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ROLE OF FINANCIAL AUDIT IN ACHIEVING ORGANIZATIONAL SUSTAINABILITY: A CASE OF UCHUMI SUPERMARKETS LIMITED

by

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17-0489

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Department of Commerce

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APPROVAL

ROLE OF FINANCIAL AUDIT IN ACHIEVING ORGANIZATIONAL SUSTANABILITY: A CASE OF UCHUMI SUPERMARKETS LIMITED.

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In accordance with Daystar University policies, this thesis is accepted in partial fulfillment of the requirements for the award of Master in Business Administration degree.

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DECLARATION

ROLE OF FINANCIAL AUDIT IN ACHIEVING ORGANIZATIONAL SUSTAINABILITY: A CASE OF UCHUMI SUPERMARKETS LIMITED.

I declare that this thesis is my original work and has not been submitted to any other college or university for academic credit.

Signed: ______________________ Date:_____________________

Kaggwa Andrew Andere

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LIST OF ABBREVIATIONS AND ACRONYMS

CEO: Chief Executive Officer

CMA: Capital Markets Authority

GAAP: Generally Accepted Accounting Principles

GRI: Global Reporting Initiative

ICPAK: Institute of Chattered Public Accountants of Kenya

IFA: International Federation of Accountants

IFRS: International Financial Reporting Standards

IIA: Institute of Internal Auditors

ISA: International Standards for Auditing

KHE: Kenya Horticultural Exporters

KPMG: Klynveld Peat Marwick Goerdeler

NSE: Nairobi Stock Exchange

OS: Organizational Sustainability

PAFA: Pan African Federation of Accountants

PwC : Price Water House Coopers

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ABSTRACT

One of the goals of any business is the ability to maintain or support its operations continuously over time. This can be achieved through ensuring a balance is struck between meeting the interests of the stakeholders and taking care of the environment within which it operates in while achieving the economic goals. This calls for setting up of goals and means to achieve them as well as reporting the operations of the business in a prudent manner. This study was conducted to investigate the role of financial audit in achieving organizational sustainability, a case of Uchumi Supermarkets Limited. The study used Uchumi's audited financial statements between the year 2006 and 2015 when the company was facing turbulence in its operations. The study used content analysis and regression analysis to capture the research variables for presentation. The study established that despite Uchumi having unqualified financial audit reports over the years, the company does not have sustainability reports on the level which it operates towards, despite adhering to various sustainability levels. Financial audit however acts as a pillar of faith in ensuring what the organization's management reports in its financial statements present the true and fair position of the organization. Financial audit therefore have a direct relationship with the sustainability of an organization as much as the sustainability level an organization operates in remains a management decision. In line with these results, the study has recommended the continuous use of the Z score model to measure the likelihood of organizations being in financial distress as well as setting up of sustainability levels which a company can always work towards.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

Introduction

The Russian assault of Ukraine has intensified the COVID-19 epidemic's impacts and the global economy's weakening, and this has led to significant changes on how both individual and business behave over the past few months (Nandita, 2022). Taking a look back in time, the financial fraud and immoral actions of financial institutions and security market operators were major factors in the global financial crunch that began in 2008 (Ojo & Ayadi, 2014), whose impacts were uncertainty, the economic downturn, and the rapid responses of the monetary and fiscal authorities and these have been similar to the impacts caused by the COVID 19 pandemic (Ikram, Noureddine, & Mohamed, 2022). Some businesses have had to deal with reduced revenues streams as a result of reduced operations and this in the long run impacts the sustainability and ability of such businesses to be in operation into the foreseeable future.

These events extremely dented the securities markets globally by eroding the little faith that players had in the market. The majority of foreign investors who had made substantial investments in the Kenyan stock market began selling their stocks, which caused a sharp decline in the prices of securities traded at the Nairobi Stock Exchange. Due to the significant disruption of global supply chains, Kenya's mostly dependent on import business environment is now extremely vulnerable (Odhiambo & Okungu, 2020). The Kenyan NSE 20 Share Index dropped to 48% as of July 2008 due to the financial crunch according to the World Bank report of 2009. Additionally, the thought of issuing several bonds was put on hold. The monetary policy in Ghana

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was tightened up after receiving lower warnings from the Standard & Poor's and Fitch ratings, whereas South Africa had difficulties compensating for its growing current account shortages. Ghana was therefore compelled to drop a $300 million funding scheme, while Kenya stopped the issuance of its $500 million Eurobond (Allen & Giovannetti, 2011).

Background to the Study

By the late sixteenth century, the main objective of auditing was to assess personnel accountable for managing a business finances, whether they be individuals or organizational structures. Auditing was primarily concerned with inputs, rules, and the proper use of public funds (Giorgia, Giuseppe, & Guthrie, 2021). Over the years, Eli (2022) notes that, audit have been utilized as a tool to promote the interests of clients as well as the general public. Audit procedures help people and businesses achieve their objectives and succeed in the economy through performance evaluation, risk management, and information leveraging (KPMG, 2019). Rather than acting as a destination in and of itself, audit provide a starting point and an input for several other measures for stakeholders charged with oversight to safeguard and look into the utilization of public resources (Office of the Auditor-General, Kenya, 2017).

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Since its inception before 1840, when it was primarily used to monitor process of industrialization transactions, auditing has come through a number of stages of development (Tarek, Ileana, Enrico, & Dessalegn, 2021). Auditing was known as the "conventional conformance role of auditing" from the mid-1800s to the start of the 1900s, which incorporated mainly compliance with legislation and the management and safeguarding of organizational resources. However, the auditor has been

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executing an "enhancing function" for the last thirty years, which involves investigating and proposing pertinent suggestions for improving the governance process. Besides improving the integrity of the financial statements, auditors are currently required to provide value-added services including assessing the overall efficacy of the administration, security, and control mechanisms (Lee & Azham, 2008). These tasks are currently carried out as a result of the audit process' ongoing digitization and the development of auditing as a discipline (Stockle, 2022).

In Kenya, financial auditing has also gone through a number of various stages. Gaitho (2018) notes that since the county governments began operating in 2013, inadequate financial and auditing practices, as criticized in the Auditor General's reports, have been revealed. It was found that the County Governments maintained erroneous financial records that were unsustainable for adequate audit and did not accurately reflect the financial standing of the counties. However, despite lack of political goodwill, the Institute of Certified Public Accountants of Kenya (ICPAK) claimed that changes aimed at coordinating and streamlining the work of auditors in the public sector across Africa have been implemented.

Since anomalies are utilized to indicate any actions that may be occurring outside of the usual norm or routine of operations in an institution, the audit practice should act as a spot-check to any such anomalies. The Institute of Internal Auditors Standard 2130 on Governance notes that by examining and improving the strategies used to formulate and communicate objectives and ideals, track success, uphold transparency, and protect principles, audit should enhance the organization's management framework (Moodley, Ackers, & Odendaal, 2022), with an aim of attaining long term sustainability of the institution (Daykin, 2006).

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The goal of auditing as a discipline is to track the performance of businesses and draw attention to any areas where things may not be working well. In order to track an organization's performance and identify any areas where things may not be progressing well, the profession of audit has been around for some time. According to Stephenson (2015), audit are carried out to guarantee that expenditures are accurate, not generally taking intentions and purposes into account but rather in search of inaccuracies. As noted by Kahyaoglu, Sarikaya and Topal (2019), today, improving commercial operations and reaching strategic goals require the audit profession. Furthermore, auditing as a profession helps assess if a company's practices, guidelines, and regulations are the best ones for attaining its objectives, gratifying its stakeholders, and conducting business in an ethically and lawfully responsible manner (Mwanza & Kaira, 2022).

Financial Audit

Financial auditing is the rigorous and impartial evaluation of an organization's books, accounts, statutory records, papers, and vouchers (PwC Corporation, 2019). Financial auditing helps assess whether the information in financial records is reported honestly in every way in line with the recognized accounting and auditing standard. Long-term organizational governance can be developed with the help of financial audit, which offer a method for monitoring organizations on behalf of taxpayers, donors, or dispersed investors (Duguay, 2022).

Since the global recession of 2008, there has been a lot of debate over the function, importance, and goal of the audit process as well as whether it can by itself guarantee the performance of institutions. As a result, several measures created to

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improve the audit processes have been implemented (PwC Corporation, 2019). Under the Kenyan Constitution Chapter 531 on the Accountants Act, the Association of Public Accountants, ICPAK, was set up to among other roles, regulate the auditing functions. The institute may appoint an accountant to audit any institution as required by the law (Attorney General, Kenya, 2009). The Institute was set up in 1978 and derives its authority from the Accountants Act. It belongs to both the International Federation of Accountants (IFAC) and the Pan-African Federation of Accountants (PAFA), the profession's global governing bodies (ICPAK, 2019).

Two types of audit exist in the discipline: internal audit and external audit. According to the Institute of Internal Auditors (2022), internal audit are impartial, unbiased assurance and advisory activities that can be carried out as often as needed throughout the year with the aim of value addition and enhancing an organization's actions. They help a firm achieve goals by applying a rigorous, professional tactic to evaluating and improving the efficiency of threat assessment, control and authority structures.

For purposes of clarity, registered accountants with certifications like the CPA frequently perform external audit. The objective is primarily to guarantee that the yearly financial records present an honest and just picture of the organization's finances and that the funds are being spent in line with the objectives and goals outlined in the constitution. Due to time constraints, only a sample of transactions are rigorously checked for legitimacy rather than all of them. Selected employees might also be interviewed in secret. Any records that are necessary, such as primary records of accounts, summaries and reconciliation statements, schedules of creditors or debtors, and any other information, such as the organization's charter, a list of

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committee members, and minutes of Board meetings, are typically communicated to the organization in advance (ICPAK, 2019).

Auditing is currently at a crucial point, particularly because the profession is being put to the test by modern corporate practices and information technology breakthroughs (Karin, Kato, Rolien, & Marina, 2021). The practice is anticipated to keep changing in the future.

Due to the current COVID-19-related market disruption, more emphasis is now being placed on liquidity and the ability of a business to remain in operation (PwC, 2022). Consequently, according to PwC standards, a going-concern principle is used to prepare the financial statements, and this implies that assets and obligations are documented with the anticipation that the entity will value its assets and settle its liabilities during routine business operations. If management feels that the firm won't be in today's competitive environment, a liquidation or break-up basis must be used to generate the financial reports. This implies that the valuation of their assets must account for the potential for forced sales, which will probably result in a much lower asset value and maybe a significantly greater liability value (PwC Corporation, 2022).

Inside the audit report, an audit opinion is typically provided as a distinct paragraph (Baker & Persson, 2021). The auditor must provide an opinion that the financial reports are accurately reported and in accordance with the relevant accounting rules such as the International Financial Reporting Standards (IFRS), and that there is reasonable certainty of this, and that there are no substantial omissions, whether as a result of fraud or mistake.

The four alternatives for opinions available to the auditors include the following: (a) Unqualified viewpoint that demonstrates that the reports present a true

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and fair picture. Usually, everyone enjoys hearing this viewpoint. (b) Qualified - dissenting opinion that reveals particular inaccuracies, such as an incorrect accounting policy, have been made. While (c) Adverse opinion suggests that the accounts include so many errors that they are essentially false, (d) limited but qualified "scope" denotes specific unclear problems, such as the fact that some records are not readily accessible for scrutiny (IAASB, 2022). These viewpoints benefit the firm and raise the general standard of corporate operations.

The audit opinion is not regarded as "clean" if it differs from management's evaluation of the financial accounts. Auditors may also add new paragraphs to the audit findings in order to draw readers' attention to specific crucial issues, for instance, if they believe that a significant aspect of the financial statements is in doubt (PwC Corporation, 2022). In order to emphasize and boost trust that the audit has adhered to all pertinent criteria, a statement of the auditor's independence must also be presented along with the auditor's conclusion (Sefira & Hasyim, 2022)

An organization's annual report frequently include the audited financial statements as well as a narrative (disclosure notes), in which management discusses the performance and the business's operations (PwC Corporation, 2022). The narrative component of the yearly reports is often not audited. The auditors comb through the annual report's narrative statements to look for any significant differences between the financial statements' audited data and those statements. If they notice any such irregularities, they alert the management. Thanks to the financial reports, annual reports and other paperwork, stakeholders can comprehend management's performance over the periods shown (PwC Corporation, 2022).

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The rigorous GAAS, which outline how a corporation should report and account for even the most complex transactions, are taken into consideration by auditors while performing an audit. The usage of the words "think" and "exact and balanced" is done on purpose to highlight the need for judgment (PwC Corporation, 2022). The Institute stresses that the audit report is the auditor's professional opinion based on work done in compliance with accepted standards, not a promise.

