in the interest of small firms to cite unsatisfactory tax services as one of the factors influencing auditor change.

Like Schwartz and Menon, we found that financially ailing firms had a tendency of changing auditors.Financial distress was captured by asking companies whether or not they encountered any liquidity problems during the period under study.

In contrast to Chow and Rice :1982, we did not find qualification of audit opinion a significant factor influencing auditor changes by unquoted companies.

5.2 LIMITATIONS OF THE STUDY

1. Owing to the short time during which the research was to be finalised, it was not possible to collect all the questionnaires that were distributed to the companies.
2. The questionnaire was used as an instrument for collecting data. It is also possible respondents were giving their own views and not the official stand of their respective companies.

5.3 RECOMMENDATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

Taking into account the results obtained it would suffice to make the following recommendations.

Auditors should put more emphasis on the quality of audit service that they offer in the audit industry. Some companies seek specialised package of audit services tailored to suit their demands and preferences.

Future research should be geared towards the following areas.

1. A similar study should be undertaken covering the period prior to 1981 and comparing its results with the findings of this study.

2. A similar study should be undertaken involving unquoted companies operating in other major towns in Kenya, but covering the same period.

3. Further research could narrowed to small companies to find out whether the results would differ significantly from those of the unquoted companies.

This procedure was completed at [illegible]
[illegible] VARIABLES=V001 TO V0[illegible]/STATISTICS DEFAULT.

V001 CHARGED AUDITOR (AC)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	33	50.8	50.8	50.8
	1	32	49.2	49.2	100.0
	TOTAL	65	100.0	100.0	

Mean .492 Std Dev .504 Minimum .000
Maximum 1.000

Valid Cases 65 Missing Cases 0

V002 UNAFFORDABLE FEES (AF)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	37	56.9	56.9	56.9
	1	28	43.1	43.1	100.0
	TOTAL	65	100.0	100.0	

Mean .431 Std Dev .499 Minimum .000
Maximum 1.000

Valid Cases 65 Missing Cases 0

V003 UNSATISFACTORY AUDIT SERVICE (AQ)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	22	33.8	33.8	33.8
	1	43	66.2	66.2	100.0
	TOTAL	65	100.0	100.0	

Mean .662 Std Dev .477 Minimum .000
Maximum 1.000

Valid Cases 65 Missing Cases 0

004 AUDITOR LACKED EXPERIENCE (IE)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	49	75.4	75.4	75.4
	1	16	24.6	24.6	100.0
	TOTAL	65	100.0	100.0	

Mean	.246	Std Dev	.434	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

---

005 MANAGEMENT CHANGE TOOK PLACE (MG)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	55	84.6	84.6	84.6
	1	10	15.4	15.4	100.0
	TOTAL	65	100.0	100.0	

Mean	.154	Std Dev	.364	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

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006 REPORTING DISPUTE OCCURRED (RD)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	48	73.8	73.8	73.8
	1	17	26.2	26.2	100.0
	TOTAL	65	100.0	100.0	

Mean	.262	Std Dev	.443	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

---

007 RECEIVED QUALIFIED OPINION (QO)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	56	86.2	86.2	86.2
	1	9	13.8	13.8	100.0

ean	.138	Std Dev	.346	Minimum	.000
aximum	1.000				
alid Cases	65	Missing Cases	0		

V008 NEED FOR NON AUDIT SERVICES (NS)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	53	81.5	81.5	81.5
	1	12	18.5	18.5	100.0
	TOTAL	65	100.0	100.0	

Mean	.185	Std Dev	.391	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

V009 HAD LIQUIDITY PROBLEMS (LQ)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	63	96.9	96.9	96.9
	1	2	3.1	3.1	100.0
	TOTAL	65	100.0	100.0	

Mean	.031	Std Dev	.174	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

V010 POOR REPUTATION (AR)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	43	66.2	66.2	66.2
	1	22	33.8	33.8	100.0
	TOTAL	65	100.0	100.0	

ean	.338	Std Dev	.477	Minimum	.000
aximum	1.000				
alid Cases	65	Missing Cases	0		

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011 (LC)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	44	67.7	67.7	67.7
	1	21	32.3	32.3	100.0
	TOTAL	65	100.0	100.0	

Mean	.323	Std Dev	.471	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

- -

012 INFLUENCE OF HEAD OFFICE (IH)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	57	87.7	87.7	87.7
	1	8	12.3	12.3	100.0
	TOTAL	65	100.0	100.0	

Mean	.123	Std Dev	.331	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

013 SMALL SIZE (SZ)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	28	43.1	43.1	43.1
	1	37	56.9	56.9	100.0
	TOTAL	65	100.0	100.0	

