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Non-Audit Services, Audit Quality, And Fraudulent Financial Reporting Among Listed Firms In Nse, Nairobi, Kenya

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Abstract
The NSE firms contribute highly to national economic growth thus if fraudulent reporting is left without being detected, it will highly affect the public just like the Anglo leasing effects that are still being experienced in Kenya. This research sought to examine the relationship between non-audit services, audit quality and fraudulent financial reporting among listed firms in NSE. The specific objective was to establish the effect of Non audit services on fraudulent financial reporting, the effect of Audit quality on Fraudulent Financial reporting and lastly to establish the joint effect non-audit services, Audit Quality and Fraudulent Financial reporting among firms listed in NSE. The study used a descriptive research design with a study population of 63 as listed by NSE 2023 and a Census survey was adopted. The researcher targeted the appointed internal auditors from each firm as the respondents. The data was of primary nature where 57 closed ended questionnaires were dropped and picked for analysis while the 6 questionnaires were used in pilot study. The data collected was run via SPSS software. Quantitative method of analyzing data that is descriptive statistical method where the statistical tools such as mean, mode and standard deviation was adopted. Inferential statistic such as simple and multiple regression models was used to predict the relationships among the variables. Findings on the first objective showed that non audit service has positive and insignificant effect on fraudulent financial reporting. On the second objective, findings showed that audit quality positively but significantly affect the fraudulent financial reporting among firms listed in NSE. Finally on the joint effect non-audit service and Audit quality have positive and statistically significant effect on fraudulent financial reporting among firms listed in at a minimum of 95% confidence level. The study recommends that further research be conducted on other factors not covered under this study; that contribute to fraudulent financial reporting to assist in uncovering fraudulent financial reporting. The study is significant to investors, portfolio managers and other market players to make the best decisions regarding investments. The study is also significant to those charged with governance to ensure there is production of quality financial statements.
Key Words: *Non-Audit Services, Audit Quality, Fraudulent Financial Reporting.*

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I. Introduction

The efficiency of internal audit helps develop the work of the company because the financial reports reflect the internal audit department's quality (Al-Matari *et al.*, 2014).The value or rather quality of an audit lies on the perception of users of audited financial statements judging on the auditor's ability to detect errors or fraud in the accounting system and to resist client pressures to disclose such discoveries (De Angelo, 1981). Auditing only adds meaning to the users when they have confidence in the auditor that he can uphold independence and report the findings correctly. The key role of auditors in the society is to contribute towards financial performance in ways such as reducing risk of significant misstatements and financial statements adhering to present rules and regulations (Hay *et al.*, 2014). There has been numerous reports on audit failure that led to worldwide criticism of auditing as a profession that led to lack of trust by shareholders in terms of guarding their interest (Krishnan, 2005).

Audit fee determination has also been an issue of concern as to what determines the level of audit fees (remuneration payable) due to the huge elephant that exists where audit firms tend to charge huge fees, yet the reports given are totally opposite from the reality. The responsibility of detection and prevention of frauds and errors rests with the Management (Mwindi, 2005). Non-Audit Services and the Timeliness and Reliability of Earnings Announcements, both audit and non-audit services need a number of factors such as the operating environment, client's organizational structure knowledge, business processes together with industry (Hogan *et al.*, 2019). Audit knowledge can lead to a reduction in audit start-up time as well as the transaction costs (Knechel *et al.*, 2012). Non audit services also provide the audit firm with further access and knowledge on the client's systems, business risks, and material transactions made during the year that helps identify the audit risks earlier and solving accounting issues in a timely manner (De Simone *et al.*, 2015).

Auditing recorded a history in the US during the fall of Arthur Andersen. The fall led to a forced change and questioning of auditor's integrity without consent in March 2002. The going concern opinions to the former and recent clients was examined and the result was a modified audit opinion. There was reduced conservatism by the new auditor compared to Andersen`s opinion, (Krishnan *et al.*, 2007). Later in October 2001, Enron faced accounting discrepancies reported as authentic by Arthur Andersen and ran into bankruptcy in December 2002 where Arthur Andersen was found guilty and faced criminal charges. The provision of NAS deters independence of auditors due to the economic bond that forms during interaction with the client making the exert pressure to the auditor to manipulate the financial statement. This leads to the widespread debate on the suggestion that auditors should not be allowed to provide non-audit services, (Hodge & Murray, 2012).