Role of Financial Audit

A company's audited financial statements serve as a vital tool for raising capital, aiding owners or management in planning, controlling, and making decisions, as well as serving a variety of other significant roles in advancing the success of the business (Mohd-Sanusi, Isa, Mohamed, Teck-Heang, & Iskandar, 2012). When a company needs money to fund its operations, it always relies on audited financial statements to demonstrate the legitimacy of its financial status. Financial audit are now recognized as a crucial aspect of any company and a tool for improving their economic health in recent years. Financial audit have shown to have a positive impact on financing tax compliance from the government's perspective (Sunardi, Damayanti, Supramono, & Budi, 2022). The audit procedure has evolved to focus on the management's financial decisions and take a closer look at the organization's operations (Kerry & Trotman, 2022).

Eva, Roberto, & Saúl (2020) argue that small and medium-sized enterprises (SMEs) believe that financial audit will help them develop plans for process improvement, risk reduction, and resource management that will increase their competitiveness. Moreover, a financial audit process will highlight areas where

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management could improve their controls or procedures, thus enhancing the organization's worth by raising the bar for its operational practices (PwC Corporation, 2022).

Financial audit are frequently used to assist manage conflicts of interest between managers, shareholders, and external creditors. Users of financial statements can have a fair level of comfort that the report was prepared in accordance with accounting rules and that the information it contains is reliable thanks to audit. Financial audit therefore serve to reinforce the relationship of trust and stewardship between the management of a business and the owners. This has served as a pillar of faith for financial systems all over world (PwC Corporation, 2022).

Organizations that charge higher audit fees are much more likely to provide stand-alone sustainability reports, and this positive association is larger when organizations have more sustainability-related concerns (Joshi & Li, 2016). This is supported by International Organization of Securities Commissions' report (2021) which holds that institutions that will give detailed sustainability reports would be willing to do so voluntarily irrespective of the cost implications of getting the reports generated. Therefore, it is possible to consider accountants and those in charge of overseeing an organization's resources as a part of the strategies used by those organizations to achieve institutional sustainability.

As noted by Kanelli and Vita (2019), to remain successful, organizations must adapt their long-term success plan in both financial and non-financial aspects. Financial audit are a useful tool for keeping tabs on financial performance, exposing any misleading information on the financial statements, and enhancing the authority of these companies' management. In order to ensure that management's financial

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decisions are solid and to advance the firm's general health, a corporation might use financial audit as a tool.

Organizational Sustainability

An organization's or society's ability to balance economic, environmental, and social factors is known as sustainability. Elkington (1994) coined the term "triple bottom line" to argue that the conventional business structure, which solely focuses on profitability variables in evaluating a corporation, ought to be changed to new model that also considers the organization's operations in terms of its social and environmental responsibilities and financial standing.

Later, corporate social responsibility (CSR), which placed more emphasis on volunteering than on reporting financial information, replaced the triple bottom line. CSR implementation is essential for goals to be achieved, just like any other strategy implementation (Fatima & Elbanna, 2022). When a community or institution is referred to be sustainable, it signifies that it upholds a specific standard of sustainability (Augusto, 2013). Sustainability is a business strategy that examines how a company functions to create long-term value in its environmental, societal, and financial surroundings. Utilizing such tactics is essential to sustainability, according to its central concept as it encourages sustained corporate performance (Knut, 2016). A company's present behavior determines whether it will still be around in the near future. It entails all the actions taken to ensure that the organization's long-term survival is not in danger.

As per the United Nations Brundtland Commission's definition in 1987, sustainability is addressing current needs without jeopardizing the ability of future

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generations to address their own needs. Under the heading of corporate disclosure reporting, also known as non-financial information, integrated reporting has taken the place of triple bottom line reporting, corporate social responsibility reporting, and corporate sustainability reporting (Tilt, 2010; International Integrated Reporting Council, 2019; Kagwaini, 2029) Organizations can think about their effects on a variety of sustainability concerns through sustainability reporting, enabling them to talk more openly about the opportunities and threats they face, according to the Global Reporting Initiative (2019).

According to Augusto (2013), the idea of organizational sustainability has grown in acceptance over the last few years, putting businesses under significant market and regulatory pressure to implement sustainable practices. Organizations expand their reach, pursue sustainability, and increase their financial returns in an effort to gain legitimacy in the eyes of the market. As noted by Antonio, Birgit, Maria, Francesco and Davide (2021), following the global economic crisis, businesses are under pressure to change the way they conduct business by introducing sustainable practices. As a result, Batista & Francisco (2018) demonstrate that decision-making by managers has been guided by organizational sustainability (OS) to produce competitive advantage. A sustainability report outlining the entity's ideals and management structure also shows how its plan and dedication to a justifiable universal economy are related (GRI Corporation, 2019).

According to Porter's definition of strategy, he clearly distinguishes between improving efficiency and strategy, arguing that the core of a tactic lies in selecting a distinctive and valued position anchored in systems of activities that are far more difficult to replicate. Porter believes as well that being unique is key to strategy

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(Porter, 1996). The study of organizational sustainability as a stand-alone strategy has also been reported by other researchers. In their research article, *Corporate Sustainability: A Strategy?* Serafeim and Ioannou (2019) examine the adoption of sustainable practices through time and the implications for corporate success. From the study, they discover that over time, sustainability practices converge across nearly all industries, indicating that this becomes standard practices. In contrast, they make an effort to distinguish between a set of sustainable behaviors that they refer to as "common practices" within a sector and a set that they refer to as "strategic practices."

The implementation of strategic sustainability measures is strongly and favorably correlated with both return on capital and expectations for future performance, according to Serafeim and Ioannou (2019), who go on to further explore these performance implications. The adoption of widespread sustainability techniques, in contrast, is reliably connected solely with expectations for future performance. They demonstrate the significance of organizational sustainability as a long-term business strategy and a normative business practice.

As a result, the GRI (2019) definition of sustainability reporting and the inclusion of the triple bottom line idea, as introduced by Elkington in 1994, represent a business strategy for organizational sustainability that integrates the environmental, economic, and social elements. Garcia et al. (2017) attempted to operationalize those ideas through standards, regulations, or metrics in their day-to-day work in an effort to assist managers. This is in line with the findings of Batista & Francisco (2018), who discovered that stakeholders receive more detailed information from businesses who have been issuing sustainability reports. Over a longer time, this shows a sign of organizational maturity, therefore, adopting sustainable practices is seen as a strategy

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because it involves establishing deadlines, putting systems in place, and then routinely and consistently reviewing the outcomes to produce better performance. Further, Batista et.al claim that sustainability is a "key strategy" that gives any company a competitive edge.

Since sustainability reporting is a crucial communication tool for proving transparency and good governance and is explicitly targeted at stakeholders, it can be utilized as a strategy on its own (Olayinka, Alex, & Omololu, 2021). However, there are four types of organizational sustainability strategies as highlighted by Baumgartner and Ebner (2010), where each strategy strengthens an organization's dedication to integrating sustainability principles for the environment and people into its strategic planning. The strategies are: (1) the introverted-risk mitigation method, which emphasizes legal and other external norms on environmental and social factors to eliminate harm for the company; (2) the extroverted-legitimating approach, which emphasizes relationships with others and obtaining a permit to operate; (3) the conservative-efficiency approach, which emphasizes eco-efficiency and cleaner production, seeks to make sure that the organization's production process is as effective and clean as possible; and (4) the innovative, all-encompassing sustainability strategy, which emphasizes sustainability concerns across all corporate endeavors. These strategies highlight the issues that need to be solved in order to successfully achieve precise sustainability targets.

Uchumi Supermarkets Limited

Uchumi Supermarkets Limited, also known as Uchumi, is a retail supermarket chain that was created in 1975 in Kenyan as a publicly traded limited liability

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company. Its objectives were to create retail marketplaces for Kenyan products and supply networks for products that would be dispersed fairly (Waita & Mwasa, 2014). The company securities were floated at the Nairobi Stock Exchange (NSE) in 1992, where the company is listed on the NSE under the Commercial and Services and Main Investment Market segments, respectively. Uchumi temporarily went out of business, entered receivership, and had its shares delisted from the NSE in June 2006.

In July 2006, five Uchumi locations—all in Nairobi—were revived as a result of a government-led rescue effort. They are now run by a caretaker administrator and interim management. After earning a profit again in January 2011, the retail chain applied to the Capital Markets Authority of Kenya (CMA) to trade once more in the NSE. On May 31, 2011, trading in Uchumi shares resumed after the CMA granted clearance (Uchumi Supermarkets Limited, 2011).

Uchumi terminated the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in June 2015 for wrongdoings and extreme irresponsibility. In August 2015, a new CEO was appointed. The CMA Board took enforcement actions against the former Uchumi Supermarkets Limited Directors, according to a press release from the CMA, for a number of regulatory violations, including failing to disclose material information to investors in a timely manner, abusing the proceeds of a rights issue, falsifying financial statements in 2014, failing to manage conflicts of interest, and failing to disclose asset sales and leaseback agreements. (The Capital Markets Authority, 2016).

Uchumi operated in 37 locations as of 2015, including those in neighboring nations, but as of May 2020, just six were still operating because the company was not profitable. Uchumi Supermarket was the 18th most traded stock on the Nairobi

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Securities Exchange between May and August 2022, even though there are currently just three outlets operating in Nairobi as of August 2022 (African 'xchanges, 2022). However, Muiruri (2022) notes that since Uchumi hasn't issued audited financial statements or held an AGM for more than five years in a row, it continues to be in violation of CMA regulations.

Problem Statement

One of the management objectives in any business is to ensure that there is business development and growth into the future (Thomson, 2022). However, in Kenya, there have been several instances of financial trouble over the years that have impacted numerous institutions, notable examples include the Uchumi store, Bulk Medical Limited, and East Africa Packaging Industries Limited (Waita & Mwasa, 2014). Operating when a business is facing turbulence in the market has its own difficulties. Various enterprises have handled this predicament in a variety of ways, including selling off significant assets, merging with other businesses, issuing new securities, declaring bankruptcy and placing other businesses under receivership. Financial audit are intended to showcase the functioning of institutions and serve as warning signs when something is not working as planned for the general public. According to Wandera and Njoki (2013), although the financial audit opinion produced during these eras have been unqualified, users of audited financial statements generally anticipated auditors to uncover issues with fraud, mismanagement, or distortion of facts that jeopardize the integrity of financial reporting.

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For the majority of a company’s stakeholders that depend on the company in various ways, the viability of the firm for future prospects becomes the top issue when it faces financial difficulties that result in its collapse (Corporate Finance Institute, 2022). In the case of Uchumi supermarket, the directors' poor financial management choices imperiled the organization's long-term viability. Owing to the documented benefits of financial audit, Uchumi conducted its end year financial statement audit and despite this, the company was placed under receivership. The question that lingers on the stakeholder’s mind therefore is whether the financial audit carried out by these companies highlighted any challenges in its operations and how the organizations responded to the reports. The study therefore hopes to establish the link between the benefits of conducting financial audit, if any, and organizations achieving their sustainability levels.

Research gap

From the available literature, various studies have been done on Uchumi’s financial distress and the turnaround strategies that have been put in place to help the firm stabilize from the turbulence that have impacted on its operations. However, limited information is available about the financial audit that Uchumi carried out over the period it faced the turbulence. Given this context, the study aims to close the current gap by determining the role the financial audit carried out by Uchumi has on its sustainability.

Purpose of Study

The purpose of the study was to investigate the role of financial audit in achieving organizational sustainability using Uchumi Supermarkets Limited.

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Objectives of the study

The specific objectives were as follows:

1. To examine the role of financial audit performed by Uchumi Supermarkets Limited.
2. To investigate the sustainability levels Uchumi Supermarkets Limited operates in.
3. To determine the role of financial audit on organizational sustainability using the case of Uchumi Supermarkets Limited's sustainability.

Research questions

1. How does the role of financial audit influence the operations of Uchumi Supermarkets Limited?
2. What sustainability levels does Uchumi Supermarkets Limited operate in?
3. What role does financial audit play in achieving organizational sustainability in Uchumi Supermarkets Limited?

Justification

Simnett (2021) notes that it was vital to pay attention to the role financial audit play in establishing organizational sustainability and recovering stakeholders' trust due to critiques of the audit process' emphasis on organizations' overall performance. The Uchumi store was the greatest choice for this study because, despite the difficulties the business encountered, it hasn't yet been deemed bankrupt or insolvent, meaning the management may be taking a different approach as a result of those

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difficulties. This would be crucial in assisting other firms that might be experiencing nearly the same kinds of issues without them noticing learn from Uchumi Supermarket Limited on how to handle their operations.

Significance of the Study

The policy makers such as the ICPAK and CMA would benefit from the study as it will help them in the formulation of effective policies governing the financial auditing process. The policy makers would understand the challenges auditors face in carrying out the audit process and giving out the reports hence come up with improved audit standards.