Mean	.569	Std Dev	.499	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

- -

014 ORGANIZATION IS COMPLEX (OC)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	60	92.3	92.3	92.3
	1	5	7.7	7.7	100.0
	TOTAL	65	100.0	100.0	

[illegible]	.077	Std Dev	.269	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

VO15 (DS) DEMAND BY SHAREHOLDERS

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	40	61.5	62.5	62.5
	1	24	36.9	37.5	100.0
	.	1	1.5	MISSING	
	TOTAL	65	100.0	100.0	

Mean	.375	Std Dev	.488	Minimum	.000
Maximum	1.000				
Valid Cases	64	Missing Cases	1		

VO16 SATISFACTORY TAX SERVICES (TS).

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	36	55.4	55.4	55.4
	1	29	44.6	44.6	100.0
	TOTAL	65	100.0	100.0	

Mean	.446	Std Dev	.501	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

VO17 OTHER (OT)

Value Label	Value	Frequency	Percent	Valid Percent	Cum Percent
	0	24	36.9	36.9	36.9
	1	41	63.1	63.1	100.0
	TOTAL	65	100.0	100.0	

Mean	.631	Std Dev	.486	Minimum	.000
Maximum	1.000				
Valid Cases	65	Missing Cases	0		

1	1	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0
2	1	1	1	1	0	0	0	0	0	0	0	1	0	0	0	0
3	0	1	1	0	0	1	0	0	0	1	1	0	1	0	1	1	1
4	0	1	1	0	0	1	0	0	0	1	1	0	1	0	1	1	1
5	1	0	1	1	0	1	1	0	0	0	0	0	0	0	0	0	0
6	1	0	0	0	0	0	0	0	0	0	0	1	0	1	0	0	0
7	1	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	1
8	0	1	1	0	0	0	0	0	0	0	0	1	0	0	1	1	1
9	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1
10	0	1	1	0	0	0	0	1	0	0	1	0	1	0	0	1	1
11	1	0	1	0	1	0	0	1	0	1	0	0	0	1	0	0	0
12	0	1	1	0	0	1	1	0	0	1	1	0	1	0	0	1	1
13	1	0	0	0	1	0	0	0	0	0	0	0	1	0	0	0	0
14	0	1	1	1	0	1	0	0	0	1	1	0	1	0	1	1	1
15	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	1	1
16	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
17	0	1	1	0	0	1	0	1	0	1	1	0	1	0	0	1	1
18	0	1	1	1	0	1	0	1	0	1	1	1	1	0	1	1	1
19	1	0	1	0	1	0	1	0	1	0	0	1	0	1	1	1	0
20	0	0	1	0	0	0	0	0	0	1	1	0	0	0	0	0	1
21	1	0	1	0	0	0	0	0	0	0	0	1	0	0	0	1	1
22	1	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0
23	0	1	1	0	0	0	1	0	0	1	1	0	1	0	1	0	1
24	0	0	1	1	0	1	0	0	0	1	1	0	0	0	0	1	1
25	0	1	1	0	0	0	0	0	0	1	1	0	1	0	0	1	1
26	1	0	1	1	0	0	0	1	0	0	0	0	1	0	1	0	0
27	0	1	1	0	0	0	0	0	0	1	0	0	0	0	0	1	1
28	1	0	0	0	0	0	0	1	0	0	0	0	1	0	0	0	0
29	1	0	0	0	0	0	0	0	0	0	0	1	0	1	1	0	0
30	1	0	1	0	1	0	0	0	0	0	0	1	0	0	0	0	1
31	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
32	0	0	1	0	0	0	0	0	1	0	0	0	0	0	0	1	1
33	1	1	1	0	0	0	1	0	0	0	0	1	0	0	0	1	1
34	0	1	1	0	0	0	1	1	0	0	0	0	1	0	0	1	1
35	0	1	1	0	0	0	0	0	0	1	1	0	0	0	1	1	1
36	0	0	1	1	0	0	0	0	0	1	1	1	0	0	0	0	1
37	1	0	0	1	0	0	1	0	0	0	0	0	0	0	0	1	0
38	1	1	0	0	1	0	0	0	0	0	0	1	0	1	0	1	0
39	1	0	0	1	0	0	0	0	0	0	0	0	0	1	0	0	0
40	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	1
41	0	1	1	1	0	1	0	0	0	1	1	0	1	0	0	1	1
42	1	1	1	0	0	0	0	0	0	1	0	0	1	0	1	1	0
43	0	0	1	1	0	0	0	0	0	1	1	1	0	0	1	1	1
44	1	1	0	0	0	1	1	0	0	0	0	1	0	1	1	0	1
45	1	0	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0
46	1	0	1	1	0	0	0	0	0	0	0	0	1	0	1	0	0
47	1	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0
48	1	0	1	1	1	0	0	0	0	0	0	1	0	1	0	0	0
49	1	1	0	0	1	0	0	0	0	0	0	1	0	1	0	1	0
50	0	1	1	0	1	0	1	1	0	1	1	0	1	0	1	1	1
51	0	1	1	0	1	0	0	0	1	1	0	0	0	0	1	1	1
52	0	1	1	0	0	0	0	0	0	1	0	0	0	0	0	1	1
53	1	0	0	0	0	0	1	0	1	0	1	1	0	0	0	0	1
54	0	1	1	0	0	1	0	0	0	0	0	0	0	0	0	0	1
55	0	1	0	0	1	1	0	0	1	0	0	0	1	0	0	0	1
56	0	0	1	0	0	0	0	0	0	0	0	0	1	0	0	1	0
57	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1
58	1	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0
59	1	0	0	0	1	0	0	0	0	0	1	1	0	0	0	0	0
60	0	1	1	0	0	0	0	0	1	0	0	1	0	1	0	0	1
61	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
62	1	1	0	0	0	1	0	0	0	0	0	1	0	0	0	0	0
63	0	0	1	0	0	0	0	0	0	0	0	0	0	1	0	1	1
64	0	0	1	0	1	0	0	0	0	0	1	0	1	0	1	1	1
65	0	1	1	0	0	0	0	1	0	0	0	0	1	0	1	1	1