In the recent past, the world has experienced a rise in corporate failures, financial scandals and audit failure. This has stimulated firm debate among the accounting profession's regulators and the public about the audit expectations gap. This is because the accounting information users often ask where the auditor was when the scandals were taking place. Some accounting information users therefore seem to partly blame the auditors for corporate failures (Kalui & Mbakaya, 2014). With the collapse of Enron involving the misconduct of one of the Big 4, Arthur Andersen & Co., the argument for audits for big audit firms as synonymous with quality audit has become questionable. These corporate scandals confirmed a requirement for high quality audit and considerable attention to different factors that may have an effect on audit quality. High quality audit refers to the production of financial information without misstatements, omissions or biases. From an agency theory perspective, audited financial statements are a monitoring mechanism to provide assurance for users of financial information, (Dang, 2004)

In South Africa, a fraud survey was conducted by a survey leader on global economic crime and fraud. The findings showed that South African Organizations that were experiencing economic crime was at 77%. The report declared that the companies faced fraud risk from internal, external and regulatory as senior management were the major fraudsters within organizations. In the same report, it was reported that ,top ten countries that was facing most economic fraud entailed; South Africa at 77%, Kenya at 75%, France at 71%, Russian Federation at 66%, Uganda at 66%, Zambia at 65%, Belgium at 65%, China at 63%, Mexico at 58% and Tanzania at 57%, (White, 2018)

In East Africa; Kenya, Uganda, Burundi, and Tanzania made up 74% of all the financial fraud cases in the Eastern region of Africa with Kenya standing at 23% of the total cases, Burundi at 21%, Uganda at 18% and Tanzania at 12 %. It added that majority of fraud cases in East Africa that entailed misappropriation of funds, bribery and corruption mostly targeted governments and financial sectors and were extremely high in organizations found in Kenya. The Non-audit services became of essence in accountancy firms where KPMG advisory services constituted a revenue of 37.2% of total revenue in the year, while PwC reported a revenue of 31.8% of the total revenue, (Yu & You, 2017).

Kenya being the scope of the study, contributes to this study due to the recent graft cases. In 2017, it was reported that, a lot of corruption and bribery had occurred in Kenyan public procurement in the course of awarding the public contracts. Kenya has also witnessed fraud occurrence in companies such as the National Youth Service that lost about 791 Million, the loss at Kenya Pipeline, Mumias Sugar Company, Sony sugar, Barclays bank and NCPB Maize depot scandal among others, (Mutangili, 2019). High level of corruption took place in the sector of energy, construction of airport and infrastructure during procurement processes, (PWC, 2016).There was also a frequent diversion of public funds by public officials, (GCR, 2017). In Kenya, Deloitte after assessing CMC motors financial reports fails to recognize losses from CMC assets that were damaged, failing to disclose the auto firm's subsidiary. In South Sudan in the annual reports, abetting the booking of undelivered vehicle sales as revenues and not capturing interest payments for cars sold on credit (Kamau & Kariuki, 2012).

Internal auditors are key in the effectiveness of internal control in an organization. Their approach to auditing has become more proactive and external auditors often rely on their work papers relating to internal control, (Jill, 1998). Auditing being both internal and external, is listed as a corporate governance component that influences financial performance as it promotes financial accountability and minimizes the fraud occurrence, (Tumwebaze *et al.*, 2018). When focusing on external audit, the audit quality is determined by factors relating to the audit team, the audit plan, the audit company and the audit fees. Specifically, auditor size, audit fees, auditors' expertise, and auditor's independence have a significant impact on financial outcomes of a firm , and since companies select their external auditors (Ado *et al.*, 2020; Tumwebaze *et al.*, 2018).Since companies select their external auditors, they have the ability to influence financial performance.

Statement of the Problem

Currently, fraud termed as corruption in the top companies, has become a major area of concern investigated even by the top officials, such as the DCI'S office. Following the report released in Nairobi by the audit firm, most of economic crimes continue to be committed by internal fraudsters who were responsible for 70% of the cases reported by the Kenyan organizations, (Muniu, 2018). Beekes and Brown (2006), in their study noted the idea of increased concern over corporate accountability in the developed countries that was because of the need for appropriate audit.

This has been witnessed by fraudulent reporting in companies such as the NYS of 791 Million, Kenya Pipeline, Mumias Sugar Company, NCPB Maize, Imperial Bank of 34 Billion from bank deposits among others, (Mutangili, 2019). It denoted that; majority of these sectors that experienced graft cases were often audited by the Big four Audit firms. This raises questions about the integrity of auditors in the Big four: KPMG, Ernst & Young, Deloitte Touché and PWC and other audit firms as to whether the work they do is worth the large audit fees they collect yet the sector remains a major graft war zone in Kenya. KPMG pocketed 90.2 million audit fees in 2018, PWC earned 79.3 Million, and EY earned 60.1Million in 2016 while Deloitte made 12.06 Million in 2018. The order required banks to hire auditors on a rotating basis following the collapse of three banks that are Dubai bank, Imperial bank and Chase bank, (Warui, 2014).In the research conducted by (David, 2017), the study advocated that the Big four have locked out middle-tier consultancy firms from auditing lucrative listed Banks considering that auditing them is associated with huge fees. The NSE firms contribute highly to national economic growth thus if fraudulent reporting is left without being detected, it will highly affect the public just like the Anglo leasing effects that are still being experienced in Kenya (Bachelard, 2011). From the literature reviewed on audit quality and non-financial services, many scholars (Honafels &Quick,2020;Ken et al.,2019;Sharmal & Sidhu, 2001) have indicated that audit quality and non-audit services are of benefit to various institutions. However, these studies have been conducted outside Kenya. In the local context, (Kwabena, 2017; Njeru, 2013) carried out the study on audit quality in other sectors other than listed firms on the NSE. These studies revealed varying results. Based on this reviewed literature, the study has identified that few studies have been found to focus on audit quality, non-financial services and fraudulent financial reporting on listed firm on the NSE. This is the gap this study is leveraged on. The study sought to answer the research question; what is the relationship between non-audit services, audit quality and fraudulent financial reporting among the firms listed in NSE?