The study would be of importance to Uchumi Supermarkets Limited as it would be able to put in place good financial management practices that would in turn enhance the organizations long-term sustainability. Uchumi Supermarkets Limited would be able to put in place mitigation practices to help correct the specific financial management challenges that affect their operations as highlighted by the audit reports.

Further the findings of the study would make a significant contribution to the literature in the field of finance and strategic management. The study would encourage and motivate interest on diverse issues in financial auditing and strategic management in various organizations as well as government agencies in Kenya. The findings of this research would add to the knowledge and understanding of the subject of financial audit in public areas. The recommendation from the study would form the basis for future research.

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The scope of the study

The scope of the study focused on the use of audited financial statements of Uchumi Supermarkets Ltd within the years 2006 and 2015 when the company faced financial distress leading to closure of most of its subsidiaries. As such, the study made use of secondary data, which was sourced from the regulating agencies such as the Capital Markets Authority and the Nairobi Stock Exchange, as well as other journals published by Uchumi Supermarkets, with a purpose of investigating the role of financial audit in achieving organizational sustainability.

Limitations and Delimitations of the Study

The study mostly used secondary sources of data of audited financial statements together with audit reports of the periods between 2006 and 2015, which was the period when Uchumi Supermarkets Limited was undergoing through the turbulence. The second limitation is that the study only focused on the periods when Uchumi supermarket was already facing financial constraints and placed under receivership. The receivership came with its own challenges such as selection of a care taker management team. This limited the study since the way operations were run then could be different from now, hence not give a clear picture of the actual operations to give comparisons. However, this was countered through the use of a number of subsequent periods to 2015 to help establish a trend of the operations at Uchumi Supermarkets.

The fact that no study of this nature had been specifically carried out in Uchumi Supermarkets Limited before within the researcher's scope was also a

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challenge. The researcher delimited this by using empirical findings from other related contexts of the study both globally and locally.

Assumptions

The study focused on financial audit as the key indicator of organizational sustainability. The assumption was that the financial statements included both financial and non-financial reports prepared for the users of that information for decision making. In reality, a number of factors and non-financial tools could be used by organizations to detect whether the institution is headed to the right direction but these were ignored in this study.

The other assumption was based on the availability of the audited financial statements of Uchumi either as hard copies or soft copies via the company's website. Since Uchumi Supermarkets Limited as a public limited company listed in the Nairobi Securities Exchange, it was expected that the company publishes the financial statements according to the CMA requirements. Lastly, the study assumed that Uchumi supermarkets has a predetermined sustainability level which it operates in.

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Definition of Terms

Auditor's judgment: is any choice or judgment made by an auditor that controls, directs, or otherwise affects the course of an audit of financial statements and its outcome.

Auditor's opinion; is a formal declaration made by an auditor on financial statements of a client.

Financial audit: is the examination of financial statements to see whether the data they contain accurately reflects the operations of a business (PwC Corporation, 2019).

Going concern; is the belief that a company will continue to operate for at least the following year, or the foreseeable future (PwC Corporation, 2022).

Material misstatement; a financial statement's false information that can have an impact on the decisions of those who rely on it in terms of their finances (ISA 320.2).

Organizational sustainability: is a company's capacity to continue operating profitably for a reasonable amount of time (GRI Corporation, 2019).

Receivership; is the process of appointing a trustee to serve as the custodian of a company's assets or business operations (PwC Corporation, 2022).

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Chapter Summary

This chapter discussed a comprehensive introduction and background about financial audit, organizational sustainability as well as the link between financial audit and organizational sustainability. The chapter also discussed the profile of Uchumi Supermarkets Limited. It also outlined the problem statement, the purpose of research, objectives of the study, research hypothesis, justification, significance, assumptions and limitation of this research.

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CHAPTER TWO

LITERATURE REVIEW

Introduction

Managing the interests of entities would be nearly impossible without financial statements notes Tage & John (2014). The management would not be able to assess how the business is running, including the notion of whether the company is actually making money or losing it. The financial accounts must, therefore, accurately reflect the organization's genuine financial status, which can be verified by having the financial statements audited.

Sustainable growth is the idea of expanding without endangering the capacity of future generations to meet their own requirements. By quantifying, understanding, and reporting the monetary, ecological, societal, and management performance, organizations may more effectively create objectives and handle change (Bouncken, Lapidus, & Qui, 2022). A sustainability report is the primary medium for collaborating sustainability performance and influences, be they good or bad.

Theoretical Framework

Triple Bottom Line (TBL) Theory

Coined by Elkington in 1994, he made an effort to incorporate a new framework for performance measurement in order to monitor sustainability. This school of thought believed that companies might be governed in a way that improved not just their bottom line but also the welfare of their employees and the environment (Elkington, 1994). The TBL analyzes an organization's worldwide impact and defines the essence of sustainability by taking into account its shareholder values,

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profitability, and capital in the social, human, and environmental spheres (Slaper & Hall, 2011).

Chamberlain (2019) further argues that utilizing the Triple Bottom Line to gauge a company's sustainability and profitability is one of the best ways to do it. By asserting that a firm cannot properly account for the cost of doing business if it only considers profits while ignoring people and the environment, the TBL theory introduces the 3Ps.

When TBL is used as a strategy, it includes assessing the optimal tradeoff between the traditional industry's socioeconomic, environmental, and health efficiency to let a company make and promote its strategically important and socially responsible decisions (Coupet, Parhankangas, Barnum, & Mcwilliams, 2014). Additionally, knowing the long-term advantages of TBL enables practitioners to develop lasting strategies that will increase business efficiency. Alhaddi (2014) contends that at the end, this benefits the company in several ways, including growth, better financial conditions for the company, decreased danger of public scrutiny, increased transparency that allays shareholder fears about secret information and more.

The proponents of the triple bottom line argue that as an organization's long-term existence depends on sustaining "profitability" across all three dimensions, these factors should be periodically measured, reported, and reviewed in a way that is essentially similar to the present financial reporting paradigm (Tschopp, 2003). For instance, certain businesses, like the Kenya Horticultural Exporters (KHE), have started doing Fair for Life audit in Kenya to ensure their employees have favorable working circumstances when producing their goods (Fair for Life, 2019). Supporters

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assert that these technologies boost the organization's reputation, reduce risk, and synchronize management and stakeholder needs.

According to Elkington (1994), measurement of each of the three categories, locating pertinent data, and determining how a project or policy contributes to sustainability are all challenges in putting the TBL into effect. Despite these challenges, the TBL paradigm enables businesses to evaluate the results of their decisions from an actual long-term perspective. Moving between agendas that seem to be at odds with one another, maximizing financial advantages while also fully advancing the interests of society, can be difficult. When assigning money and other resources, including human capital, to all three bottom lines without favoring one more than the others, some firms could find it challenging to maintain balance.

Linkage of the Triple Bottom Line theory to the variables

This study will benefit from the Triple Bottom-line theory since it identifies the variable that may be utilized to gauge an organization's sustainability levels. Therefore, care must be taken to guarantee that the procedures used to carry out the organization's everyday activities do not undermine both the welfare of the people and the law.

Account should be taken on how those results were obtained in addition to the firm's financial results if you want to determine if it is operating efficiently. This can be done by abiding by the rules set forth in the relevant laws and by existing legislation. This will also be achieved by ensuring that the business follows ethical standards while working to satisfy the needs of its clients throughout the production process. The sustainability of an organization will depend on how the local

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population, the natural environment, and their responses to its activities all interact. As noted in the Cytonn Investments valuation statement of Uchumi Supermarket, the organization had begun implementing turnaround plans, which included changing the human resources it hired and engaging in ecologically friendly practices (Cytonn Investment, 2015).

Signaling theory

Signaling is the idea of one party telling another party anything about itself in a reliable way. Information gaps between shareholders and firm management will in most cases give rise to the signaling theory. If managers believe their companies are undervalued, they will first issue debt and then, as a last resort, equity. On the other hand, if management believes that their company is overvalued, they will issue equity first. Spence first proposed the signaling argument in 1973. According to Spence, if managers have inside information, their choice of capital structure will reveal that information to the market. Leverage may be impacted by the theoretical supposition that increasing debt is an indication that managers are bullish about future profitability.

According to the theory, borrowers and lenders are not equally aware of an organization's investment possibilities. Whenever two parties can access various types of information, their behavior can be explained by signaling theory according to Connelly, Certo, Ireland, and Reutzel (2011). Usually, the sender decides whether to transmit (or signal) such information, and the recipient determines how to interpret the signal.

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Connelly et. al. (2011) emphasize that according to a recent study on corporate governance, CEOs can convince potential investors of the non - observed qualities of their businesses by highlighting the visible qualities of their financial statements. As a result, many stakeholders will understand various financial data in various ways to help them make wise decisions about how to deal with the company. Therefore, the responsibility of the financial auditor is to make sure that the statements accurately reflect the organization's actual functioning before the statements are made available to the information users. Spence expanded the notion by stating that only premium businesses have the potential to generate long-term dividend and interest payments and these could be interpreted as signal that the companies are performing better than the others.

There are two key traits of efficient signals, argues Connelly et.al (2011). First, the term "signal observability" is used to refer to the signal's capacity to be observed by outsiders. The audited financial statements are typically the first thing any stakeholder wishing to engage with an organization will look at to determine how to position themselves. According to Connelly et al. (2011), the cost of obtaining different certificates, for example, is expensive since the certification process takes time and makes cheating or false signaling difficult. This is the second attribute of successful signals. Similar to this, having an audit certificate would show any interested parties that the organization's actions follow GAAP standards and can be independently verified.

The signaling concept has drawn criticism for its heavy dependence on a tenuous assumption, such as the assertion that only institutions with superior achievements will communicate. In actuality, some companies can always pay to

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obtain the credentials without necessarily employing qualified staff (Connelly, Certo, & Ireland, 2011). Furthermore, opponents of this theory assert that occasionally there is a mismatch between the signals and reality.

This study will benefit from the signaling theory because it will demonstrate how different users of financial information can sift through the financial statements that are provided to them to understand precisely what's happening in the organizations, as opposed to just what the managers would like to inform them about. The theory has also been linked to organizational sustainability since many organizations would report economic practices exclusively in relation to their economic performance. Moreover, sustainability reports encourage firms to be accountable and transparent about the effects of their activities on social and environmental issues. Sustainability reporting is initially an expensive signal, but as businesses learn how to better communicate sustainability objectives to stakeholders and investors learn how to properly evaluate reports, it ultimately increases company value.

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Agency theory

The essence of agency theory is that one person, the principle, appoints another person, the agent, to act on the principal's behalf under certain conditions, in accordance with a predetermined pricing schedule (Namazi, 2013). The challenges that occur in enterprises as a result of the division of ownership and management are addressed and are given particular importance in agency theory. Smith in 1776 predicted in his work, *The Wealth of Nations* that there is a chance that someone running an organization who isn't the actual owners won't behave in the owners' best

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interests. Conflicts of interest and agency fees can result from a variety of causes in an organization. Panda and Leepsa (2017) point out that owners are unable to effectively supervise managers who misuse company assets for their own gain when ownership and control are not combined in businesses. The people connected to the organizations might also have diverse perspectives on risk and find it challenging to reconcile this with their decisions.

Managers typically work for firms for a brief period of time, whereas owners are an essential part of enterprises. Because of this, the agents aim to make the most money possible while working for one organization before moving on to another (Namazi, 2013). Managers oversee the business and are aware about all business-related information, whereas owners rely on the managers to get information. As a result, the owners might not receive the information the same way it was.

The agency theory has received a lot of criticism throughout the years based on its premises and applications. According to Panda and Leepsa (2017), because research have mainly concentrated on the agent side of the problem, the "principal and agent problem" may potentially come from the principal side. They noted that this strategy demonstrates a disregard for the principals, who deceive, evade, and exploit the agents. Additionally, they said that unintentionally placed into risky positions with minimal chance for promotion, agents are exploited by their superiors. According to Namazi (2013), the theory is based on an ambiguous agreement between the principal and the agent for a future period of time, whether fixed or boundless. The agency problem should theoretically be resolved by contracting, but in fact there are numerous difficulties, such as knowledge asymmetry, rationality, fraud, and transaction costs.

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The agency theory will be applied in this study to demonstrate the connection between management, the actions and performance of the agent, and the organization's overall performance, allowing the organization to achieve sustainability over the long term. The theory contributes to sustainability of an organization as it defines the delegation of decision-making functions from the principal to the agent which fall under the governance pillar of sustainability. The transfer of decision making rights from the principal to the agent ensures the organization is managed by those with the necessary skills to run the organization, hence be sustainable in the lung-run.