BETA

NUMERATOR DENOMINATOR

	28	8	-0.07[illegible]	1.32076	2.32078	0.56931	[illegible]	27.15810	14.54[illegible]	44.23338
VG02	43	17	-0.37[illegible]	0.02568	1.02568	0.02[illegible]	-4[illegible]	42.97[illegible]	[illegible]	2[illegible]
VG03	16	7	0.16[illegible]	8.51041	9.51041	0.89[illegible]	[illegible]	13.70[illegible]	9.34[illegible]	38.3[illegible]
VG04	10	10	0.19[illegible]	17.27776	18.27776	0.94525	25.4[illegible]	7.09432	1.0[illegible]	36.58[illegible]
VG05	18	4	-0.077[illegible]	1.73327	2.73327	0.63413	2.19992	16.99452	8.02617	27.[illegible]
VG06	9	5	-0.01115	2.73820	3.73820	0.65115	4.67835	7.82498	4.83[illegible]	16.68[illegible]
VG07	12	7	0.01522	2.63257	3.63257	0.72471	6.77572	10.71006	6.67456	24.16034
VG08	2	1	-0.45360	1.44458	2.44458	0.59053	0.36762	1.10613	0.69315	2.16[illegible]
VG09	22	-4	-0.09654	1.60643	2.60643	0.61663	1.90104	21.04125	8.89762	31.83957
VG10	20	1	-0.17327	1.99003	2.99003	0.66556	6.68815	16.90472	2.99573	22.58860
VG11	8	5	-0.06742	1.68931	2.68931	0.62816	2.62160	7.01072	4.02535	13.65767
VG12	37	19	0.17000	59.82478	60.82478	0.98356	77.73698	32.65200	26.23434	136.6[illegible]
VG13	5	3	0.48540	10.15148	11.15148	0.91033	6.95286	2.58543	2.30259	11.84[illegible]
VG14	25	12	0.05082	4.35472	5.35472	0.81325	17.65517	23.32[illegible]	15.46[illegible]	56.44[illegible]
VG15	29	5	-0.09021	1.50738	2.50738	0.60118	2.05185	28.00[illegible]	11.68[illegible]	41.8[illegible]
VG16	41	13	-0.21751	0.13926	1.13926	0.12[illegible]	-25.62833	40.8[illegible]	2[illegible]	38.8[illegible]

565.85557

110.90355

115.38475

271.32517

Chi-square = 1721.87146

[illegible]

Correlations:

Correlations:	V001	V002	V003	V004	V005	V006
V001	1.0000 (0) P= .	-.4216 (65) P= .000	-.5963 (65) P= .000	-.0626 (65) P= .310	.3477 (65) P= .002	-.3059 (65) P= .007
V002	-.4216 (65) P= .000	1.0000 (0) P= .	.2939 (65) P= .009	.0078 (65) P= .476	-.1126 (65) P= .186	.4720 (65) P= .000
V003	-.5963 (65) P= .000	.2939 (65) P= .009	1.0000 (0) P= .	.2578 (65) P= .019	-.2357 (65) P= .029	.1298 (65) P= .151
V004	-.0626 (65) P= .310	.0078 (65) P= .476	.2578 (65) P= .019	1.0000 (0) P= .	-.1447 (65) P= .125	.2288 (65) P= .033
V005	.3477 (65) P= .002	-.1126 (65) P= .186	-.2357 (65) P= .029	-.1447 (65) P= .125	1.0000 (0) P= .	-.1567 (65) P= .106
V006	-.3059 (65) P= .007	.4720 (65) P= .000	.1298 (65) P= .151	.2288 (65) P= .033	-.1567 (65) P= .106	1.0000 (0) P= .
V007	.0507 (65) P= .344	.0111 (65) P= .465	.0985 (65) P= .218	.0811 (65) P= .260	.0760 (65) P= .274	.0655 (65) P= .302
V008	.0866 (65) P= .246	.1466 (65) P= .122	.0890 (65) P= .241	.1883 (65) P= .066	.1268 (65) P= .157	-.0125 (65) P= .461
V009	.0027 (65) P= .491	.0249 (65) P= .422	-.2491 (65) P= .023	-.1018 (65) P= .210	.1709 (65) P= .087	.0967 (65) P= .222
V010	-.5093 (65) P= .000	.3626 (65) P= .001	.5116 (65) P= .000	.1951 (65) P= .060	-.1248 (65) P= .161	.3881 (65) P= .001
V011	-.5487 (65) P= .000	.3955 (65) P= .001	.3551 (65) P= .002	.2926 (65) P= .009	-.2034 (65) P= .052	.3374 (65) P= .003
V012	.0994 (65) P= .215	-.1368 (65) P= .139	-.2269 (65) P= .035	.1121 (65) P= .187	-.0300 (65) P= .406	-.0098 (65) P= .469
V013	.0488 (65) P= .350	.3176 (65) P= .005	.0343 (65) P= .393	-.0799 (65) P= [illegible]	.1126 (65) P= .186	.0935 (65) P= .229

(Coefficient / (Cases) / 1-tailed Significance)

Page 3 SPSS/PC+ 6/21/92

Correlations:	V001	V002	V003	V004	V005	V006
V014	.1777	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .076	P= .444	P= .102	P= .405	P= .385	P= [illegible]
V015	.0645	.1225	.0849	.1045	.0222	[illegible]
	(64)	(64)	(64)	(64)	(64)	[illegible]
	P= .306	P= .167	P= .252	P= .205	P= .431	P= [illegible]
V016	-.5743	.4067	.5766	.1337	-.2969	.2405
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .000	P= .000	P= .000	P= .144	P= .008	P= .027
V017	-.5857	.4724	.3286	-.0808	-.2039	.2377
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .000	P= .000	P= .004	P= .261	P= .052	P= .028

(Coefficient / (Cases) / 1-tailed Significance)

" . " is printed if a coefficient cannot be computed

Page 4 SPSS/PC+ 6/21/92

Correlations:	V007	V008	V009	V010	V011	V012
V001	.0507	.0866	.0027	-.5093	-.5487	.0994
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .344	P= .246	P= .491	P= .000	P= .000	P= .215
V002	.0111	.1466	.0249	.3626	.3955	-.1368
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .465	P= .122	P= .422	P= .001	P= .001	P= .139
V003	.0985	.0890	-.2491	.5116	.3551	-.2269
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .218	P= .241	P= .023	P= .000	P= .002	P= .035
V004	.0811	.1883	-.1018	.1951	.2926	.1121
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .260	P= .066	P= .210	P= .060	P= .009	P= .187
V005	.0760	.1268	.1709	-.1248	-.2034	-.0300
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .274	P= .157	P= .087	P= .161	P= .052	P= .406
V006	.0655	-.0125	.0967	.3881	.3374	-.0098
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .302	P= .461	P= .222	P= .001	P= .003	P= .469
V007	1.0000	.0389	-.0714	-.0043	-.0865	-.0146
	(0)	(65)	(65)	(65)	(65)	(65)
	P= .	P= .379	P= .286	P= .486	P= .247	P= .454
V008	.0389	1.0000	-.0848	-.0052	.0104	-.0576
	(65)	(0)	(65)	(65)	(65)	(65)
	P= .379	P= .	P= .251	P= .484	P= .467	P= .324
V009	-.0714	-.0848	1.0000	[illegible]	[illegible]	[illegible]
	(65)	(65)	(0)	(65)	(65)	(65)
	P= [illegible]	P= .251	P= .	P= [illegible]	P= [illegible]	P= [illegible]