Objectives of the Study

The general objective of the study was to determine the relationship between Non-Audit Services, Audit Quality and Fraudulent Financial Reporting among firms listed in NSE.

Research Hypothesis

Ho: There is no significant relationship between Non-audit service, Audit quality and Fraudulent financial reporting among firms listed in NSE.

Significance of the Study

This study is of significance to different users of the information. First, this study is useful to the government in setting regulations that will manage audit firms act with integrity to detect fraud timely and prevent any graft cases. This study will assist in implementing and enforcing the existing policies while formulating new ones.

For those charged with governance, the study identified the non- audit services that influence auditor's quality enabling the management to produce authentic financial statements hence investors, portfolio managers and other market players make the best decisions regarding the investments.

Additionally, the study findings are used to add to the body of knowledge to determine the effect of non-audit service, audit quality on fraudulent financial reporting among firms listed in the NSE from which other researchers can refer to. The academicians who are involved in the accounting research will find the study useful in identifying the gap in the existing research and therefore provide one of the working papers to further their research around accounting on issues dealing with audit quality, audit fees and fraud cases. Finally, the management of the respective firms will find the information useful to uncover the causes of fraud on financial statements and how quality audit can enhance better services on the financial statement.

II. Literature Review

This study contains two theories that support audit quality, Non audit services versus Fraudulent financial reporting. The policeman theory and Fraud triangle denotes failure as a source of various financial misrepresentations and emphasizes on the theory behind the need for auditing.

Non-Audit Services

The study adopted Tax Audit Services, Assurance Services and Management advisory services as measure of Non -audit service.

Assurance Services

Assurance Services are defined as 'independent professional services that improve the quality or context of information for decision makers, (Zhang *et al.*, 2012) . Audit assurance is essential to an auditee as its mandate is to decrease the risk of internal controls, the risk of misstatement that should eventually lead to a decrease in the possibility of business failure. Audit assurance is also essential to the external users as it reduces the risk of information asymmetry, optimizes allocation of resources that results to the efficiency of capital markets (Kameli *et al.*, 2020).

Assurance service has its main elements in regard to verification of external non-financial reports. These elements include; determination of the level of reliability of the procedures carried out (level of assurance), possibility of making use of an interdisciplinary team of experts, types of verifications and tests to implement, the evaluation of audit risk, suitable reporting criteria, the form of the final assurance statement,(Manetti & Becatti, 2009). Sustainability assurance is a state where externals can verify the relevance, reliability and completeness of the sustainable information that has been disclosed by the firm,(Boiral *et al.*, 2019). Unlike audit, sustainable assurance services can be provided by other disciplines such as high engineering and consultancy although the audit firms holds a bigger market share, (Hodge *et al.*, 2009). Contrary to this, Martínez-Ferrero *et al.* (2018) asserted that, in order to get a high quality assurance level, its better provided by audit firms as audit firms have dominated in the provision of assurance service market around the world.

Tax Audit Services

Taxation involves amongst others, assisting clients to prepare the tax returns and in planning their tax (Chuenjit, 2014). A tax audit is defined as an official examination of the tax return that the taxpayer is supposed to declare to comply with the tax department law's requirement. There is a difference between audit and tax service. The aim of the audit is to express an opinion regarding the truth and fairness of the financial statements while tax services are provided by the help of tax planners guided by its laws existing to minimize the tax burden of the client. Moreover, a times the same person is appointed as an auditor at the same time to provide tax service which impairs the objective in expression of opinion or in providing taxation service both at a time, (Faniband, 2020).