The ESG Model

The 1960s-era CSR idea gave way over time to the more recent concept of ESG investing (Iain & Irene-marié, 2022). The focus has shifted over time from the external effects of business activity to the risk and return consequences for financial investors of neglecting to take ESG problems into account when choosing their portfolios and engaging with corporations. This is a consistent philosophy of economic, societal, and ecological problems that have an impact on human resources management that makes organizational sustainability productive (Vargas-Hernández, 2021). Organizations' sustainable plans must be held accountable for their effects on society inclusion, environmental sustainability, and economic growth and profit.

By signing the United Nations-backed Principles for Responsible Investment, more than 2300 investment management companies committed to incorporating environmental, social, and governance (ESG) information into their investment decisions as of April 2019 (El Khour, Nasrallah, & Alareeni, 2021). Social

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performance, public perception and reputation can all be used strategically to help an organization perform better financially. Even while environmental investment may cost businesses money, the positive effects of such environmental initiatives are shown in the new products and services that the organization offers, which strengthens its competitive advantages in a given industry. On the other hand, good governance processes enhance efficiency by improving reputation, enhancing oversight, and minimizing poor management.

ESG disclosure promotes better financial performance of an organization over time (Fahad, Asif, Jiang, & Ummara, 2022). This is also in line with the findings of the study carried out by Helene, Alhamzah and Victor (2022) where according to the results of the study, food firms that practice excellent corporate citizenship and that have their environmental policies and procedures reviewed independently fare better financially. Environmental regulations strengthen customer protection. Independent assessments of environmental policies and strategies boost financial performance and organizational effectiveness. In this situation, business profitability and financial efficiency rise.

Given that the influence on each ESG pillar relies on the sensitivity of an industry, investors place varying values on the different ESG pillars (Francesco, Nicola, Jintao, & Riccardo, 2021). Moreover, where environmental disclosures positively affect the returns on assets while corporate governance disclosure found negatively affects the returns on assets (Buallay, 2019). However, it is stressed that businesses must concentrate on the governance pillar since, when combined with the social and environmental pillars, they could generate value for customers, which is the primary reason they are in business.

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Corporate governance refers to the framework and procedures for managing organizational affairs. To inspire trust in the company among its stakeholders and the broader public, it is the mechanism that drives the other ESG framework aspects (Mgbame, Aderin, Paschal, & Chijoke-Mgbame, 2021). Corporate governance is the driving force behind coordinating the production of organizational value through the exertion of favorable effect on its community and ecosystem, while at the same time minimizing the amount of its damaging activities on these systems. Additionally, they claim that focusing on ESG and its associated monetization and assimilation into financial reporting is not a pointless waste of time. This is supported by Peloza (2009) who argues that a company's performance and corporate social responsibility have a weak but positive connection.

Alfonso (2021) points out that corporate governance is discussed by authors rather than being formally defined since it covers a number of interconnected domains, including management, ethical, legal, regulatory, structural, and behavioral characteristics. These are the tools used to run and manage companies. The majority of the time, a company's leadership will have favored business practices, which over time determines how sustainable the business is.

As noted by Ncurai, Oloko and Rambo (2022), the poor performance of both public and private enterprises, which was mostly attributed to bad governance, helped corporate governance gain notoriety in Kenya. Corporate failures like Uchumi Supermarket, among others, are well-known incidents that support corporate governance reform and the need for stronger controls to stop what is thought to be top management power abuse. In an interview in 2019, Uchumi’s CEO Mohamed Mohamed alluded that Uchumi collapsed in 2006 due to poor corporate culture that

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lead to corruption (Mohamed, 2019). This is supported by a study carried out by Isaac (2022), who argues that Uchumi has received numerous accolades for outstanding corporate governance, yet the company has also seen times of weak leadership performance indicators, which have contributed to its turmoil.

Some of the most frequent reasons for supermarket business failure in Kenya are inadequate financial planning, unplanned growth and expansion, low strategic and financial projections, and excessive investment in a fixed asset (Musyoka, Atieno, & Ouma, 2022). As opposed to renting the stores like other competitors in the market, Uchumi Supermarket, for example, made significant investments in establishing their outlets, a decision that negatively impacted its liquidity and its capacity to pay its suppliers. Uchumi briefly shut down, went into receivership, and was simultaneously delisted from the NSE in June 2006. For "misconduct and gross carelessness," the CEO and CFO of Uchumi were fired in June 2015 and a new CEO was then appointed in August 2015 (Uchumi Supermarkets Limited, 2011).

Accounting professionals have historically been in charge of performance measurement, but they have been considered to be strategic, creative, and visionary employees who participate in decision-making alongside the organization's management body (Maria-Teresa & Lina, 2014). As a result, most businesses now combine their financial, environmental, social, and governance performance into a single financial statement to facilitate reporting.

How the three theories link

Many corporations in today's business world engage in a practice known as earnings management (Corporate Finance Institute, 2022). The management of a

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corporation engages in earnings management in order to affect the earnings shown in financial statements. It is separate from managing the core operations of the organization and is carried out to meet a predetermined aim. An earnings management approach inflates results by using accounting techniques to give an overly optimistic impression of a company's financial status.

The major drive towards engaging in earnings management is the focus on profitability, to show good reports that the organization is doing well (Kirubel & Sitina, 2019). This therefore calls for the use of three theories, Triple Bottom Line theory, Signaling theory and the Agency theory in running a successful business entity. From their study, Kirubel & Sitina found out that leverage and audit quality showed a strong positive and negative impact on earning management, respectively, according to agency theory proxies while the results for the signaling theory proxies revealed a substantial positive link between business size and earning management. A balance must therefore be struck when reporting the operations of an entity between the profits, the environment and people involved in the running of the business as well as ensuring the management does not provide unreeasonable information in their reporting while they act as agents for the owners of the business.

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General Literature Review

Financial Audit

When performing a financial audit, auditors make use of the appropriate Generally Accepted Accounting Principles, (GAAPs), which provide comprehensive guidelines and procedures for carrying out auditing assignments. Auditing criterions

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created by local or global bodies like the International Auditing and Assurance Standards Board (IAASB) may be implemented by the national regulatory organizations like the ICPAK.

The audit procedure can be broken down into five phases, as indicated below;

Figure 2.1 *Stages of financial audit (PwC Corporation, 2022)*

During the planning phase, the audit firm must formally accept the client, which also entails verifying that the client complies with the independence guidelines, assembling the audit team and carrying out additional measures to decide the kind, time, and extent of procedures that must be done to effectively carry out the audit (PwC Corporation, 2013). The risk assessment process usually comes next, where auditors apply their expertise of the company's operations and those of its industry and surroundings to determine and evaluate the threats that could materially misstate the financial statements. This demands for the auditor's and the audit firm's knowledge which often includes a grasp of the business and its risks that has developed over a number of years (PwC Corporation, 2022).

During the audit strategy and plan phase, the auditors develop a thorough audit strategy to address the dangers of substantial financial statement misrepresentation (AFROSAI-E, 2017). In order to accomplish this, it is necessary to, among other things, develop a testing plan for certain financial reports contents, decide if and to

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what extent to bank on the entity's internal systems, develop a complete schedule, and delegate duties to the audit team. The financial audit strategy and plan are regularly reviewed and updated to reflect new information about the organization and its surrounds throughout the audit (PwC Corporation, 2019).

Auditors must use their expertise, due professional care, and discernment when collecting and assessing data. This is accomplished by looking at the internal corporate controls, tying financial statement amounts and disclosures to the supporting books and records, and requesting supporting documents from external third parties. According to PwC (2019), this stage frequently involves gathering evidence, which includes looking at the management's significant assertions and the assumptions they made while preparing their financial statements. It is possible to request independent validation for some significant sums. In the finalization stage, the auditors finalize their determination using their professional judgment in light of the tests they have conducted, the data they have gathered, and the other work they have accomplished. The audit opinion is based on this judgment (AFROSAI-E, 2017).

The role of financial audit is well articulated using the following three variables: as a tool of measuring economic health, adherence to auditing rules and standards and auditor independence (Kuczynska & Sczerbak, 2020).

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Economic health

Financial statements are a helpful tool for assessing the financial health of a business. Knowledge of each enterprise's financial performance and physical assets is necessary for making business management decisions (Crane, 2019). To analyze and comprehend a company's financial statement, financial performance indicators

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compare a company's financial status to those of other companies in the same industry (Aliona, 2016). In order to provide answers, the financial statements must be examined in the context of other business and non-firm activities, as well as those of other financial statements.

Financial ratios are the most often used tools for assessing an organization's performance (Aliona, 2016). To evaluate a company's financial performance, a number of ratios can be employed, such as the liquidity ratio, profitability ratio, solvency ratio, efficiency ratio, and leverage ratio (Fatihudin, Mochklas, & Jusni, 2018). The cash flow, balance sheet, profit-loss, and capital change ratios of the financial statements can be used as a point of reference for gauging financial performance.

Liquidity ratios are used to assess a company's capacity to cater for its financial duties that become due without impeding on its routine, ongoing operations. According to Aliona (2016), when loan maturities do not match the rate at which a company's assets are converted to cash, liquidity problems frequently result. One of the two suggested measures of liquidity is the working capital ratio, which measures the amount of money left over after selling current farm assets and paying off all current farm liabilities. A current ratio of at least 1.0 is preferred to operate in, and a ratio around 2.0 is seen to signify adequate short-term liquidity. It quantifies the connection between total current assets and total current liabilities.

Unlike liquidity, which is just concerned with current assets and obligations, solvency is also concerned with future ones (Crane, 2019). Measures of solvency look at what would happen if all liabilities were paid and all assets were sold. Solvency ratios gauge how much borrowed money the business has used in comparison to the

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amount of owner equity it has invested (Aliona, 2016). A company's ability to pay off all of its debts, even if all of its assets were sold, is determined by its solvency indices. Solvency ratios reveal information on the farm's ability to continue operating even in the face of severe financial hardship, which indicates the business' resistance to risks.

Ratio analysis is a tool for financial analysis that is useful for forecasting business success (Thomas & Rabiyathul, 2017). This analysis is essential for credit control, investment, and management control decisions, and it can be utilized to show the strengths and weaknesses of a company. Ratio analysis is required to determine whether a company has met the industry standard as well as to determine whether its financial status has been improving or deteriorating over time.

Management can evaluate a company's profitability and the efficiency of its resource allocation by using profitability measures like return on equity and net profit ratio. According to Altman (Altman, 1968), the statistics that show a company's profitability, liquidity, and solvency are the most crucial ones. Altman created an insolvency prediction model by combining a variety of ratios. The Altman's Z-Score model is employed to estimate the risk that an entity may face financial difficulties. The Z-Score methodology analyzes data to determine how likely it is that a business will collapse during the next two years (Corporate Finance Institute, 2022).

American finance professor Edward Altman created the model in 1968 to evaluate a company's financial health (Ogachi, Ndege, & Gaturu, 2020). Financial variables, such as working capital divided by total assets ratios, among others, are used to determine the possibility of financial problems. In conclusion, financial performance measures and organizational sustainability are related. The Z score uses various financial ratios to give a ranking which can easily be interpreted and the score

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can be interpreted independently unlike the regression analysis which show the movements around a data and would require a different set of data to compare to.

The model used was in the form below;

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E$$

Where: A = Working Capital/Total assets; B = Retained earnings/ Total assets; C = Earnings before Interest Taxes/Total assets; D = Book values of Equity/Total liabilities; E = Total sales/Total Assets. If a company's Z-score is less than 1.1, it is most certainly experiencing financial problems and will soon file for bankruptcy. A score of 2.6 or higher, however, denotes that the company is in a safe zone and unlikely to file for bankruptcy. A score of 1.1 to 2.6 indicates that a company is in the grey region and has a moderate possibility of declaring bankruptcy. (Corporate Finance Institute, 2022).

Auditing rules and standards

Financial statements must be audited to ensure the security and safety of the stakeholders. This can only be safeguarded when the relevant laws and accounting standards are followed (Kuczynska & Sczerbak, 2020). Additionally, by adhering to the International Standards on Auditing, the level of confidence for the target group of users of financial statements is increased, acting as a pillar of faith and so helping to eliminate conflict of interest among the stakeholders.

If financial audit adhere to quality control and auditing standards, they are said to be of high quality (Haeridistia & Fadjarenie, 2019). The idea of a company's truthful and fair view is crucial for an accurate depiction of the company's financial

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situation in its financial reporting. The role of the auditor is to acknowledge such a situation (Kuczynska & Sczerbak, 2020).

Technical skill, an acceptable audit methodology, and enough resources for the audit function are all prerequisites for professional expertise. Financial audit have been associated with a focus on financial compliance and regularity rather than more general management difficulties in a number of situations (Burnaby, Abdolmohammadi, Hass, Sarens, & Allegrini, 2019). Additionally, governance issues and a lack of professional competency limit the financial audit' capacity to perform this function and prevent them from producing timely and pertinent results.