V010	-.0043	-.0052	-.1274	1.0000	.0182	.0189
	(65)	(65)	(65)	(0)	(65)	(65)
	P= .484	P= .484	P= .156	P= .	P= .443	P= .440
V011	-.0885	.0104	.0674	.0182	1.0000	.2417
	(65)	(65)	(65)	(65)	(0)	(65)
	P= .247	P= .467	P= .297	P= .000	P= .	P= .130
V012	-.0146	-.0576	-.0668	.0289	.1417	1.0000
	(65)	(65)	(65)	(65)	(65)	(0)
	P= .454	P= .324	P= .299	P= .410	P= .130	P= .
V013	.0789	.2538	.1550	.0313	.0031	-.3361
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .266	P= .021	P= .109	P= .402	P= .490	P= .003

Coefficient / (Cases) / 1-tailed Significance)

". " is printed if a coefficient cannot be computed

Page 5 SPSS/PC+ 6/21/92

Correlations:

	V007	V008	V009	V010	V011	V012
V014	.0514	.1603	.2829	.0375	.0475	.2433
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .342	P= .101	P= .011	P= .383	P= .354	P= .025
V015	.1509	.0749	-.1391	.2148	-.0348	.0976
	(64)	(64)	(64)	(64)	(64)	(64)
	P= .117	P= .278	P= .136	P= .044	P= .392	P= .221
V016	.0882	.0515	-.1599	.4699	.4388	-.1478
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .242	P= .342	P= .102	P= .000	P= .000	P= .120
V017	-.0625	-.0468	.1363	.3451	.4604	-.1015
	(65)	(65)	(65)	(65)	(65)	(65)
	P= .310	P= .356	P= .139	P= .002	P= .000	P= .211

Coefficient / (Cases) / 1-tailed Significance)

". " is printed if a coefficient cannot be computed

Page 6 SPSS/PC+ 6/21/92

Correlations:

	V013	V014	V015	V016	V017
V001	.0488	.1777	.0645	-.5743	-.5857
	(65)	(65)	(64)	(65)	(65)
	P= .350	P= .078	P= .306	P= .000	P= .000
V002	.3176	-.0179	.1225	.4067	.4724
	(65)	(65)	(64)	(65)	(65)
	P= .005	P= .444	P= .167	P= .000	P= .000
V003	.0343	-.1596	.0849	.5766	.3286
	(65)	(65)	(64)	(65)	(65)
	P= .393	P= .102	P= .252	P= .000	P= .004
	-.0366	-.0309	.1048	.1337	-.2[illegible]
	(65)	(65)	(64)	(65)	(65)
	P= .387	P= .403	P= .204	P= .144	P= .[illegible]

V005	.1176	.0369	.0222	-.2969	[illegible]
	(65)	(65)	(64)	(65)	(65)
	P= .186	P= .365	P= .431	P= .008	P= [illegible]
V006	.0935	[illegible]	.0000	.2405	[illegible]
	(65)	(65)	(64)	(65)	([illegible])
	P= [illegible]	P= [illegible]	P= .500	P= .027	P= [illegible]
V007	.0789	.0514	.1509	.0862	-.0625
	(65)	(65)	(64)	(65)	(65)
	P= .266	P= .342	P= .117	P= .242	P= .310
V008	.2538	.1603	.0749	.0515	-.0468
	(65)	(65)	(64)	(65)	(65)
	P= .021	P= .101	P= .278	P= .342	P= .356
V009	.1550	.2829	-.1391	-.1599	.1363
	(65)	(65)	(64)	(65)	(65)
	P= .109	P= .011	P= .136	P= .102	P= .139
V010	.0313	.0375	.2148	.4699	.3451
	(65)	(65)	(64)	(65)	(65)
	P= .402	P= .383	P= .044	P= .000	P= .002
V011	.0031	.0475	-.0348	.4388	.4604
	(65)	(65)	(64)	(65)	(65)
	P= .490	P= .354	P= .392	P= .000	P= .000
V012	-.3361	.2433	.0976	-.1478	-.1015
	(65)	(65)	(64)	(65)	(65)
	P= .003	P= .025	P= .221	P= .120	P= .211
V013	1.0000	-.0987	.0976	.0933	.1070
	(0)	(65)	(64)	(65)	(65)
	P= .	P= .217	P= .221	P= .230	P= .198

(Coefficient / (Cases) / 1-tailed Significance)

" . " is printed if a coefficient cannot be computed

Correlations:	V013	V014	V015	V016	V017
V014	-.0987	1.0000	.0667	-.1429	-.0184
	(65)	(0)	(64)	(65)	(65)
	P= .217	P= .	P= .300	P= .128	P= .442
V015	.0976	.0667	1.0000	.0325	.0000
	(64)	(64)	(0)	(64)	(64)
	P= .221	P= .300	P= .	P= .399	P= .500
V016	.0933	-.1429	.0325	1.0000	.4302
	(65)	(65)	(64)	(0)	(65)
	P= .230	P= .128	P= .399	P= .	P= .000
V017	.1070	-.0184	.0000	.4302	1.0000
	(65)	(65)	(64)	(65)	(0)
	P= .198	P= .442	P= .500	P= .000	P= .

