# Audit Quality Control and Standards: A Case Study of Auditing Firms in Kigali, Rwanda

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# Abstract

Most accounting firms do not acknowledge they are susceptible to non-compliance on audits in lieu to accounting standards globally. The effectiveness of audit quality control mechanisms is essential to maintain the integrity and reliability of financial reporting. However, noncompliance with these controls can jeopardize the quality of audits and erode trust in financial markets. According to studies, accounting standards infringement may happen both inside and internationally and may include clients, staff, or other important stakeholders in a firm. According to the findings of previous studies, non-compliance to accounting standards can happen even when there are no due regulations, tools, and models in place. This proposal sought to explores the critical issue of audit quality control noncompliance and its impact on auditing standards within the context of auditing firms in Kigali, Rwanda. More specifically, this research sought to investigate the influences of influence of competence and standards on auditing firms in Kigali, Rwanda, establish the influence of firm's accountability and standards on auditing firms in Kigali, Rwanda and finally determine the influence of due professional care and standards on auditing firms in Kigali, Rwanda. The study was anchored on Signaling Theory and agency theory. The study adopted descriptive research design method. The population of the study encompassed all the 23 auditing firms in Kigali, Rwanda thus a census approach was applied. The researcher used secondary data from the auditing firms. Descriptive statistics, such as frequencies and percentages, were used to summarize and present the survey responses. The research result revealed that all the predictor variables had a moderate relationship on standards. Accountability tools ranking last with ($r = 0.519$). Pearson Correlation coefficient of competence and standards was computed and established as {0.553, p-value < 0.001} policies contribute moderately to fraud control The computed Pearson correlation coefficient for due professional care on standards control was ($r=0.547$, p-value < 0.001). By investigating the prevalence, causes, and consequences of noncompliance, it sought to provide valuable insights for auditors, regulators, and policymakers to enhance audit quality and uphold auditing standards in Rwanda's financial reporting landscape.

## 1.1 Background of the study

Okafor and Ofoegbu (2015) posit that quality audit promotes the credibility of financial statements and hence upholding auding standards. Traditionally, an auditor has the responsibility for the prevention, detection and reporting of fraud, other illegal acts and errors. It has been found that the perceived reliability of audited financial information has declined. In contrast, the perceived relevance of audited financial information has increased. Regulations have an important role, in that weak regulations could reduce the governance quality and financial reporting quality, resulting in poor market efficiency (Goodwin, 2001). By detecting weaknesses in management operations, Auditing provides a basis for correcting deficiencies that have eluded the first line of defense before these deficiencies become uncontrollable or are exposed in the external auditor's report. The auditor's ability to detect any error is related to the auditor's competence, and confidence to report the errors is also related to the auditor independence. He further explained audit quality as the probability that an auditor will not release an audit report with unqualified opinion for a financial statement that contains any material misstatement noncompliance could be at risk for penalties, reputational damage, and legal action

In the contemporary global business environment, the reliability and integrity of financial information play a pivotal role in fostering investor confidence and maintaining the stability of financial markets. One of the key mechanisms through which this confidence is achieved is the auditing process. Auditing firms, as independent third parties, are entrusted with the responsibility of examining financial statements to ensure that they accurately represent the financial health of an entity. However, the effectiveness of the auditing process hinges on the quality of the audit itself, which is intrinsically tied to adherence to audit quality control standards.

Audit quality control standards are a cornerstone of the auditing profession, aiming to provide a framework that ensures the competence, objectivity, and independence of auditors. These standards are designed to uphold the fundamental principles of auditing, including integrity, confidentiality, professional skepticism, and due care. Failure to comply with these standards, often referred to as audit quality control noncompliance, can compromise the quality of audits, weaken investor trust, and undermine the overall financial reporting ecosystem.

## 1.2 Statement of the Problem

Despite the existence of Audits, there is continued poor performance, incidences of fraud, incidences of budgets not being followed and cases of non-conformance to rules and regulations on usage of finance. High auditing quality diminishes information asymmetry and minimizes uncertainty concerning credibility of financial information particularly earnings, which is commonly occasioned by discretionary accruals manipulations that are likely to present some problems for a true and qualitative earnings report. While the importance of audit quality control standards is universally acknowledged, there is a growing concern regarding their consistent implementation and adherence, particularly in emerging economies. In the context of Rwanda, which has been experiencing rapid economic growth and a burgeoning financial sector, the need for robust auditing practices cannot be overstated. However, the extent to which auditing firms in Kigali, the country's capital, comply with audit quality control standards remains a subject of inquiry and concern.