After the collapse of Enron and WorldCom and their CPA firm , Arthur Anderson, the aspect of rendering non audit services; tax service being part of it, to the same auditor raise eyebrows and its actually an issue to be investigated, especially its fees, by relevant authorities in regards to the CPA independence, (Osman, 2016).In Pakistan, the primary purpose of tax audit solutions is to make sure that books of accounts have been maintained in agreement with the provisions of the Government of Pakistan's Federal Board of Revenue Income Tax Ordinance 2001. The clients that undertake tax audit benefit from Tax compliance audit to curb tax evasion and ensures tax compliance, Tax planning audit to improve tax efficiency responsibly and finally Tax risk audit to manage risk and enhance the confidence of individuals or key company stakeholders,(RSM, 2017)

Management Advisory Services

Management advisory services are consulting services performed by a specialist organization for its clients. These services are intended to provide advice regarding the operations and finances of clients. The services may address any of the following areas: Asset valuation, Business strategy, Computer systems, Litigation support, Mergers and acquisitions, Organizational structure, Process analysis, Risk management, (Bragg *et al.*, 2015). Management Advisory service was also defined as the act of providing professional advisory (consulting) services in order to improve the client's use of its capabilities and resources to achieve the objectives of the organization. During provision of the services listed, the party in question applies an analytical approach. It further stated that, for one to perform management advisory services, a practitioner must act with at most independence, integrity and objectivity, (AICPA Professional Standards., 1981)

Most organizations seek management advisory services from external support on matters of taxation and management strategies. Advisory services help organizations to achieve their set objectives. In the US, the use of advisory services has been embraced especially in the banking sector, (Munchus, 2017). Problems experienced small business managers were identified and it was realized that there was lack of experience and management training, isolation and lack of information, inadequate information system, high debt cost, lack of finance, high labour cost, inflation, staffing difficulties, lack of customers, competition, government regulation, taxation and paperwork burden (BIE 1986). John, Dunlop, Sheehan1978 urged that, although managers may possess quality innovation and technical expertise in their field of management, they tend to lack ability to control and conduct overall running of the business successfully as they spread their attention over so many areas. In this regard, they fail to perform, thus they must rely on external advice for successful management.

Audit Quality

This study adopted Auditor Independence, Auditor Tenure and Auditor Opinion as measures of Audit Quality.

Auditor Independence

Audit independence is the ability or rather the act of the auditor performing his/her audit duties with integrity and impartiality. It further stipulated that Audit independence is the existence, and hallmark of the auditing profession. Independence on the other hand is the primary attribute an auditor needs to maintain in all circumstances while Auditor independence falls under the function of the existence of a dispute between the auditor and the client about the treatment of audit reporting issues or issues of fraud and financial misstatements, (Akpom & Dimkpah, 2013).

The measurement of the auditor independence is weighed on the level of auditor's honesty when reporting the material misstatements in the financial statements prepared by managers. The manager is entrusted by investors to run the company and maintain it in good state by ensuring growth of the wealth of the investors. The conflict between the investor and the managers arise where the manager chooses to maximize their own interest at the expense of the investor's wealth leading to agency conflict. To curb this situation, the investor decides to bring in an auditor to audit the work done by management. Regarding that, it is the work of the auditor to maintain his/her independence by avoiding any conflicts of interest with the manager and uphold independence provided the audit fees cover the cost of the actual audit. This is of essence as the investors rely on the information given by management regarding the state of the company they are investing in thus auditors have to uphold their independence by verifying the correct managers' assertions in regard to financial statements, (Austin & Herath, 2014).

Auditor independence is affected by a practice known as `Low balling' where the auditor has total trust and overreliance on the client leading to compromise by the auditor, (Köhler & Ratzinger-Sakel, 2012). There was increased concern over the quality of auditing of Arthur Andersen when the Chinese audit firm Zhong Tian experienced failure. The increased compromised auditor independence contributed to loss in confidence of investors, audit failures, and subsequent faltering of big corporations like Enron, WorldCom, and Tyco. The Auditor independence should give room to an auditor to uphold his due diligence without being bias on the client, (Du & Stevens, 2013).

Waweru (2018) did a study on audit committee independence and governance in developing nations with the focus being Kenya. The aim was to determine how Kenyan audit independence relates to those of western nations. The specific focus was on the relationship between audit committees to the organization's internal auditors, external auditors, and how they relate to the management. The other issue was to determine the challenges faced by most Kenyan auditors while performing their professional standards on auditor's independence. It was concluded that only minimal differences exist although there is much political influence. The study also noted that most auditors had close relationships with enterprise management which would impact on the financial reporting.

In Kenya, an audit committee was established in 2000 with the aim of ensuring there is objectivity, integrity and independence. Kibet (2008) outlined the need to ensure audit independence among the audit committees in Kenya. The committee has the oversight responsibility to ensure the audit is done by the set guidelines. The study concluded on four roles that audit committees need to play to ensure effective audit independence. One role is to ensure external financial reporting to ensure the audit reports are done in accordance with set principles and standards. The other role is internal control, and this shows any existing frauds in audit reports. The third role is to determine a risk management system in terms of the risk mitigation strategies available. The final role is to coordinate internal and external audit, and this involves ensuring audit independence is followed.