(Coefficient / (Cases) / 1-tailed Significance)

" . " is printed if a coefficient cannot be computed

V010 .011 V012 V013 V014 V015 V016 V017

3.. V013 (SIZE (SZ))
4.. V008 NEED FOR NON AUDIT SERVICES (NC)
5.. V007 RECEIVED QUALIFIED OPINION (QO)
6.. V006 REPORTING DISPUTE OCCURRED (FD)
7.. V005 MANAGEMENT CHANGE TOOK PLACE (MC)
8.. V012 INFLUENCE OF HEAD OFFICE (IH)
9.. V004 AUDITOR LACKED EXPERIENCE (IE)
10.. V013 SMALL SIZE (SZ)
11.. V010 POOR REPUTATION (AR)
12.. V009 HAD LIQUIDITY PROBLEMS (LQ)
13.. V016
14.. V002 UNAFFORDABLE FEES (AF)
15.. V003 UNSATISFACTORY AUDIT SERVICE (AQ)
16.. V011 (LC)

Multiple R .82550
R Square .68145
Adjusted R Square .57301
Standard Error .32931

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	16	10.90321	.68145
Residual	47	5.09679	.10844

F = 6.28400 Signif F = .0000

*** * * * MULTIPLE REGRESSION * * * ***

Equation Number 1 Dependent Variable.. V001 CHANGED AUDITOR (AC)

---------- Variables in the Equation ----------

Variable	B	SE B	Beta	T	Sig T
V017	-.21791	.11160	-.21099	-1.953	.0568
V015	.05082	.09465	.04920	.537	.5939
V014	.48540	.20703	.23499	2.345	.0233
V008	.01522	.12112	.01168	.126	.9006
V007	-.01115	.12611	-7.755E-03	-.088	.9299
V006	-.07786	.11966	-.06743	-.651	.5184
V005	.19880	.12705	.14437	1.565	.1243
V012	-.06742	.15030	-.04459	-.449	.6558
V004	.18940	.11813	.16047	1.603	.1156
V013	.17000	.09952	.16867	1.708	.0942
V010	-.09654	.13522	-.09065	-.714	.4788
V009	-.49360	.29297	-.17177	-1.685	.0987
V016	-.09021	.11469	-.08950	-.786	.4363
V002	-.07290	.11575	-.07200	-.630	.5319
V003	-.37697	.12539	-.35819	-3.006	.0042
V011	-.17857	.12556	-.16043	-1.374	.1757
(Constant)	.84249	.13516		6.233	.0000

End Block Number 1 All requested variables entered.

APPENDIX 6A.

Dear Sir/Madam

I am a post Graduate student at the University of Nairobi. I am conducting a research entitled "The determinants of auditor changes in Kenya". Your company has been selected for the study. I kindly request you complete the questionnaire to the best of your knowledge. Information requested is required purely for academic purposes and will be treated in strict confidence. In no instance will the name of your company appear in the final report. Any additional information you feel is necessary for this study is welcome and can be written on the back of the questionnaire.

A copy of the final report will be made on request. Your co-cooperation will be greatly appreciated.

Thank you in advance.

Yours sincerely,

KEMEI K.D.
(M.B.A student)

RICHU P. G.
SUPERVISOR :
DEPARTMENT OF ACCOUNTING.

APPENDIX 6B

SURVEY QUESTIONNAIRE.

To be filled by the Managing Director or his equivalent in the company.

Please kindly answer the following questions by placing a tick [√] in the spaces provided and/or giving details as may be required.[The questionnaire was developed from the pertinent literature].

SECTION A : GENERAL.

1. (a) How would you classify your company with regard to ownership?

   (i) Locally owned [ ]

   (ii) Foreign owned [ ]

   (iii) Joint venture [ ]

(b) For the classification (iii) selected above, what is the proportion of ownership ? (i) Local : Over 50% [ ]

(ii) Foreign : Over 50% [ ]

(c) Are those in management allowed to own some interest in the company ?

   Yes [ ]

   No [ ]

(d) Are employees eligible to own some interest in your company?