Research has ignored some elements of audit quality, such as: Auditor independence, ethics, documentation, transparency, relationship with clients, and objectivity in relation to audit firm

client satisfaction. In light of these issues, there is a pressing need to investigate the factors contributing to audit quality control noncompliance among auditing firms in Kigali, Rwanda. Identifying the root causes, assessing the extent of noncompliance, and proposing potential solutions was essential in preserving the integrity of the auditing profession and ensuring the reliability of financial information in Rwanda's business landscape.

## 1.3 Research Objectives

The primary objective of this research was to examine the phenomenon of audit quality control noncompliance and standards within auditing firms operating in Kigali, Rwanda.

### 1.3.1 Specific Objectives

Specifically, this study sought to:

i.      To establish the influence of competence and standards on auditing firms in Kigali, Rwanda.

ii.     To establish the influence of firm's accountability and standards on auditing firms in Kigali, Rwanda.

iii.    To determine the influence of due professional care and standards on auditing firms in Kigali, Rwanda.

## 1.4 Research Hypotheses

$H_01$: Competence has statistically no significant influence on standards on auditing firms in Kigali, Rwanda.

$H_02$: Accountability has statistically no significant influence on standards on auditing firms in Kigali, Rwanda.

$H_03$: Due Professional care has statistically no significant influence on standards on auditing firms in Kigali, Rwanda

## 2.1 Theoretical Review

A theoretical framework in the realm of scientific inquiry refers to the foundational review of existing theories that serve as a roadmap for establishing arguments in a study. The theories that made for a theoretical framework for the study include signaling and agency theory.

### 2.1.1 Signaling Theory

The principle of signaling claims that the usage of financial knowledge by companies to give "signals" to the consumer is explained by the availability of asymmetries of information that are minimized by information provided to the market by managers and perceived to be a beneficial signal to the market.

### 2.1.2 Agency Theory

This theory was propounded by Stephen Ross and Barry Mitnick in 1973 (de Almeida, 2014). Agencies' philosophy deals briefly with the interaction between agents and directors. This principle involves the settlement of conflicts between the owner and administrators of two groups because of unaligned interests. In auditing, the theory is used to define the relationship between shareholders and their auditors and also used to resolve issues between the parties. Auditors are appointed to provide confidence and reinforce trust in an organization's financial information (de Almeida, 2014).

## 2.2 Conceptual Framework

Conceptual frameworks are theoretical structures of assumptions, principles, and rules that hold together the concepts that make up a wide notion. They are sets of coherent ideas structured in a way that makes them easy to understand. There are dependent and independent variables in the conceptual framework. The dependent variable is standards.