The outcomes of the review of a financial statement should be fairly, totally, dependably, and clearly represented in the opinion. In order to maintain an objective reflection of the true state of a firm while taking into account all information that is at the auditor's disposal, the requirement of fairness in the auditor's opinion-drawing process is essential. Thus, the auditor is required to uphold confidentiality and keep the entity's trade secrets when developing the substance for the opinion

Audit independence

The independence component is crucial because it safeguards the auditor's capacity for opinion formation, enabling the auditor to behave impartially throughout the audit process. Moreover, independence can improve the auditor's capacity to uphold his integrity, behave impartially, and remain neutral (Haeridistia & Fadjarenie, 2019). The integrity of the opinions represented in the entity's financial statement is influenced by the auditor's independence, neutrality, proficiency, comprehensive knowledge of numerous legal areas, and experience (Kuczynska & Sczerbak, 2020).

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The auditor must make sure that none of their actions appear to compromise their independence while expressing an opinion if they have no financial stake, direct or indirect, in the company they are auditing (Minh, Hoang Yen, Hoang Ngoc, & Hoang Tien, 2019). The auditor's independence to reach an objective conclusion implies that he will not have any direct management responsibilities for what is being audited, that he is free to select any transaction or topic for audit, and that he is given access to all the information he needs to reach an informed conclusion.

Since the Audit Committee is not involved with any key functions that may be undertaken in regulating the caliber and integrity of an entity's financial reporting, it is the Audit Committee's responsibility to ensure the auditor independence is maintained (International Organization of Securities Commissions, 2019). To address issues of auditor independence, the Audit Committee must ensure it looks into various components of operations that may compromise the independence of audit. Issues off self-interest occurs when an auditor has a personal or professional connection to or financial interest in the company being audited.

The Committee must also ensure there is no self-review, where an audit firm performs services for a client and then examines its own work. Moreover, advocacy, which is about representing a client of an audit in negotiations with third parties should be discouraged at all cases (Gwilliam & Marnet, 2015). Finally, long association of an audit engagement partner and intimidation, or making threats to terminate an auditor because of a dispute over how to apply accounting principles must not be witnessed to guarantee audit independence (International Organization of Securities Commissions, 2019).

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Organizational Sustainability

In trying to analyze sustainability measurement systems, Mura, Longo, Micheli, & Bolzan (2018), suggested a model to assess a company's sustainability and assist it in putting sustainable practices into practice. The model, which had four phases, was created with the GRI's strongest features in mind. Defining sustainability goals and objectives, measuring profitable, ecological and societal indicators, communicating the results, and continuously assessing the company's sustainable practices are the first four steps. They learned that there is no one program that has been looked at to handle all sustainability issues, and there is also no consensus on what should be monitored and how.

Lucato, Santos and Pacchini (2018) show that there are other more programs designed to gauge a company's sustainability level, although they are not frequently employed. They include:

> "The ISO Environmental Performance Evaluation; the Dashboard of Sustainability; the Barometer of Sustainability Index; the United Nations of Sustainable Development; the ETHOS Corporate Social Responsibility Indicators; the Enterprise Sustainability Index; the Environment Performance Sustainability; the OECD Core Environmental Indicators; and the Food Product Index."

According to the system approach, each organization would explain its system in a unique way and track distinct activities (Hanley, 2000). In most circumstances, this would be centered on the activity's economic worth. According to Garvare (2010), the quality approach to sustainability seeks to identify stakeholders, as well as their requirements and anticipations, which would be acknowledged as an immediate

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concern that requires frequent updating. The objective is to guarantee that the organization's human resource requirements are satisfied.

According to Epstein and Wisner (2001), managers are compelled to mix financial measurements with other key performance indicators when implementing a balanced scorecard, including those linked to customer, internal business process, organizational learning and growth, and perhaps sustainability perspectives. Any of these approaches can be used to evaluate an organization's sustainability, but no single indicator of sustainability seems to be adequate to yield useful results. They are all interchangeable and complementary to one another.

Businesses are currently talking about corporate sustainability reporting as a tool to gauge, understand, and convey an organization's economic, environmental, social, and governance performance in order to better define goals and manage change. Integrated reporting (IR), which emphasizes frequent reporting of value development through time and associated interactions about elements connected to value generation, is the topic of the current debate. Supporting the natural environment, the social relationships that the organization influences, as well as the financial interests of the organization and its shareholders, are all part of organizational sustainability. By achieving a balance between the views of the economy, environment, and society, this is accomplished (GRI Corporation, 2019).

Wales (2021), notes that the social and economic conditions in the regions where an organization operates have an impact on that organization's capacity to survive. Global events like globalization, demographic change, social inequality, and climate change will have an impact on sustainability, but so will an organization's response to these phenomena and its operational choices. Strategic managers work

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continuously to successfully adapt their firm to their environment by forging competitive advantages. This process is known as strategic management, according to Stead and Stead's (2008) definition. They further note that the interplay between business, society, and the environment has become a crucial concern for the long-term health and wellness of humanity, so organizations must incorporate this concern into the strategic management process.

Levels of Organizational Sustainability

Organizations can be divided into levels, such as Level 0 (pre-sustainability level), which is one possible category, observes Augusto (2013). Sustainability is not even remotely taken into account at this point. Organizations operating in this kind of level do not view environmental, social, and governance issues as a part of corporate reporting, with the exception of the more conventional topic of profitability. This shows that there is a pre-sustainability level since the organizational business model has not been modified to incorporate sustainability as a strategy.

In order to be sustainable at level one (1), one must work to improve society's well-being while abiding by the law. Certain activities deemed sustainable may be made when the organization is subjected to external influences like regulation or customer pressure. According to Willard (2009), in order to handle its obligations at this level, the organization complies with all applicable labor, environmental, health, and safety legislation. It proactively complies with these laws and with its legal responsibilities. In this stage, generous deeds are also possible, and the motivation for sustainability comes from their perception as a duty and an obligation (Cavagnaro & Curiel, 2012).

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According to Augusto (2013), integrating social and ethical considerations is part of level two (2) sustainability, provided that doing so supports the organization's financial pillar. Money is the motivation in this situation, and the organization's reputation is the goal. Willard (2009) adds that the company makes greater community investments, enhancing its reputation and maximizing shareholder return. However, sustainability measures continue to be underestimated inside specialized divisions.

At Level Three (3), sustainability entails striking a balance between societal and ecological fears in addition to legal and financial ones. In other words, actions that consider profitability, lawful and ecofriendly factors. Common explanations include consideration of human potential, societal responsibility, and environmental protection. According to Kanal (2010), An organization-wide cultural shift can be felt if staff members realize that sustainability is a company objective and that everyone has a role to play in it. By using less energy, water, and materials in its products and packaging, the corporation is able to minimize its carbon footprint and cut costs associated with waste management.

In order to supplement governance difficulties, level four (4) sustainability is always seen as seeking balance, workable resolutions, and the formation of values in the fields of economics, society, and the environment. This seeks ways for all parties to cooperate in order to succeed (Sven, Bindu, & Kiran, Organizational sustainability determinants in different cultural settings: A conceptual framework, 2018). The understanding that sustainability is significant on its own is what spurs this, especially considering that it’s an unavoidable development. The business now portrays itself as one that is dedicated to sustainability. The company's values and DNA are interwoven

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with sustainability principles, and sustainability initiatives are linked with crucial commercial strategies (Willard, 2009).

Holistic sustainability, which is the greatest level of sustainability and is fully integrated into every aspect of the business, aims to increase life's quality and continuity (Augusto, 2013). Sustainability is viewed as the only practical option given the interdependence of all living things and the occurrence of natural occurrences. Because of this, everyone and everything has a responsibility to look out for others. Because they are motivated by a strong, values-based commitment to do so, organizations at this level make improvements to the business, society, and environment (Willard, 2009).

Barriers to Organizational Sustainability

The value of a sustainable approach to an organization's growth or even existence is supported by such overwhelming data, so why don't all businesses adopt these practices? Wales (2021) states that in various circumstances, it has been stated that there is no "one-size-fits-all" technique for creating a sustainable business model. She goes on to note that many businesses have trouble accomplishing this, possibly because they are used to measuring everything in terms of money and this requires a focus on a variety of non-financial outcomes. This is supported by Hristov, Chririco and Ranalli (2022) who noted that the major concern raised by managers when implementing sustainable strategic programs was the cost factor and the quantification aspect of the outcomes expected.

Furthermore, Fernanda (2015) emphasized the role of organizational politics as a barrier to sustainability. This is a remarkable result given the pervasive view

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among intellectuals that organizations are basically political entities since they are made up of networks of people with various opinions and interests. Hariyani, Mishra, Sharma and Poonam (2022) also note that for a system to be effective, management, employees, and value chain partners must work together and have faith in one another. The successful execution of sustainable solutions depends on the development of mutually beneficial long-term relationships between all stakeholders. Corrective actions are taken on time thanks to the stakeholders' collaboration and excellent communication. Cooperative problem-solving and the smooth implementation of sustainable projects are made possible by the cooperation.

As reported by Perera & Putt (2013), because organizations lack the internal processes required to effectively estimate the benefits of managing environmental sustainability, firms often do not take sustainability into account when making internal capital allocation choices. This shows that businesses operate by focusing on the present and the amounts of revenues they have made, rather than pausing to think about whether anything they do now might risk their ongoing existence in the future. This is in line with the findings of Orji (2019), who highlighted that in his study of the barriers to organizational sustainability, metal suppliers in China preferred institutional clients who would buy metals in large amounts, leading to an increase in demand for metals with a scarcity of suppliers. During that time, sales were the main concern, regardless of where the metals came from.

Role of Financial Audit in Achieving Organizational Sustainability

For a corporation to perform well, its ability to apply effective management techniques is essential, according to Wahab, Jan, Zarina, and Osman (2010), who

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conducted a study on the elements that lead to the success and failure of SMEs. Therefore, it is the management's duty to ensure that all decisions and business operations are directed toward achieving the organization's long-term objectives. In their study, Walker and Brown (2004) discovered that to determine a company's long-term success, both financial and non-financial lifestyle factors are taken into account. The adoption of the financial lifestyle standards is significantly influenced by the management's financial decision-making process, which determines what the businesses will do. Due to the requirement for ongoing evaluation and supervision of organizational management, financial audit are required to guarantee that the information provided on the financial statements accurately reflects the organization's real operations.

Saikou and Erina (2022), contributed to this literature by arguing that the success of the organization will be greatly increased if the financial audit are focused on preventing fraud and lavish spending of cash and motivating employees to supply accurate and complete information. They also point out that internal audit functions have impressively grown to be recognized as crucial to effective company governance and the long-term attainment of organizational goals.

In comparison to the internal audit conducted, Ugoani and Ibeenwo (2022), are of the opinion that despite the fact that an external auditor may execute the same audit processes as an internal auditor, the external auditor reports to shareholders rather than the board and management. Therefore, the external audit is crucial for increasing responsibility and transparency to significant external stakeholders in an organization's management. As a recognized watchdog tool, external audit is intended

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to examine the company's financial statements and reports with a critical eye as a means of fostering good corporate governance and enterprise sustainability.

Empirical review

Evidence from various scholars have shown that paying attention to the three principles of sustainability have benefited various organizations in various capacities.

Mwancha & Ouma (2017) in their study *Effects of Social Responsibility Initiatives on Performance of Safaricom Kenya Limited* found out that CSR initiatives had an effect on sales at Safaricom. The levels of sales, the amount of capital employed, the profitability of the business as a result of the higher sales, and the return on investment all increased as a result of CSR initiatives. In addition, the study found that there were increases in market share, return on investment as a result of market share increases, consumer preference for Safaricom goods over rivals, and the ability to enjoy economies of scale as a result of having a larger market share than rivals. The study also discovered a link between CSR actions and a rise in market share. At Safaricom Limited, a survey was carried out with a sample of 75 respondents. Structured questionnaires were given to the sample using stratified sampling techniques, and a descriptive design was utilized for the study.

In a study carried out by Laura, Alberto, Claudia & Stefano (2022) titled *Do ESG Strategies Enhance Bank Stability During Financial Turmoil? Evidence From Europe*, the study showed that ESG measures may serve as a risk reduction tool similar to insurance for banks during times of financial difficulty. They contend that practicing environmental, social, and corporate governance seems to be associated with more cautious banking activities, fostering a more stable relationship with

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reference communities, and improving a bank's reputation. They use descriptive statistics to investigate the relationship between CSR engagement and bank stability in a setting that is resistant to potential endogeneity problems. Hence, the findings confirm that increasing ESG engagement is advantageous for the environment and society, but it is also possible to make a firm more resilient in the event of a financial crisis.