Auditor Tenure

Audit firm tenure is the duration of time that an audit firm has audited a particular client. The extended relationship (Tenure) between the client and audit firm can threaten the auditors' independence due to familiarity with the client, (Primadita *et al.*, 2021). Audit tenure has a negative relationship with audit quality. In regard to that, the longer the relationship between the client and the auditor, the lower the audit quality and that firm size insignificantly affects audit quality, (Al-Thuneibat *et al.*, 2011). An Audit Tenure can either be voluntarily or mandated and this change can affect the quality of audit to a higher extent. The costs associated with Audit tenure may include costs related to tender placement process, transition of client and auditor activities, and the client-specific learning curve facing the auditor, (Bell *et al.*, 2015). PCAOB, 2013, Ernst and Young 2012 added further on the costs associated to audit rotation and they included: lower audit firms competition, expensive client's internal costs, capacity constraints and scheduling problems, shifting focus and effort towards preparation of proposals for new engagements, lower incentives to invest in specialization and higher audit fees.

When the audit tenure takes too long, it affects the quality of audit as the knowledge of the client may depreciate when the client performs the same duties continuously. The auditor may compromise his independence when they over rely on the client for their monthly pays and this can make the auditor compromise on their independence. The Regulators on Audit issues after conducting research on audit quality versus Non-audit services found out that, the aspect of interaction between the auditor and the client creates a strong bond that leads to long audit tenure. The long audit tenure affects the auditor's professional skepticism and leads to compromising. On the other hand, the economic bonding from monthly dues in the aspect of non-audit fees makes the auditor harken to management's financial reporting demands instead of upholding integrity and independence, (Gipper *et al.*, 2017).

Several studies have been documented to show the effect of audit tenure in auditing under Kenyan cases. Agunda (2014) did a study to document the evidence of the effect that audit tenure has on audit quality in commercial banks in Kenya. Multiple regression analysis was used with the independent variables being audit rotation, audit fees and consultancy services. The dependent variable was audit quality. 43 commercial banks were used as the study population and the data was collected using questionnaires. The study concluded that offering audit services on a rotational basis makes audit quality high compared to long-term tenures. The scholar argues on the need to reduce audit tenure if the quality was to be obtained.

Another study by Odanga (2016) did a study on the effect of audit tenure, client importance and auditor reputation on audit quality in Kenya. The study divided audit firms into big firms and non-big audit firms. The researchers wanted to determine whether bond price was included in credit rating and if the choice of audit firm affects the credit spread. It was concluded that when evaluating bond ratings, the auditor's characteristics were taken into consideration and that of the non-big audit firms got a downgrade by one minor rating category. Companies who had maintained long tenure with the audit firms were rated based on their bond while those with large audit firms got a premium on their bonds. The study concluded that audit tenure has an impact on audit quality under the capital market.

Auditor Opinion

Audit opinion refers to a certified public accountant's opinion regarding the audited financial statements of an entity. It is a written attestation as to the fairness of presentation of financial statements. An audit opinion influences financial reporting significantly, as it leads to timely financial reporting ,(Shukeri & Nelson, 2011). Generally, there are four types of audit opinions: unqualified, qualified, disclaimer and adverse opinion. An unqualified opinion is a clean opinion meaning that the financial statements appear to be presented fairly. In other words, firms with unqualified audit reports have less problems in financial reports that decrease the time spent by the auditors to complete their audit task .Qualified opinion means there is bad news in that, the information provided was limited in scope and/or the company being audited has not maintained generally accepted accounting principles leading to declaration of reporting process, (Türel, 2010).

According to Shukeri and Nelson (2011) they postulated that, those firms where the auditor reports unqualified opinion are in most cases associated with good management and sound internal control that leads to less audit time. Disclaimer opinion is the auditor's statement disclaiming any opinion regarding the company's financial condition due to an inability to gather certain relevant facts. Adverse opinion is one which states that the financial statements do not fairly present the financial position of the company or that it is not in accordance with generally accepted. Ismail *et al.* (2012) argue that audit lags are likely to be associated with audit opinions and that qualified audit opinions are always issued later than unqualified opinions.

Fraudulent Financial Reporting

The study adopted Asset misappropriation and Improper Expense Recognition as a measure of Fraudulent Financial Reporting.

Asset Misappropriation Review

Fraud is a deliberate deception to obtain illicit material gain, and includes embezzlement and asset misappropriation, (Pan *et al.*, 2011). Management can overstate its assets or revenues or understate liabilities or expenses. ACFE (2011) believes that it is carried out through fictitious revenues, timing difference, improper asset valuation concealed liabilities and expenses and improper or inadequate discourse. Employee fraud can also be driven through illegal transfer of funds and assets, false balance crediting, opening, use and management of fictional accounts, claiming of overtime for hours not worked, fund diversion (tapping funds from interest into a suspense account) computer fraud via compromising login credentials of an e-banking user, (Adeyemo Kingsley, 2012).There is an increased focus on sound asset management due to recognition of its value to an organization, (El-Akruti & Dwight, 2013). Assets in an organization are guarded against misappropriation because of the resultant negative impact on the organization which affects the organization's value and its corporate credibility, (Song *et al.*, 2013).