**Independent Variables**                                     **Dependent Variable**

**Competence**
- Reliability
- Accuracy

**Accountability**
- Transparency
- Responsibility
- Privacy and confidentiality
- Disclosure of material facts

**Standards**
- Standards enforcement
- More employees being informed about standards.

**Due Professional Care**
- Diligence
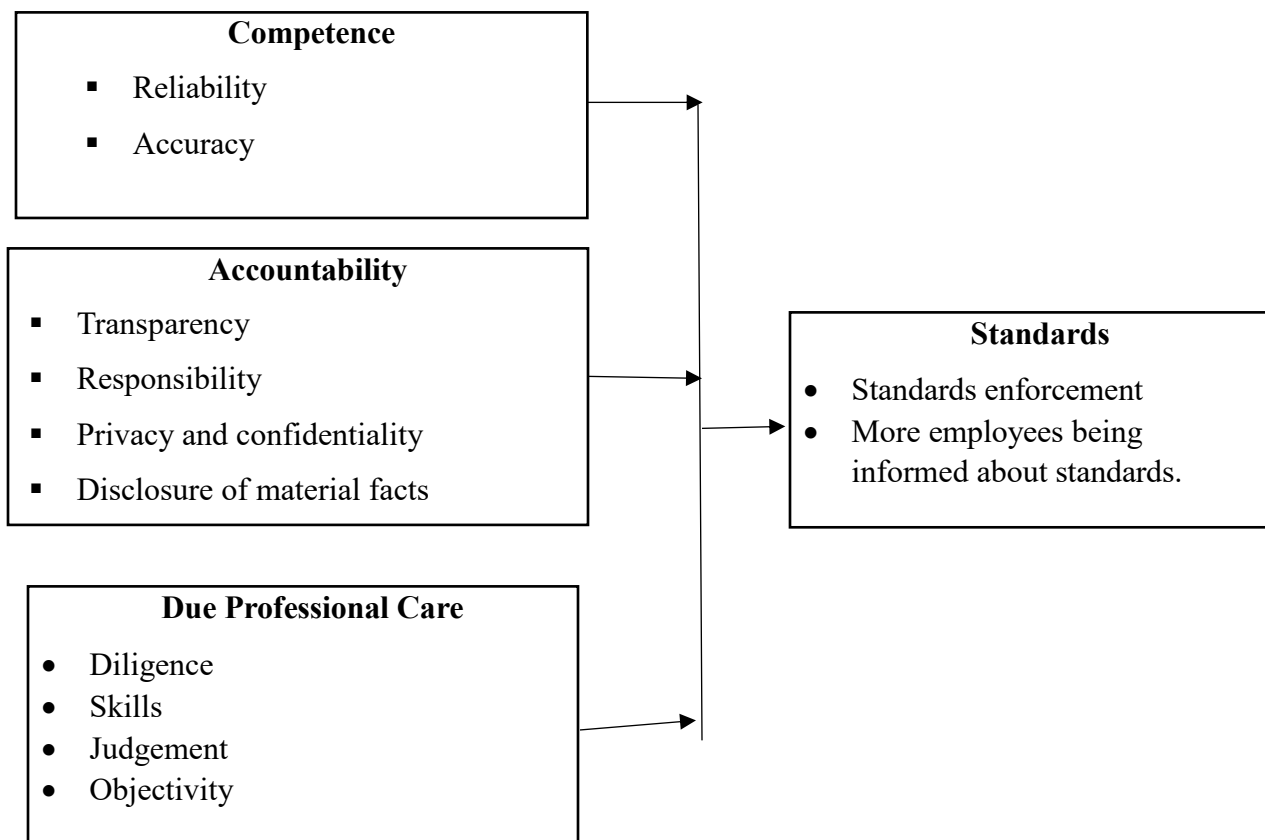- Skills
- Judgement
- Objectivity

**Fig 2.1 Conceptual Framework**

## 2.3 Summary

The bulk of studies done emphasize the importance and effectiveness of compliance on forensic audits, fraud prevention, financial reporting, and internal control quality. The relationship between audit quality control non-compliance and standards has not been adequately addressed in this research. This research will contribute to the conversation by examining the impact of audit quality control non-compliance and standards

## 3.0 Research Materials and Methods

Cross sectional data was gathered from the annual reports of all 23 auditing firms. Hence, the design was appropriate to the study because the researcher sought to establish a cause-effect relationship between the study variables.

The population: 331 Audit staff: for the research included organizations that give audit services from audit firms in Kigali. In particular, the study involved organizations served by all the 23 audit firms in Kigali registered under the standards set by the Institute of Certified Public Accountants Rwanda (ICPAR). The units of observation for the study included audit firms that receive auditing services from audit firms in Kigali. The data gathering instruments for this study was questionnaires created by the researcher for primary data collection. The research used multiple regression analysis to test the hypothesis.

The equation of regression model which represent the causal relationship between the independent variables and the dependent variable are as follow:

$Y = a + b_1 x_1 + b_2 x_2 + b_3 x_3 + e$
Where: Y = Audit quality
a = Constant value
b1 to b5 = Regression coefficients
X1 = Competency
X2 = Accountability
X3 = Due professional care
e = Error term

## 4.0 Findings
### 4.1 Inferential Analyses
Multiple regression analysis was the most suitable tool for inferential analysis. Some features were considered and tests done at 5% level of significance. To ascertain whether the combination of the variables investigated were fit, the model fitness test was done using the Ftest.

**Table 1: Model Fitness**

|  | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 155.176 | 3 | 38.794 | 16.52 | 0.0000[b] |
| Residual | 638.565 | 273 | 2.348 |  |  |
| **Total** | **793.741** | **276** |  |  |  |

From the ANOVA test done the significance value computedwas negligible at the 95% level of significance. Supportively the computed F statistic (16.52) was greater than F critical value (4, 272, 0.05); which is 2.6. The study then concluded that the combination of the predictor variable was stable for drawing valid conclusions regarding standards.

