ABSTRACT

In the recent past the Kenyan banks have experienced a number of corporate failures related to transparency and accountability, their attention was focused on corporate governance matters instead of risk based audit. In 2016, Chase bank, Dubai bank and Imperial bank was positioned under financial management statutory due to suspicions of money laundering and fraud. The aim of this study was the analysis of risk based audit on audit quality of Tier one commercial banks in Kenya. Specifically the study pursued to examines the influence of risk maturity assessment on audit quality; to establish the influence of periodic risk audit planning on audit quality; to establish the influence of individual audit assignment on audit quality of tier one commercial banks in Kenya. Descriptive survey research design was adopted. The study targeted a population of 1597 staffs who constituted respondents from, accounting and finance, internal audit and Risk and compliance department of tier one commercial banks in Kenya. Stratified random sampling was used to select a sample of 104 respondents. Structured questionnaire was used to collect data. Data was analysed by use of inferential and descriptive statistics. Tables were used for data presentation since it is to understand and internalize data and primary data was used. Pilot study was conducted in tier two commercial banks in head office, Nairobi. The researcher was able to identify questions that needed correction and those that were vague from this pilot study. The internal consistency was tested by use of Cronbach (Alpha – α) model with the alpha coefficient of above 0.7 being considered reliable. Multiple regression analysis was used to determine the strength and direction of the relationship between the independent variables and the dependent variables. These correlations were further subjected to significance test to determine whether the observed correlations were significant. A significance level of 0.05 was therefore set for testing the research hypotheses. The study revealed that Risk Maturity Assessment had the highest coefficient, Beta = 0.261, followed by Periodic risk audit planning with Beta = 0.207 and lastly Individual audit assignment with Beta = 0.174; this indicates that Risk Maturity Assessment makes the strongest distinctive impact in explaining the quality of audit in Tier One Commercial Banks in Kenya, Periodic risk audit planning had the second largest unique contribution while Individual audit assignment had the least unique contribution in explaining the variation in the quality of audit in Tier One Commercial Banks in Kenya, Periodic risk audit planning. Among the three predictor variables, Risk Maturity Assessment was found to be the strongest predictor of the quality of audit in Tier One Commercial Banks in Kenya, followed by Periodic risk audit planning risk planning, and lastly Individual audit assignment. The study findings are expected to be of value to the banks stakeholders and form a basis for improving audit quality of banks by enhancing risk based audit.From the findings, the study concludes that risk based auditing through risk assessment, Periodic risk based planning and individual audit assignment should be enhanced. This would enable the commercial banks to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance and audit quality. Proper planning improves efficiency, accuracy, completeness, timeliness, convenience and clarity. Credible audit reports, auditor independence to identify and rectify audit errors, effective implementation of audit recommendations, financial management and compliance with accepted audit standards, effective internal audit staff and independent audit committee influence audit quality in commercial banks. From the findings, the study recommends that management in commercial banks in Kenya should adopt effective risk based audit practices such as risk assessment, periodic risk based planning and individual audit assignment to enhance effective and efficient audit reports.The study recommends that the management of commercial banks should consider risk based audit in auditing process and risk management.