Employee fraud is mainly associated with asset misappropriation, and this is mainly by stealing assets or putting false billing on the selected assets. Such misappropriation can be divided into two categories namely; theft of cash items and theft of cash items, (Kazemian *et al.*, 2019). The act is done by employees who are good at billing assets in a manner that is hard to detect. Books of accounts are corrupted to hide shortages and discrepancies. According to ACFE, asset misappropriation can be classified into seven main groups namely; register reimbursement, expense reimbursement, billing, payroll, cash larceny, skimming, and check tampering. Kazemian *et al.* (2019) gives opportunities that lead to an increase in asset misappropriation which includes a weak control system, absence of management, poor separation of duties and inadequate supervision. The study also argued that most companies unwisely provide opportunities for their employees to engage in fraud activities.

A review conducted by PWC in 2020 found out that asset misappropriation is the most reported economic crime in Kenya. Other crimes identified are accounting frauds and corruption and bribe rates. The report also identified Kenya as a country with the highest rate of white-collar crimes among the 78 countries involved. Asset misappropriation was also high in Kenya compared to the 78 nations studied. A study by Besada and O'Bright (2020) states that Kenya lost 5.5 billion in 2020. Some of the main areas of corporate Kenya include bribery & corruption (14%), customer fraud (12%), asset misappropriation (12%), procurement fraud (15%), money laundering (12%), and customer fraud (12%). The crimes were facilitated by internal staff, middle management and senior management staff. Pressure was also found to have a correlation with asset misappropriation in government institutions. Other factors include the ability of an employee to justify their wrong act when caught in asset misappropriation fraud, (Kazemian *et al.*, 2019). The study also found out that the ability to convince other staff to corporate frauds may make insider staff engage in such activities.

In Kenya, with the existing system of checks and balances, asset misappropriation fraud is on the rise compared to other countries in East Africa. The high cases of fraud of asset misappropriation affects the performance, (Opiyo, 2017). A study by Gikiri (2012) determined the effect of fraud risk management in Kenyan commercial banks. Asset misappropriation was included in the objective to determine how commercial banks put on measures to reduce such risks. It was revealed that information sharing is crucial in reducing such crimes in the banks.

Improper Expense Recognition Review

Auditors provide assurance that financial statements presented on expense recognition are free from misstatement. Auditing financial statements in terms of the quality assertion versus the specific criteria is the end result of an auditors opinions on financial statements provided on the company's expenses, (Dechow *et al.*, 2011). The auditor's opinion can be affected by expense statements of errors and fraud. According to Asare and Wright (2004) risk and assessment level in the audit environment influences audit strategy establishment that can provide a reasonable way of detecting miserable misstatements in the financial statements presented. Eilifsen and Messier Jr (2000) found an association between risk and uncertainty in relation to financial statements presented on expense recognition.

A study by Mwangi (2020) recorded that Deloitte Kenya found CMC motors financial statements as having improper expense recognition. The company's financial statements did not recognize losses from CMC losses from damaged assets. In addition, booking of undelivered vehicle sales were not regarded as revenues and interest payment sold cars on credit were not recognized. A final report by CMC operators in 2010 found out that financial statements presented by CMC accountants were not in relation to the set international financial reporting standards. The issue raises a question of the level at which auditors notice improper expenses statements in financial statement reporting. These CMC statements raise a question to the stakeholders as they weigh the level of expenses that are recognized in the financial statements.

Nairobi Securities Exchange

Under the Societies Act, Nairobi Securities Exchange was established and registered in 1954 as a voluntary association of stockbrokers,(Ngugi & Njiru, 2005). In 1988, there was a successful sale of a 20% government stake where the Government of Kenya and its affiliate institutions retained about 80% of ownership during the privatization. NSE shifted its location to Nation Centre in and set up a computerized delivery and settlement system in July 1994. It later upgraded its website in February 2007in order to enhance easy and faster access of accurate, factual and timely trading information. In July 2007, NSE reviewed the Index and announced the companies that would constitute the NSE Share Index so as to ensure a true barometer of the market,(NSE, 2011).

A Wide Area Network platform was implemented in 2007 which eradicated the need for brokers to send their dealers to the trading floor to conduct business. The majority of trading was conducted from the brokers' offices through the Wide Area Network. In 2008, the NSE All Share Index (NASI) was introduced as an alternative index. In July 2011, the Nairobi Stock Exchange Limited changed its name to the Nairobi Securities Exchange Limited where the change reflected the strategic plan of the Nairobi Securities Exchange of evolving into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments,(NSE, 2014).