**Table 2: Model Summary**

| R | $R^2$ | Adjusted $R^2$ | Sts. Error of the Estimate |
|---|---|---|---|
| 0.753 | 0.567 | 0.561 | 0.0012 |

The coefficient of determination, $R^2$ was computed {0.567} and described the predictive accuracy of the model and explanatory power of the independent variable. Standards could explain a 56.7% variation in audit quality control noncompliance. This therefore implied that 56.7% variation in audit quality control noncompliance could be explained by a unit change in standards

while the remaining percentage could be explained by other parameters which did not form part of the study problem. The remaining 43.3% were explained by other factors related to audit quality control noncompliance. The adjusted $R^2$ (0.561) was slightly less than $R^2$ (0.567) by 0.006 which indicated that fraud control was sensitive to addition of other unrelated variables. This inferred that the overall model was highly sensitive to irrelevant variables that could be introduced into the model. Therefore, the study concluded that the set of variables considered in the study, formed the best combination with respect to audit quality control noncompliance and had an outstanding contribution to standards.

**Table 3: Strength of the Association between study predictors and Standards**

| Predictor Variable | Pearson Correlation Coefficient ($r$) | corresponding significance ($\alpha$) |
|---|---|---|
| Competence | 0.553 | 0.000 (negligible) |
| Accountability | 0.519 | 0.000(negligible) |
| Due Professional Care | 0.547 | 0.000(negligible) |

Pearson Correlation coefficients ($r$) and corresponding significances ($\alpha$) at 95% Confidence level. 2-talied test for the investigated independent variables against audit quality control noncompliance. The strength of the linear relationship between variables was established through the Pearson correlation coefficient test performed at 5% significance and two-tailed. The correlation coefficient (r) informed the study of the magnitude and direction of the relationship between the predictor and the criterion variable, whereby the bigger the coefficient, the stronger the association. As indicated in the Table above, all the predictor variables had a moderate relationship on standards. Accountability tools ranking last with ($r = 0.519$). The Pearson Correlation coefficient of competence and standards was computed and established as {0.553, p-value < 0.001} policies contribute moderately to fraud control. This therefore, revealed that there was a significant relationship between the two study paradigms.

The finding further indicates that the Pearson correlation coefficient for fraud management tools and fraud control was computed and established as (r=0.519, p- value < 0.001) which had a constructive relationship to fraud control. The computed Pearson correlation coefficient for due professional care on standards control was (r=0.547, p-value < 0.001) had a positiveand significant association with fraud control. The study's null hypotheses were tested at a 5% level of significance and at 272 degrees of freedom. This analysis enabled the researcher to make a conclusive decision on whether to reject or acceptthe study's null hypotheses.

**Table 4: Summary of the Regression Coefficients**

| | Unstandardized Coefficients | | Standardize Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | **B** | **Std. Error** | **Beta** | | |
| **Constant** | 1.369 | 0.027 | | | |
| **Competence** | 0.219 | 0.070 | 0.238 | 3.129 | 0.002 |
| **Accountability** | 0.247 | 0.077 | 0.271 | 3.208 | 0.002 |
| **Due Professional care** | 0.211 | 0.062 | 0.205 | 3.403 | 0.001 |

From the findings, all the null hypotheses were rejected based on the fact that the associated significance values {0.002, 0.002 and 0.001 respectively in order of the study null hypotheses; see table 4.16} were all less than 0.05, the α-value. The corresponding computed t values {3.129, 3.208 and 3.403} weregreater than the t-critical value at (0.05, 277) =1.96. From these findings, the study concluded that audit quality control noncompliance had a significant influence on Standards. The result gave outstanding insight into the extent to which independent variables determined the rate of change in the dependent variable, Standards.

The results show that the relationship between competence and standards had a coefficient ($\beta_1$) of 0.219 (p-value=0.002). The t- computed (3.129) was greater than the t-critical (1.96) hence the association was significant. This revealed that a unit increase in competence would lead to a 0.219 increase in standards. In addition, the association between accountability and standards had a regression coefficient of 0.247 (p-value=0.002). The t-computed (3.208) was greater than the t-critical (1.96) hence there was a significant relationship. This revealed that a unit increase in accountability would lead to 0.247 increase in standards.

Further, the results show that the relationship between due professional care and standard had a coefficient of 0.211 (p-value=0.001). The t-computed (3.403) was greater than the t-critical (1.96) hence the association was significant. This revealed that a unit increase in due professional care would lead to 0.211 increase in standards. It is evident that the strongest predictor that influenced standards was accountability with a coefficient of (0.247), followed by competence with a coefficient of (0.219) and the least was due professional care with a coefficient of (0.211).

The study concluded that these variables chosen by the researcher were among the best measures of standards in the audit staff. The study's summarized statistical model was represented as; **Y= 1.39 + 0.219X$_1$ + 0.247X$_2$ + 0.211X$_3$** whereby; Y= Standards in the audit firms, 1.39 = intercept constant, 0.219, 0.247,0 and .211 are best estimators for the predictors; competence, accountability and due professional care on standards.