In a study to evaluate the effect of environmental, social, and governance disclosure on corporate financial performance, Zhongfei & Guanxia proved that ESG transparency improves the financial performance of corporations. In their study dubbed *ESG Disclosure and Financial Performance: Moderating Role of ESG Investors*, the endogeneity problem was eliminated by applying the staggered difference-in-differences technique on a sample of non-financial listed companies from 2000 to 2020.

Anastasia, Antonio, Giorgio & Anna (2022) in their study *2008's Mistrust Vs 2020's Panic: Can ESG Hold Your Institutional Investors*? Proved that taking into account ESG while making investing decisions in times of economic hardship and low returns was beneficial. The study set out to test whether higher ESG scores serve as insurance and endurance signals that lock investors in during periods of high probability of divestments by using extensive data on institutional shareholdings and corporate performance during the COVID-19 pandemic and the 2008 financial crisis. The study reported that investment funds factored sustainability in their positioning during both crises, highlighting how ESG-integrated decision making proves to be a successful downturn hedge tool. The study sampled US and European listed firms that

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are included in two of the most representative indexes for the markets of reference and a regression analysis used on the data collected to show the correlation.

Despite the findings that ESG practices may have a negative impact on an organization's profitability, hence supporting the trade-off theory that implementing ESG standards may result in higher expenses and a negative impact on a company's profitability, Mui, Thanh, Tu and Tin (2022) in their study *The Environment, Social and Governance (ESG) Activities and Profitability Under COVID-19: Evidence From The Global Banking Sector* proved that the profitability of a business and ESG have a U-shaped relationship, indicating that ESG initiatives can contribute to long-term performance improvement. The association between ESG and bank profitability was examined using a system generalized method of moments (GMM) proposed by correlation analysis utilizing an unbalanced sample of 487 banks from 51 countries from 2006 to 2021.

In order to test *The Effect Of Independence, Professional Ethics & Auditor Experience On Audit Quality,* Haeridistia & Fadjarenie (2019) found out that the auditor's independence has an impact on the audit's quality. The quality of the audit report produced increases with increased independence. This means that the evaluation of the audit report conducted by an independent auditor cannot be affected by third parties and must be in line with the information gathered from the field. Employing a quantitative causal methodology to quantify the relationship between the variables under study and examine the effects of the independent and dependent variables, regression analysis was utilized to analyze primary data from a questionnaire designed for auditors in this study.

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Kiarie (2009) in her study *Turnaround Strategies Adopted By Uchumi Supermarket Ltd: Under Receivership,* learned that Uchumi Supermarket was struggling with a number of issues, including large amounts of outstanding debt, unplanned capital investments, conflicts of interest among the board members, unbalanced cash flows, corruption, a lack of operating capital, weak price competition, and a monopolistic mindset. The company's financial status was examined using content analysis using both primary data gathered through in-person interviews and secondary data utilized to enhance the main data.

In a separate study, *The Relationship Among Corporate Social Responsibility, Sustainability and Organizational Performance In Pharmaceutical Sector: A Literature Review,* Kanika, Sunita, & Pallavi (2021), showed that although there is only a modest correlation between CSR and corporate performance, these initiatives raise sustainability practice adoption, which boosts market performance of organizations. The study demonstrated that effective fusion of social and environmental goals with strategic business processes could lead to long-term profits using a total of 301 research articles gathered from online databases and an ECG framework representing environment, community, and growth to classify the collected literature under the three elements of CSR, sustainability, and organizational performance.

In order to guarantee the quality of the audit process, Manitaa & Elommal (2010) in their study *The Quality of Audit Process: An Empirical Study with Audit Committees* found that the audit quality control must be vested in at the level of audit process, something that can only be guaranteed by the audit committees. Only by recognizing and comprehending the indicators the auditor uses to effectively interact

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with the audit committees was this made possible. To arrive at the conclusion, content analysis was done using the transcribed data from 22 enterprises that had an audit committee at least since the release of the financial security law in Tunis.

According to a study by Mohd-Sanusi, Isa, Mohamed, Heang & Iskandar (2012) on the *Importance of Financial Audit Towards Client Loyalty*, in Malaysia, a considerable link was noted between the value of financial audit service and customer loyalty. A seven-page mail-in survey was sent to the CEOs of 459 Klang Valley companies with a total of 459 employees after a random sample of these companies was picked from the Business Directory of 2008 for this study. In this case, stratified random sampling is used. According to 119 responses from primary data acquired with a response rate of 26%, the results showed that clients who sought the services of financial audit had a better relationship with people in charge of running the operations of their firms. This is because it was anticipated that the financial audit would shed light on the actual business being conducted at these organizations, which in turn improved their performance.

According to Mbandu (2016) in her research on *Turnaround Strategies and Their Influence on the Financial Performance of Organizations: A Case Study of Uchumi Supermarkets Ltd.-Nairobi County Branches*, restructuring the debt, changing management, reorganizing the assets, and rationalizing the workforce were all essential turnaround techniques that improved Uchumi supermarkets Limited's performance. A 40% representative purposive sample and a descriptive design were used in the study. The research advised Uchumi to continue employing these turnaround strategies in an effort to improve their financial performance and, ultimately, achieve sustainability over the long run.

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In a study titled *An in-depth Analysis of the Altman's Failure Prediction Model on Corporate Financial Distress in Uchumi Supermarket in Kenya,* Shisi, Sang, Waitindi and Okibo (2014) established that because Uchumi supermarket experienced financial issues as seen by declining Z-score values, which led to the company's delisting from the NSE in 2006, the Altman failure prediction model was applicable.

.Changawaa & Theuri (2014) in their study on *the Role of Financial Audit on Effective Corporate Governance in Companies: A Case Study of Coastal Bottlers Limited*, in Kilifi County, discovered that audited financial statements have an impact on the design of management used and this contributed to good business management by accurately depicting the entity's financial situation at every given moment and over a predetermined amount of time. The data were presented in tables, investigated using both qualitative and quantitative methods, and interpreted using pie charts and graphs. 78 respondents were given questionnaires using stratified random sampling techniques. This was demonstrated to be feasible by giving essential administrative data for planning, performance checking, and decision-making; exhibiting similar results, such as current results in comparison to previous period outcomes; and stressing the controllable expenses for management reasons. Over time, this would serve as a long-term management guide that would help the business achieve its long-term objectives and ultimately become sustainable.

In the study *Analyzing the Course of Turmoil in Kenya's Retail Sector* by Chesula & Nkobe (2018), it was evident that the numerous retail businesses' fabricated financial status statements were another indicator of poor management. Utilizing qualitative research techniques and the creation of numerous analytical tools

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to measure performance, such as the Strategic Position and Action Evaluation (SPACE) matrix and Porter's five forces model, it became evident that Uchumi's claimed earnings had been grossly inflated for years. Essentially, it's feasible that a portion of the dividends per share paid in 2014 were financed with borrowed funds. Uchumi reported net profits of Sh364 million for the fiscal year that ended in June 2014, although this was not the case. The skillful concealing of losses totaling more than Sh1 billion necessitated the necessity for a restatement of accounts. The financial crisis had started to hit Uchumi at least three years prior to June 2015, but the previous management had managed to inflate earnings and understate expenses, according to the then-Managing Director.

Uchumi Supermarkets Limited's management created a variety of plans to assist them in helping the business get back on its feet so that it might be turned around and attain its long-term sustainability. Using a descriptive research design, 53 respondents were selected using a stratified sampling technique from the management and administrative personnel of Nairobi County's Uchumi supermarkets, Kibui & Iravo (2017), in their study of *Factors Affecting the Outcome of Turnaround Strategies Adopted by Uchumi Supermarkets in Kenya* found out that the management's conflict of interest significantly influenced the implementation of the initiatives. Scholars, Namazi (2013) and Panda (2017), have suggested that conflicts of interest can be controlled by having auditors go over the organizations' activities to make sure they adhere to the organization's established standards and regulations.

From the study *Application of Key Success Factors as a Basis of Change Management by Uchumi Supermarkets Ltd in Kenya* by Machira (2013) it was revealed that the supermarket's change management initiatives considered and utilized

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key success factors (KSFs). In order to improve the chances of their change plans succeeding, this included planning them with the KSFs in mind. KSFs' use as the cornerstone of change management has been shown to be crucial since they are essential components of strategic planning and a mechanism for the firm to concentrate on and validate crucial activities, initiatives, and projects. The business implemented organizational and sector KSFs to create and foster key capabilities over time as part of its recovery and growth process. The senior management cadre served as the study population, and a case study research methodology was applied. The company's group chief executive officer, finance manager, marketing and corporate sales manager, and human resources manager were chosen as the study's sample of four senior managers. All this was done in an effort to help the supermarket stand up again and carry on with business as usual.

Maletic, Damjan, Dahlgaard, Park, and Gomiscek (2015), in their study *Do Corporate Sustainability Practices Enhance Organizational Economic Performance*? found out that it is strongly linked between a company's financial performance and its capacity to implement sustainable practices and achieve long-term sustainability. Using a qualitative research methodology and mediation analysis, the surveys were interpreted. According to the study's findings, expanding adoption of sustainable practices increases innovation production, which enhances market and financial performance. Therefore, the level of sustainability that the company will eventually accomplish will depend on how the business's operations and financial decisions are managed. These decisions will be highlighted by financial audit of the financial accounts, making them visible to the organization's stakeholders.

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In a study on *Financial Reporting and Auditing Practices in County Governments of Kenya,* Gaitho (2018), employing a qualitative research design discovered that the counties had poor financial and auditing practices. To get insight into the financial reporting and auditing methods among the 47 county governments of Kenya, the study relied on secondary sources, web searches, and documents. It was evident that counties kept erroneous and unreliable financial records, which did not adequately reflect their financial situation. It has been argued that this makes it difficult to conduct financial audit, which limits the outcomes of the procedure. The proposal suggests employing qualified finance and accounting personnel to guarantee proper financial reporting and auditing in the counties. The report also calls for tightening the penalties and enforcement system for anyone found to have engaged in financial malpractices in order to prevent those in charge of overseeing the activities of the entities from contributing to their demise.

A study on *The Relationship Between Performance Measurement and Sustainability Reporting,* Speziale and Kloviene (2014), using a literature analysis, it was discovered that management accountants, who are frequently in charge of performance assessment, take a more active position in sustainability reporting. According to integrated ownership and supporting the decision-making process at all levels, including planning, control, and reporting, this has demonstrated a connection between performance assessment and sustainability. According to the study, financial and non-financial indicators are both integrated into performance assessment and sustainability reporting in a way that is generally similar.

Abdulkadir (2014), in his study *Challenges of Implementing Internal Control Systems in Nongovernmental Organizations (NGO) In Kenya: A Case of Faithbased*

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Organizations (FBO) in Coast Region, it was evidenced that good internal controls inside an organization are linked to various improvements in organizational performance. The study, which employed secondary data, concentrated on internal control mechanisms associated with the constraints of financial controls, where financial audit are seen as one of the controls. It was clear that as donors and other important stakeholders grow to trust and support the programs, this will ultimately result in the sustainability of the Faith Based Organizations' initiatives.

In a study on *The Relationship Between Issue News and Corporate Brand Equity: Case Study of Uchumi Supermarkets,* Wachira (2016) found out that Uchumi lacked a crisis communication strategy to manage how the issue news would affect their company's reputation. A strategic corporate communications expert should be hired by the supermarket to improve the reputation of the supermarket brand as part of its turnaround strategy, according to the study's findings, which used a descriptive research design with a purposive sample of eight branches open in Nairobi and eight rival stores. Approximately 95% of respondents believed that Uchumi's reputation and brand were poor due to the negative press and challenges it faced. The research also recommended that Uchumi take steps to rebuild consumer confidence by not just replacing all of the employees accused of corruption and poor management, but also by making this information public.

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Intervening Variables

According to Abdin (2009), the political perspective, which concentrates on domestic and international politics, and the technical perspective, which must take into account things like taxation, subsidies, interest rates, and exchange rates, are the

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two perspectives that can be used to explain how government policy affects business. These frequently affect how any company runs, which affects the information in the financial accounts and, in the long run, affects the levels of sustainability that organizations achieve.

As noted by Mwai (2019), because some regulations may be helpful to businesses while others may be harmful, governments and regulators must evaluate their choices and take the economy into account. The business sector will be able to prosper and expand as a result, which will increase consumer spending and boost the country's output. In most cases, the decisions made by government will have a direct impact on the actions of the organizations within its borders (Sven, Bindu, & Kiran, 2018). For instance, the United States is regarded as a nation that values individualism greatly, but the present administration has unexpectedly quit the climate change agreement. Consequently, it is conceivable that, in contrast to predictions, the number of sustainability projects within US businesses may decline.