III. Research Methodology

The study used a descriptive research design with a study population of 63 as listed by NSE 2020.The research was conducted using a descriptive research design which gives a description of phenomenon, characteristics and association of the research variables. The study employed the use of questionnaire to collect data that showed facts on establishing non-audit services, audit quality, and Fraudulent Financial Reporting. Census survey was adopted where the 57 listed firms in NSE were studied as 6 were used in piloting. The data was of primary nature where 57 closed ended questionnaires were dropped and picked for analysis. The data collected was run vias SPSS Software. Quantitative method of analyzing data that is descriptive statistical method where the statistical tools such as mean, mode and standard deviation was adopted. Inferential statistics such as simple and multiple regression models was used to predict the relationship among the variables. Tables and bar charts were used to test the null hypothesis and tested at 5% significance level. The following regression model was used to address the research objective.

The first objective was to establish the relationship between Non-audit Service and Fraudulent Financial Reporting among listed firms in NSE. The linear regression was as indicated below:

$Y = \beta 0 + \beta 1_{X1} + \beta 2_{X2+} \beta 3_{X3+} \varepsilon$ ……………………………………………3.1

Where

Y = Fraudulent Financial Reporting

$\beta 0$ = Constant

$\beta 1$, $\beta 2$ and $\beta 3$ = Variable Coefficient

$_{X1}$ = Assurance Services

$_{X2}$ = Tax advisory service

$_{X3}$ = Management advisory services

ε = Error term

The second objective was to determine the relationship between Audit quality and Fraudulent Financial Reporting among listed firms in NSE. The linear regression was as indicated below:

$Y = \beta 0 + \beta 1_{X1} + \beta 2_{X2\,+} \beta 3_{X3\,+} \varepsilon$…………………………………………………3.2

Where

Y= Fraudulent Financial Reporting

$\beta 0$ = Constant

$\beta 1$, $\beta 2$, $\beta 3$ = Variable Coefficient

$_{X1}$ = Auditor independence

$_{X2}$ = Auditor Tenure

$_{X3}$ = Auditor opinion

ε = Error term

The third objective was to determine the joint relationship between Non audit service, audit quality and Fraudulent Financial Reporting among listed firms in NSE.

$Y = \beta 0 + \beta 1_{X1} + \beta 2_{X2} + \varepsilon$ ……………………………………………….3.4

Where

Y = Fraudulent Financial Reporting

$\beta 0$ = Constant

$\beta 1$, $\beta 2$ = Variable Coefficients

$_{X1}$ = Non audit service

$_{X2}$ = Audit Quality

ε = Error term

IV. Results And Discussion

Inferential Statistics

Inferential statistics analysis was conducted using regression analysis to determine the relationship between the independent and the dependent variable. The coefficient of correlation (R) shows the degree of relationship between two or more variables, it measures the nature and strength of the relationship between the variables. This study used the Adjusted R-Square to show the goodness of fit of the regression model; this is because it only increases if the new term added improves the model by being relevant to the study and decreases when the added predictor adds no relevance to the study. The coefficient of determination (R-Square) was not used as it shows some bias between the variables; it continually increases when new variables are added to the model with disregard of the relevance of those variables to the study.

Correlation Analysis

Table 9 Correlation matrix

		Fraudulent Financial Reporting	Non Audit Services	Audit Quality
Fraudulent Financial Reporting	Pearson Correlation	1	.315*	.687**
	Sig. (2-tailed)		.014	.000
	N	60	60	60
Non Audit Services	Pearson Correlation	.315*	1	.341**
	Sig. (2-tailed)	.014		.008
	N	60	60	60
Audit Quality	Pearson Correlation	.687**	.341**	1
	Sig. (2-tailed)	.000	.008	
	N	60	60	60
*. Correlation is significant at the 0.05 level (2-tailed).				
**. Correlation is significant at the 0.01 level (2-tailed).				

Table 1 indicates a weak positive correlation (r=0.315) that is statistically insignificant (p=.014<.05) between non-audit services and fraudulent financial reporting. The study also reveals a strong positive correlation between audit quality and fraudulent reporting (r=.687) that is statistically significant (p=.000<.05).

Testing of Hypotheses
Effect of Non-Audit Service on Fraudulent Financial Reporting

Table 10 Model summary- Non-audit Service

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599[a]	.358	.322	.59286
a. Predictors: (Constant), Management Advisory Service, Assurance Services , Tax Advisory Services				
b. Dependent Variable: Fraudulent Financial Reporting				

Research findings on table 2 shows R squared was 0.322 and it shows that the total variation 32.2% in fraudulent financial reporting can be explained by non-audit services measured by Management Advisory Service, Assurance Services and Tax Advisory Services. This means that other factors not included in the study accounted for 67.8%. The study also found a strong relationship between the non-audit services and fraudulent financial reporting as depicted by coefficient of correlation (R) of 0.599, which is higher than 0.5 thresholds.