   Yes [ ]

   No [ ]

2. Status of your company: (i) Holding Company [ ]

(ii) Subsidiary [ ]

(iii) None of the above [ ]

3. Number of your company's branches in Kenya?

Less than 10 [ ]

Between 10 and 20 [ ]

Over 20 [ ]

4. In which industry would you classify your company ?

Manufacturing [ ]

Finance, Insurance, and Business services [ ]

Transport and Communication [ ]

Mining [ ]

Foods [ ]

Publishing & Printers [ ]

Agriculture [ ]

Construction [ ]

Wholesale and Retail Trade [ ]

Restaurant, Hotels and Travel services [ ]

Electricity, Gas and water [ ]

Other (Specify)

5. How long has the company been in existence ?

(i) Less than 10 years [ ]

(ii) More than 10 but less tha More than 20 [ ]

(iii) More than 20 [ ]

6. How many audit firms seek audit engagements from your company ?

(i) Less than 5 [ ]

(ii) Between 5 and 10 [ ]

(iii) Between 10 and 15 [ ]

(iv) Over 15 [ ]

7. Number of employees in your company?

Less than 50 [ ]
50 and above [ ]

8. Did your company change auditor(s) between 1981 and 1990 inclusive ?

Yes [ ] go to Q. 9
No [ ] go to Q. 11

SECTION B : FOR FIRMS THAT CHANGED AUDITORS BETWEEN 1981 AND 1990.

9. In which year did the company change the auditor(s) ?
(You may tick more than one box)

(i) Between 1981 and 1985 inclusive [ ]
(ii) Between 1986 and 1990 inclusive [ ]

10. How significant were the following factors in influencing your decision to change the auditor :

	Very Signi-cant	Signi-cant	Insigni-cant	Very Insigni-cant
(i) Unaffordable Audit fees	[ ]	[ ]	[ ]	[ ]
(ii) Poor Quality of audit service	[ ]	[ ]	[ ]	[ ]
(iii) Auditor's lack of industry expertise	[ ]	[ ]	[ ]	[ ]
(iv) Management Change took place	[ ]	[ ]	[ ]	[ ]
(V) Reporting Dispute Occurred	[ ]	[ ]	[ ]	[ ]
(Vi) Qualified opinion was received	[ ]	[ ]	[ ]	[ ]
(Vii) Need for non-audit services(e.g the management advisory services)	[ ]	[ ]	[ ]	[ ]
(viii) Had liquidity problems	[ ]	[ ]	[ ]	[ ]
(ix) Poor Image/Reputation of the audit firm	[ ]	[ ]	[ ]	[ ]
(x) Auditor lacked confidentiality	[ ]	[ ]	[ ]	[ ]
(xi) Change of auditor in head office	[ ]	[ ]	[ ]	[ ]
(xii) Auditors merged	[ ]	[ ]	[ ]	[ ]
(xiii) Demanded by Shareholders	[ ]	[ ]	[ ]	[ ]
(xiv) Unsatisfactory Tax services	[ ]	[ ]	[ ]	[ ]
(xv) Change in share ownership took place	[ ]	[ ]	[ ]	[ ]

(xvi) Other (specify)_____

_____

_____

_____

_____

END THANK FOR YOUR CO-OPERATION.

SECTION C : FOR FIRMS THAT DID NOT CHANGE AUDITORS.

11. How significant have the following factors been in influencing the decision not to change the auditor ?

	Very Signi-cant	Signi-cant	Insigni-cant	Very Insigni-cant
(i) Affordable Fees	[ ]	[ ]	[ ]	[ ]
(ii) Satisfactory quality of service	[ ]	[ ]	[ ]	[ ]
(iii) Shareholders demand	[ ]	[ ]	[ ]	[ ]
(iv) Auditor has good reputation	[ ]	[ ]	[ ]	[ ]
(v) Auditor is accessible for consultations	[ ]	[ ]	[ ]	[ ]
(vi) Auditor releases report in time	[ ]	[ ]	[ ]	[ ]
(vii) Auditor keeps confidential information	[ ]	[ ]	[ ]	[ ]
(viii) Lack of reporting disputes	[ ]	[ ]	[ ]	[ ]
(ix) Satisfactory Tax services	[ ]	[ ]	[ ]	[ ]
(x) Demand by Head Office	[ ]	[ ]	[ ]	[ ]
(xi) Merger between Auditors	[ ]	[ ]	[ ]	[ ]
(xi) Satisfactory non-audit services	[ ]	[ ]	[ ]	[ ]
(xii) Receipt of unqualified opinion	[ ]	[ ]	[ ]	[ ]
(xiii) Tried but Unsuccessful	[ ]	[ ]	[ ]	[ ]
(xiv) Unsurpassed industry expertise	[ ]	[ ]	[ ]	[ ]

(xv) Other (Specify) _____

_____

_____

_____

_____

_____

_____

END

THANK YOU FOR YOUR CO-OPERATION.