Organizational culture encompasses the principles and behaviors that help create a company's unique social and psychological environment (Wolinska & Rakowska, 2014). The recognized norms of the time are established by culture, which also determines how an entity will carry out its operations. This serves a purpose in ensuring that an organization meets its designated levels of organizational sustainability. Hristov, Chirico & Ranalli (2022) urge that sustainability must be ingrained in the business culture in order to be strategically integrated. From their research findings, managers who responded to their questionaires agreed that a key and challenging aspect of sustainable development is first and foremost a cultural issue that calls for understanding and acceptance.

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In a study of *Corporate Sustainability and Organizational Culture*, Linnenlucke and Griffiths (2010), found that conforming to the differentiation approach, different subgroups may exist within a corporation, and each subculture's members may have distinctive views toward corporate sustainability that distinguish them apart from those of other subcultures. In order to ensure that the subcultures are blended into a single, shared organizational culture that sets how the firm does its business, the management of the companies is needed to do so. The organizational culture set will therefore decide the type of leadership style used in the organization, and this individual will ultimately form organizational policies and preferences on the types of activities to be engaged in in order to achieve sustainability goals.

Conceptual framework

Mugenda and Mugenda (2012) describe a conceptual framework as a speculative model that identifies the study subjects and their relationships. The conceptual framework demonstrates how the researcher incorporated the literature on a phenomenon's explanation that was available. It explains the procedures that must be done during the course of the study taking into account past information of the perspectives of other researchers. Independent and dependent variables are connected by the conceptual framework. The purpose of this part is to facilitate the reader's comprehension of the proposed relationship between the study's variables. The stages of financial audit and auditor independence are the independent variables in this study, whereas organizational sustainability is the dependent variable. These elements make up the diagram that is below.

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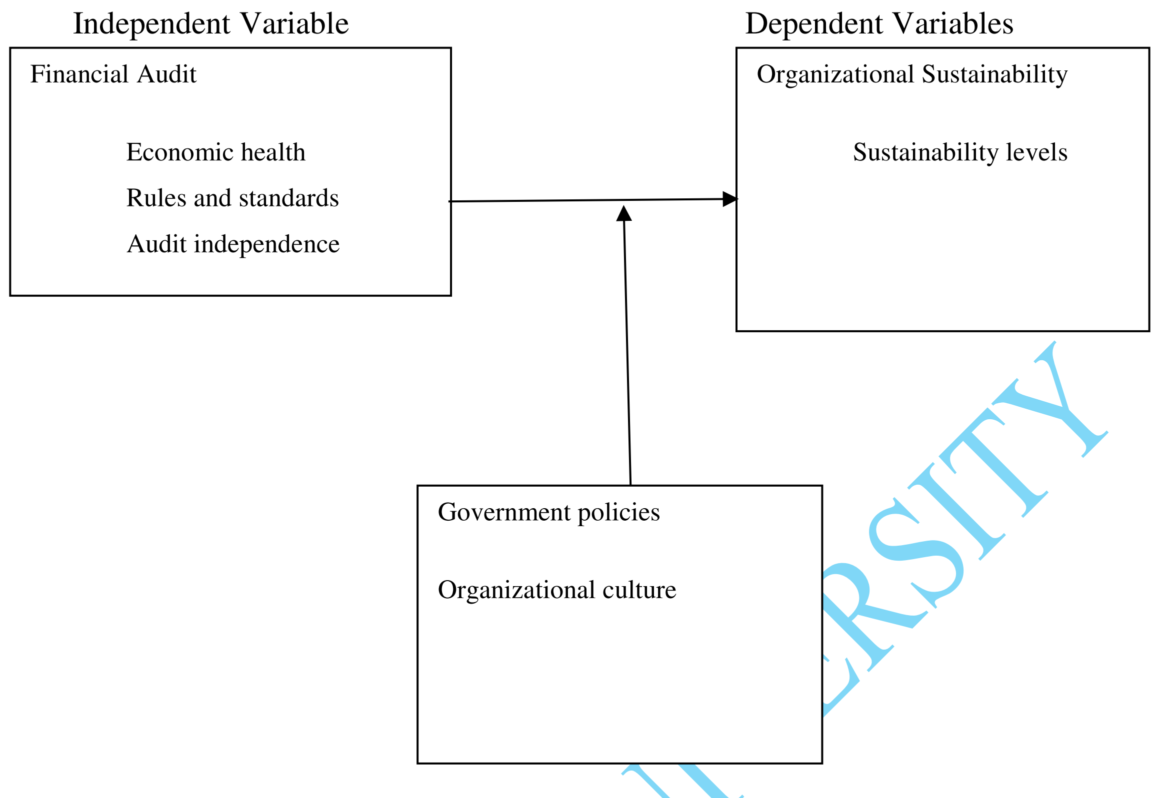

Figure 2.2: *The Conceptual framework*

The diagram above shows the stated assumption prediction that the quality of the financial audit process is determined by the phases the process undertakes, the tools used to measure the financial measures of the organization as well as the auditor independence accorded during the entire process. Despite there being rules and standards (GAAPs) to regulate how the audit are done, the laid down stages of the audit must be followed in their order and interchanging them might lead to biased audit process. The auditor's independence needs to be guaranteed by both the organization as well as the auditing agency and the regulators. Various organizations on the other hand seek various sustainability levels in their operations. The government policies and the organizational culture will however play a key mediating

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factor in determining whether the organization will achieve the desired sustainability levels.

Research gap

From the literature review above, it was noticeable in the study that not much has been reported about the sustainability levels which organizations operate in. Most organizations would engage in CSR activities as a means of giving back to the society but no desired goals are set to guide the operations of the companies.

Chapter Summary

The theories that were used to construct and highlight the relationship between the dependent variable and the independent variable were explored in chapter two of this study, along with how the theories impacted the study. The two research variables are further examined in the chapter's section on general literature. According to the empirical study, numerous studies have been carried out on financial audit both domestically and internationally, but few have attempted to connect them to establishing organizational sustainability. The conceptual framework demonstrates the diagrammatic relationship between organizational sustainability and financial audit for the first time.

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CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

The study's research technique was given in this chapter. It offered a description and proposed approaches for doing the study. The main topics included the research design, study population, sample size, sampling plan, data collection technique and ethical concerns. In-depth coverage of operationalizing study variables and a list of recommended data analysis techniques were also provided in this chapter.

Research Design

The overall methodological framework of the study is a research design (Cooper & Schindler, 2013). It is the overarching method for connecting theoretical research problems with pertinent (and practicable) real research (Boru, 2018). A research design outlines the procedures to follow in order to collect the required data. The overarching operational structure of the project specifies what data is to be acquired from which sources and how it is to be gathered. The research design establishes the proper framework for conducting research, which is why it is essential. There are various sorts of study designs, including exploratory, explanatory, and descriptive designs.

The study used the mixed method research design to identify possible causes of the connections between the study variables. Mixed methods study can be defined as a research in which the investigator gathers and analyzes data, integrates the findings, and draws conclusions using both qualitative and quantitative approaches and methods in a single study (Louise, Anne-Marie, & Gobnait, 2009). This study

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design combines quantitative and qualitative research designs by collecting quantitative and qualitative data, and analysis of the data integrates both forms of data (Gonzaga University, 2023). Descriptive designs are also appropriate for aiding in the investigation of the degree of predictability of each independent variable, such as the levels of auditor independence and the GAAPs that the auditor attempts to verify are followed in the presentation of the financial statements.

Population

A group of people or things that share comparable qualities or traits is referred to as a study population. The majority of people in the population often share the trait (Kothari & Garg, 2014). Uchumi Supermarkets Limited is not an exception to the requirement under the law as per the Firms Act Cap 486 section 147, which states that all companies must keep proper books of accounts. The study population comprised of all sets of financial statements published by Uchumi Supermarkets Limited group, which covers all the operations both in Kenya and its neighboring countries. The population for this study was derived from all the audited financial statements of Uchumi Supermarkets Limited.

Target Population

A full group of people or elements that share a characteristic and from whom samples are taken for analysis is referred to as a target population. According to Mugenda and Mugenda (2012) any group of real or imagined individuals, occasions, or things that a researcher hopes to generalize in the results of their study are to be considered the target population. The target population consists of the units from which the study's findings are to be extrapolated. The study's intended audience for

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generalizing its findings should have some observable traits, which should be present in the target population. The analysis focused on Uchumi Supermarkets' consolidated financial statements of the parent company between the year 2001 and 2022.

Sample Size

The smaller group of participants in a study that is selected from a sample frame is referred to as a sample. This is a picture of the entire population. In order to accurately generalize our findings to the group from which they were collected, picking units from a population of people who are interested in something is called sampling. An ideal sample is essential because selecting the proper sample size will help to reduce the expense of sampling error (Oribhabor & Anyanwu, 2019). According to Kothari and Garg (2014), sampling makes sure that from observations or research, the characteristics of the entire population can be generalized. The sample was derived from the Uchumi consolidated financial statements between the year 2006 and 2015 when the company experienced some instability in its operations that led to the closure of most of its branches.

Sampling Technique

Sampling techniques are the methods the researcher employs to choose a sample of participants for the study (Kothari & Garg, 2014). To be considered representative, the individuals picked must share traits with the target group. As a result, the sampling process is a technique the researcher uses to obtain the sample that will be used to collect data from the study's target population (Mugenda & Mugenda, 2012). In principle, all sampling methods aim to provide a sample that is representative of the desired population (Oribhabor & Anyanwu, 2019). The study

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utilized deliberate non-random sampling technique on the readily available audited financial statements of Uchumi, based on the public knowledge about Uchumi's struggles between the year 2006 and 2015.

Data collection instruments and procedure

In research, the term "data collection instrument" refers to a tool that defines and objectifies the data collection process. According to Mugenda & Mugenda (2012), a researcher must create tools for data collection. Because they provide the analytical framework for the search for answers to a specific research topic, data collection tools are crucial to the research process (Moyo, 2017).

This study developed a score sheet to check for financial audit variables together with a check lists for organizational sustainability indicators (see appendix 1). In order to assess the financial performance indicators, the study employed the cash flow statement and the income statement to gather the financial ratios. The management report and notes were specifically used by the researcher to ascertain the level of sustainability Uchumi Supermarkets was operating at and any potential obstacles.

The management notes were used to determine the level of the auditor's independence and the rules which the auditor used in conducting the financial audit. Two specific codes were used to collect the data: code (1) was used to indicate availability of the variables in question, while code (0) to mean none adherence to the variables. Lastly, the financial audit process was checked using the management reports. Tables were prepared based on the data collected and used to summarize responses for further analysis.

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Validity and Reliability

In order to establish whether a measuring instrument is reliable, certain measurements tests are carried out (Kothari, 2004). Validity is defined by Mugenda and Mugenda (2012) as the extent to which a measurement tool measures what it is supposed to or designed to measure. Pretesting was utilized to validate the data collection kit, and the results were used to refine the kit. Before beginning data collection, supervisors' comments about the data collecting kit were also inquired after and validated. The dependability of the data was assessed by assessing the consistency of outcomes across time and across a number of observable variables. The test results from the prior assessment served as a guide for this investigation (appendix IV).

Pilot study

A pilot study determines whether something is possible, whether it should be pursued by the researcher, and, if so, how (Junyong, 2017). A researcher can evaluate the effectiveness and intelligibility of the research instruments for the study by piloting. Piloting was necessary in data collection to determine to what extent a collection instrument communicated to the respondents. The study used a few published financial statements from Deacons (East Africa) Plc, which is a fashion retailer store and also listed under the commercial and services category in the NSE as Uchumi Supermarkets. The statements were analyzed to see if they carry valuable information to help the study and the data instrument tool prepared.

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Data Analysis Plan

Data was input, cleaned, and analyzed using SPSS version 22 after it had been obtained. The analysis used included the descriptive statistics which comprises of mean, median and standard deviation. By explaining the relationship between variables in a sample or population, descriptive statistics are used to organize and summarize the data (Yellapu, 2018). The design was used with the independent variable to measure the role of financial audit, specifically, the economic health component.

This study used explanatory sequential design where quantitative data was collected and analyzed first, then qualitative data was collected and analyzed based on the quantitative results. The economic health as a role of financial audit was captured and analyzed using quantitative data while the other variables such as the audit quality, adherence to audit standards and issues around sustainability were captured in the qualitative data. The financial ratios were calculated from the audited financial statements and an explanation given on what they meant on Uchumi's business while adherence to audit rules and standards and audit independence were used to justify and give more relevance to the reported financial data. The quantitative and qualitative data were collected concurrently during the data gathering process. In the study therefore, the integration of quantitative and qualitative data took place during data collection as well as during result reporting.