## 5.0 Conclusion

In conclusion, this research has examined the critical issue of audit quality control noncompliance and its implications for auditing standards within auditing firms in Kigali, Rwanda. The findings emphasize the importance of audit quality in maintaining investor trust and the integrity of

financial markets. Moving forward, it is essential for all stakeholders, including auditing firms, regulatory authorities, policymakers, and the financial community, to collaborate in fostering a culture of compliance with audit quality control standards. Such collaborative efforts are integral to ensuring that the auditing profession in Rwanda continues to evolve and align with global best practices. The research presented in this thesis serves as a foundation for future studies in this field and a catalyst for positive change in the auditing landscape of Rwanda

The conclusion of this study was drawn, bearing in mind the objective to establish the relationship between audit quality control noncompliance function and standards of the auditing firms in Rwanda. This objective was attained by using a descriptive statistical analysis and correlation analysis (inferential statistical analysis) to standards (ROE), considering the independent variables of competence, accountability and professional care. The relationship between audit quality control noncompliance function and standards were analyzed by the statistical tools of analysis mentioned above. The findings outcome of the present study, established by the rising unit levels in competence, accountability and professional care are positively related with standards of the auditing firms in Rwanda.

### 5.4 Recommendation
The findings of this research have several implications for various stakeholders, including auditing firms, regulatory authorities, policymakers, and the broader financial community in Rwanda. Based on the research findings and their implications, the following recommendations are put forth to enhance compliance with audit quality control standards among auditing firms in Kigali, Rwanda:

### 5.4.1 Auditing Firms
Auditing firms operating in Kigali need to take note of the prevalence of audit quality control noncompliance revealed in this study. Noncompliance can have serious repercussions, including damage to reputation and regulatory sanctions. It is imperative for auditing firms to prioritize the adherence to audit quality control standards, invest in training and resources, and establish a culture of compliance.

### 5.4.2 Regulatory Authorities
Regulatory authorities in Rwanda play a pivotal role in ensuring the quality and integrity of audits. The findings of this study underscore the importance of robust regulatory oversight and enforcement mechanisms. Authorities should consider implementing measures to monitor and penalize noncompliance effectively, thereby promoting a culture of adherence to audit quality control standards. Regulatory authorities in Rwanda should bolster their enforcement mechanisms and transparency in oversight to ensure auditing firms' compliance with international standards. Collaborative efforts among auditing firms, regulators, and industry associations can further promote a culture of compliance.

### 5.4.3 Policymakers
The research findings have policy implications for Rwanda's auditing and financial regulatory framework. Policymakers should consider revising and updating regulations to align with international auditing standards and best practices. The development of clear guidelines and incentives for compliance can significantly improve audit quality control in the country. Policymakers in Rwanda should recognize the significance of audit quality control in the context of economic growth and financial market development. The findings highlight the need for clear

policies and regulations that promote compliance with international auditing standards. Policymakers should also consider incentives to encourage auditing firms to invest in quality control mechanisms. Policymakers should consider revising and updating regulations to align with international auditing standards and best practices. Clear guidelines and incentives for compliance can significantly enhance audit quality control in Rwanda

### 5.4.4 Financial Community
The financial community in Rwanda, including investors, creditors, and other stakeholders, should be aware of the implications of audit quality control noncompliance. Understanding the potential risks associated with noncompliant audits is essential for making informed financial decisions.

### 5.4.5 Training and Professional Development
Auditing firms should invest in continuous training and professional development programs for their auditors. This will enhance competence and understanding of audit quality control standards, reducing instances of noncompliance.

### 5.4.6 Regulatory Strengthening
Regulatory authorities in Rwanda should strengthen their enforcement mechanisms and increase transparency in their oversight of auditing firms. This can include more rigorous inspections and regular reporting on compliance levels.

### 5.4.7 Industry Collaboration

Auditing firms, regulatory authorities, and industry associations should collaborate to share best practices and promote a culture of compliance. Industry-wide initiatives can enhance the overall quality of audits in Rwanda.

### 5.4.8 Investor Education
Efforts should be made to educate investors and stakeholders about the importance of audit quality and the potential risks associated with noncompliance. This can be done through investor education programs and enhanced transparency in financial reporting.

### 5.5 Suggestion for Further Studies
This study has illuminated several areas for future research. Further investigations into the effectiveness of specific regulatory interventions, the impact of audit quality on investment decisions in Rwanda, and the role of external factors in audit quality control noncompliance are potential avenues for future research in this field.

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