APPENDIX 7

LIST OF COMPANIES SELECTED

1. ABN-AMRO BANK
2. AFRI LTD
3. AFRICA CREDIT LTD
4. AFRICAN INTERNATIONAL INSURANCES LTD
5. AFRO-INVEST
6. AGRINCO LTD
7. ALFA LAVAL LTD
8. AMAZON MOTORS LTD
9. AMEE EXIM LTD
10. AMSTRAD LTD
11. ARCHER'S LTD
12. ASSOCIATED STEEL LTD
13. BELAIR TOURS AND TRAVEL LTD
14. BENEIGNE KARANJA MBUU LTD
15. BENTA LTD
16. BUSINESS COMMUNICATION MACHINES
17. CABOOSE RESTAURANT LTD
18. CITILANDS MANAGEMENT LTD
19. CLARKSON NOTCUTT (K) LTD
20. CONCORD INSURANCE COMPANY LTD
21. CONSUMER HIRE PURCHASE LTD
22. COVERTIME INSURANCE CONSULTANTS LTD
23. DENKEN PHARMACEUTICALS LTD
24. DOSHI IRONMONGERS
25. EAST AFRICA MATCH COMPANY (K) LTD
26. ELECTROWATTS LTD
27. ELEPHANT SOAP MANUFACTURING INDUSTRIES LTD
28. ENGINEERING LTD
29. ENZI LTD
30. ESSO LTD
31. EUROMICA LTD
32. EXOTIC FRUITS & VEGETABLES
33. FIRST CHATERED SECURITIES LTD
34. FRANCIS AND DRUMMOND LTD
35. GALLAPON LTD
36. GATH LTD
37. GEMINIA INSURANCE COMPANY LTD
38. GENERAL COMMODITY DEALERS
39. GESTETNER LTD
40. GLOBE SUPPLIERS LTD
41. GREEN GORNER LTD
42. GROUP FOUR SECURITY LTD
43. GUARANTY & DISCOUNT LTD
44. HEIN-NEBELUNG - ISENSEE LTD
45. HIGHWAYS KENYA LTD
46. INTERNATIONAL COMMERCIAL CO. (K) LTD
47. JAKAI LTD
48. KAMSONS
49. KENBRO INDUSTRIES LTD
50. KENLANDS LTD
51. KENOMAR HOLDINGS
52. KESHO PUBLICATIONS

53. KENTSHIP MARITIME LTD
54. KENYA MODERN DIGITALS LTD
55. KIRAGU HOLDINGS LTD
56. KLM ROYAL DUTCH AIRLINES
57. KWACHA GROUP OF COMPANIES
58. LANIER LTD
59. LONGMAN KENYA
60. MEADOW TRADING LTD
61. MEDISSAGE CENTRE LTD
62. METOXIDE AFRICA LTD
63. MICROLOGIC LTD
64. MIDLIFE DISPENSING CHEMISTS
65. MILLIGAN & COMPANY LTD
66. MUTHAMA GEMSTONES (K) LTD
67. NAIROBI ENTERPRISES LTD
68. NAIROBI HOSPICE
69. NAYAN PRODUCTS (K) LTD
70. NCA LTD
71. NDAMPER ENTERPRISES
72. PETER COLMORE LTD
73. PITNEY BOWES
74. PLUTECH LTD
75. PRESTIGE SAFARIS LTD
76. PROSPER CONSTRUCTION COMPANY
77. PRUDENTIAL FINANCE LTD
78. SAMTIME INTERNATIONAL LTD
79. SEW-TECH (KENYA) LTD
80. SIAN ROSE WINE AGENCIES LTD
81. SOLAI STORES
82. SOLID TOUCH ENTERPRISES
83. STEELVICOM ENTERPRISES LTD
84. TARAKUET LTD
85. TINARA SUPERMARKET LTD
86. TOPLIS AND HARDING (K) LTD
87. TOWN PROPERTIES
88. TRANSCARGO SERVICES LTD.
89. TRANSLAG LTD
90. TRANSWORLD TRAVEL LTD
91. TWIGA MOTORS LTD
92. TYSONS LTD
93. UJUZI TRADERS
94. UNEXIMP LTD
95. UNITED CHEMICALS INDUSTRIES LTD
96. URGENT CARGO HANDLING LTD
97. VAGULAG INDUSTRIES LTD
98. WELCOME KENYA LTD
99. WHITE ROSE DRY CLEANERS LTD.
100. YOUNG TRADERS LTD

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