Table 11 ANOVA- Non Audit Services

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.728	1	2.728	5.704	.020[b]
	Residual	26.304	55	.478		
	Total	29.032	56			
a. Dependent Variable: Fraudulent Financial Reporting						
b. Predictors: (Constant), Non Audit Services						

The ANOVA (Analysis of Variance) results on table 3 above shows that the F value of 5.704 was statistically significant at 0.002 < 0.05, depicting a linear relationship among the variables under study. It also showed that the model had a lower than 0.05 likelihood of giving a wrong prediction. The above results shows that the independent variables (Management Advisory Service, Assurance Services and Tax Advisory Services) used was statistically significant in predicting the fraudulent financial reporting at 95% significance level.

From the findings on table 4.13, there is significant relationship between Non Audit services and Fraudulent financial reporting as (p=0.002<0.05) a minimum of 95% confidence level. The above results thus lead to rejecting the null Hypothesis $H_0 1$ that Non-Audit service has no significant effect on fraudulent financial reporting among firms listed in NSE as the P value is lower than 0.05 threshold.

V. Summary

To Determine the Effect of Non-Audit Service on Fraudulent Financial Reporting among Firms Listed In NSE.

From the above findings non audit service has positive and insignificant effect on fraudulent financial reporting (Beta value=0.131, p=0.374) a minimum of 95% confidence level. The above results thus lead to failing to reject the null Hypothesis $H_0 1$ that Non-Audit service has no significant effect on fraudulent financial reporting among firms listed in NSE. The study findings also depict that non audit services positively affect the fraudulent financial reporting among firms listed in NSE.

To Assess Effect Audit quality on fraudulent financial reporting among firms listed in NSE.

From the findings on table 4.16, Audit quality factors have a significant effect of p=.000<.05 on Fraudulent financial reporting, a minimum of 95% significance level. Based on these findings, the study therefore rejects the null hypothesis (Ho2) which states that quality audit has no significant effect on fraudulent financial reporting on firms listed in the NSE

The joint effect of Non audit service and audit quality on fraudulent financial reporting among firms listed in NSE.

The third objective sort to examine the joint effect of Non audit service and audit quality on fraudulent financial reporting among firms listed on NSE. The results of the study showed that combined non-audit services and audit quality factors have a significant positive relationship with fraudulent financial reporting among firms in the NSE. This was specified by the results that showed the F value of 26.273 which was statistically significant at p=0.000. This was lower than 0.05, (p=.000<.05). This study revealed that combined non-audit services and audit quality positively affect fraudulent financial reporting.

VI. Conclusions

The study sought to determine the effect of Non-audit Service on fraudulent financial reporting among firms listed in NSE. From the above findings non audit service has positive and insignificant effect on fraudulent financial reporting. The above results thus lead to failing to reject the null Hypothesis $H_0 1$ that Non-Audit service has no significant effect on fraudulent financial reporting among firms listed in NSE. The study findings also depict that non audit services positively affect the fraudulent financial reporting among firms listed in NSE.

Secondly the study assessed the effect Audit quality on fraudulent financial reporting among firms listed in NSE. From the above findings, the study found out that audit quality positively but significantly affects the fraudulent financial reporting among firms listed in NSE. The above results thus lead to rejecting the null Hypothesis that Audit Quality has no significant effect on fraudulent financial reporting among firms listed in NSE.

The study also determined the joint effect of Non audit service and audit quality on fraudulent financial reporting among firms listed in NSE. Non-Audit service and Audit quality have positive and statistically significant effect on fraudulent financial reporting among firms listed in NSE. The above results thus lead to rejecting the null Hypothesis $H_0 3$; Non-Audit service and Audit quality have no joint significant influence on fraudulent financial reporting among firms listed in NSE.

VII. Recommendations For Policy And Practice

The study concluded that non-audit services have a significant effect on fraudulent financial reporting on firms listed on the NSE. This is therefore a significant tool in the determination of fraudulent financial reporting among firms listed on the NSE. The study recommended that auditors should not provide non-audit services to firms as they do not have the experience in that area. To provide independent opinion, auditors should not be financially dependent on their clients.

The study also concluded that audit quality has a significant effect on fraudulent financial reporting among listed firms on the NSE. The study recommends the rotation of auditors to curb vulnerability in the auditor's performance. Overstaying in the provision of services to one client compromises the quality of reports provided.

Lastly the study concluded that combined non-audit services and audit quality have a significant effect in fraudulent financial reporting among listed firms on the NSE. To ensure the watchdog role of auditors, they should avoid the provision of other non-audit services to the firm they audit. There should be no restriction of information to the auditors whether formal or informal in relation to the audit at hand. Therefore, both the non-audit services and audit quality combined influence the fraudulent financial reporting.