The study also used content analysis to help present its findings. By methodically grouping and contrasting different pieces of information in order to summarize them, content analysis is a method for quantifying qualitative information

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(Parveen & Showkat, 2017). With content analysis the study identified key terms used in the financial statements and reports. The analysis helped present the qualitative data on the other roles of financial audit, namely, audit independence and adherence to set rules and standards. Key statements such as auditor independence, approval of auditors in the AGM and barriers were highlighted from the annual audited financial statements and the management reports and interpreted to give clear insights to the study. With the aid of this analytical technique, qualitative research data may be accurately and methodically evaluated so that generalizations about the categories that interest the researcher can be drawn (Haggarty, 2009).

Ethical Considerations

Research ethics requires all people who are impacted by a researcher's research studies and/or the study's reports must be treated with honesty and respect. A set of ethical guidelines serve as a guide for researchers, assisting them in choosing the optimal course of action and making moral decisions (Arifin, 2018). The study used audited financial records of Uchumi Supermarkets Limited, which are public documents and readily available from the institution's website. There was no obligation for the Uchumi management or staff to participate in the study.

After the plan was approved by the supervisor, the researcher received the necessary approvals to speed up the data gathering process. Before beginning the research, approval from Daystar University's Ethics and Research Board (ERB) was obtained in order to apply for a research permit from the National Council for Science and Technology (NACOSTI).

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Summary

In this chapter, the study presented the research methodology which included the research design, target population, study area, sampling technique and procedure, data collection instruments, data analysis and ethical considerations. The study was descriptive survey and it focused on published financial statements of Uchumi Supermarkets Limited.

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CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

Introduction

The data analysis, conclusions, and interpretations based on the analysis are presented in this chapter. Charts are provided with the results for easy display.

Findings from the audited financial statements

Economic health

From the audited financial statement of an entity, various ratios can be formulated and examined depending on the user of the information's intent. However, for the purpose of this study, the focus was on the liquidity ratio which identify a company's ability to meet its financial obligations as they become due without affecting its regular, ongoing activities. Much attention was given to the working capital variables.

Movement of liabilities and current assets

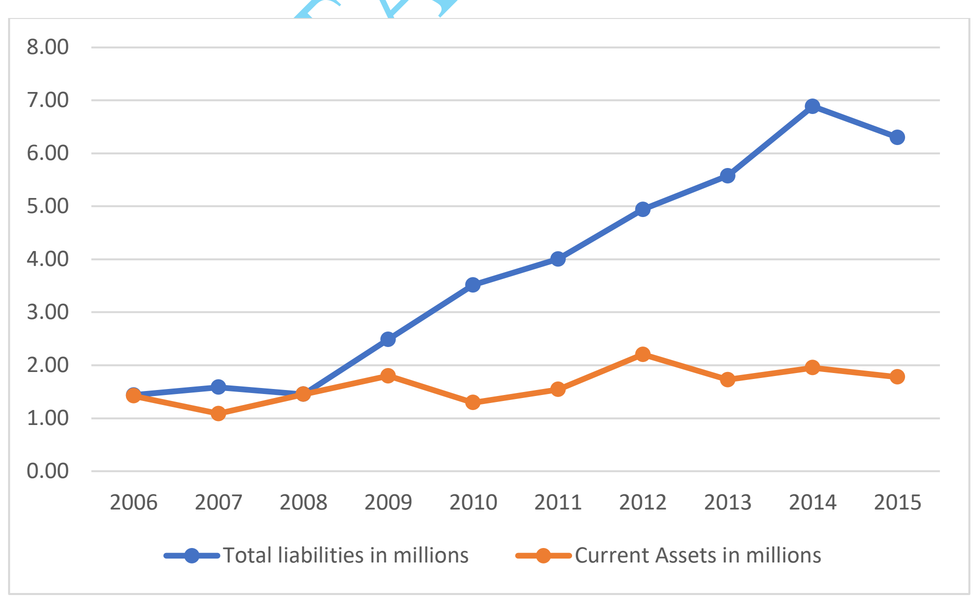

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Figure 4.1: *Movement of the total liability vs current assets.*

The findings in figure 4.1 above show that during the study period, Uchumi Supermarkets liabilities increased drastically from an average of 1.5 million between 2006 and 2008 to the highs of about 7 million in 2014. Between 2006 and 2008, the company's total liabilities were low compared to the periods from 2009 when the liabilities shot drastically. This was reported as a result of the care taker management's initiatives to come up with turnaround strategies to help the company, strategies which were only to last for three years, between 2006 and 2009. However, as noted by Liberto (2020), larger total liabilities do not indicate that a business is of low financial standing. According to the current interest rates the company has access to, it might be best for the corporation to acquire debt assets by taking on liabilities.

The findings also show that during the study period, Uchumi reported increasing current assets values. Between 2006 and 2008, the company recorded an average of Kes 1.33 million for its current assets, which increased to an average of Kes 1.9 million between 2012 and 2015. Current assets are those assets that are entirely used up throughout each cycle of production, entirely transmitted to the final good, and entirely recoverable following each cycle of production. Cash, receivables, raw materials, work-in-progress, and finished items inventories are all examples of current assets and their management is crucial in the performance of an organization to enhance overall efficiency (Nobanee & Abraham, 2015). Decreased current assets could cause shortages, illiquidity, difficulty managing day-to-day operations, and lower profitability for the company, as in the case of Uchumi. Extreme circumstances

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involving a lack of resources may result in the company's bankruptcy (Arshad, Bashir, Asif, Shuja, & Hussain, 2021).

However, the findings show that Uchumi's liabilities doubled its current assets from the year 2009. A company's overall liabilities and creditworthiness are directly related to one another. In general, a corporation may receive favorable interest rates on any additional debt it takes on from lenders if its total liabilities are low, as lower total liabilities reduce the risk of default. With the care taker management team in place, Uchumi sought to negotiate with its lenders to reduce the corresponding rate of interest and reschedule the repayment of loans to a more favorable time frame as part of its turnaround strategies, as well as securing a Kes 675 million loan from the Government of Kenya as a rescue fund. The company owed its creditors a tune of Kes 3.6 Billion and entered into a CBA with the creditors on how to offset the debt. Debt by itself does not indicate failure; rather, it exposes investors to more risk (Begin to Invest, 2018). However, investors should also be concerned if a business cannot function without borrowing.

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Movement in working capital

The findings presented in figure 4.2 below indicate the movement in the working capital of Uchumi Supermarkets across the study period. Between 2006 and 2012, Uchumi had a positive working capital while from 2013 to 2015, Uchumi's working capital was negative. From the collected data over the study period, Uchumi had a working capital mean of -0.22 million with a standard deviation of +1.33.

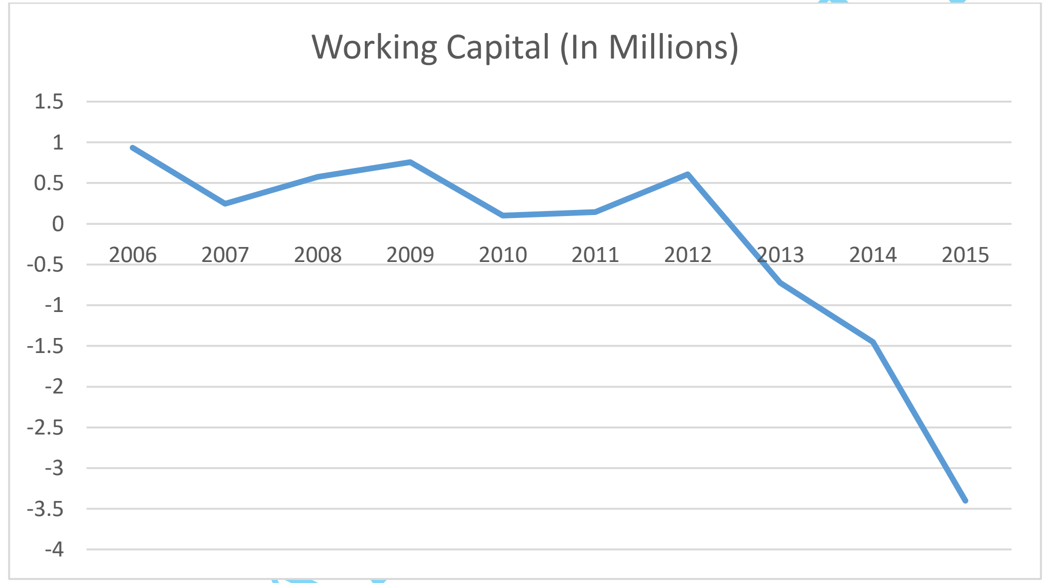

Figure 4.2 *Movements in the working capital*

From the figure above, this implied that Uchumi was able to meet all its short-term liabilities that fell due within a year with ease between 2006 and 2012. However, starting 2013, the entity reported negative working capital, meaning, Uchumi would not have been in a position to meet all its obligations whenever they fell due. This illustrates that Uchumi had accrued larger bills to pay compared to the resources it had available.

The predicament of Uchumi Supermarkets can be explained by the inability of the company to manage its working capital appropriately which resulted in lack of

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growth and ultimate insolvency and placement under receivership. Looking at the individual year working capital performance, especially between 2006 and 2013, the impression given is that the company was doing well and was able to meet all its obligations. However, short term investment plans are most not considered to give better returns compared to long term investments despite the higher risks involved, if the entire data from the study period is used (Aditya Birla Capital, 2019).

The management of working capital is crucial to the financial stability of any firm because it always affects the survival and growth of the company. Given that the quantities invested in working capital are frequently substantial relative to the overall assets utilized, it is critical that they are utilized effectively and efficiently. It is noted that between the year 2006 and 2013 when the company was operating under receivership that it achieved a positive working capital while the negative working capital balances were noted when the receivership was lifted in 2012. This corroborates the findings made by other studies (Mbandu, 2016), that the turnaround strategies put up by Uchumi supermarkets worked in stabilizing the operations of the company within the timeframes set by the care taker management team.

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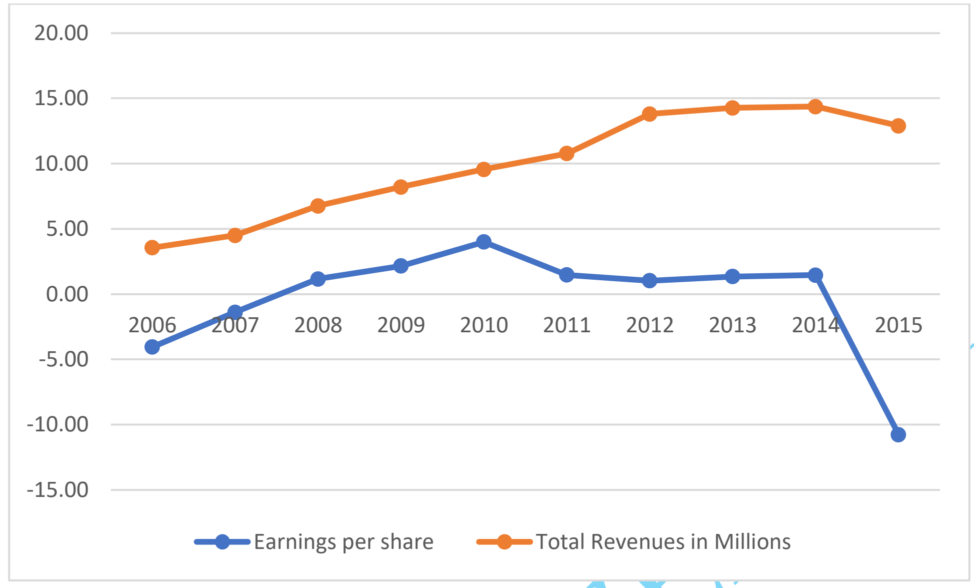

Figure 4.3: *Movement of the total revenues and the earnings per share*

During this study period, Uchumi Supermarkets collectively reported an increase in the amount of total revenues collected. From Kes 3.55 million in 2006 to Kes. 14.36 million in 2014, this is linked to the improved sales reported during the study periods. Monitoring revenue streams on its own, as noted by Chandra and Byung (2008), can provide relevant information to various stakeholders and help make various decisions on how to engage with a company. If the increasing revenues collected by Uchumi supermarkets can be considered on their own, then the company was doing well, making good sales and hence able to sustain its operations from the sales.

Revenue is useful for both communicating new information to the market and as a summary measure for valuation purposes. Increase in revenue streams in most cases would mean an increase in appetite for consumption for businesses (Kim,

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Parker, & Scholar, 2020). Revenues serve as indicators of company performance. The management would interpret this for good performance while investors will perceive this for increased returns on their investment.

During study period, the company's earnings per share also grew gradually from an average of -2.73 in 2006 and 2007 to an average of 1.40 between 2013 and 2014. This was the mount of the company's profits that was distributed to each outstanding share of common stock and was available to shareholders.

The Z- Score Model calculated

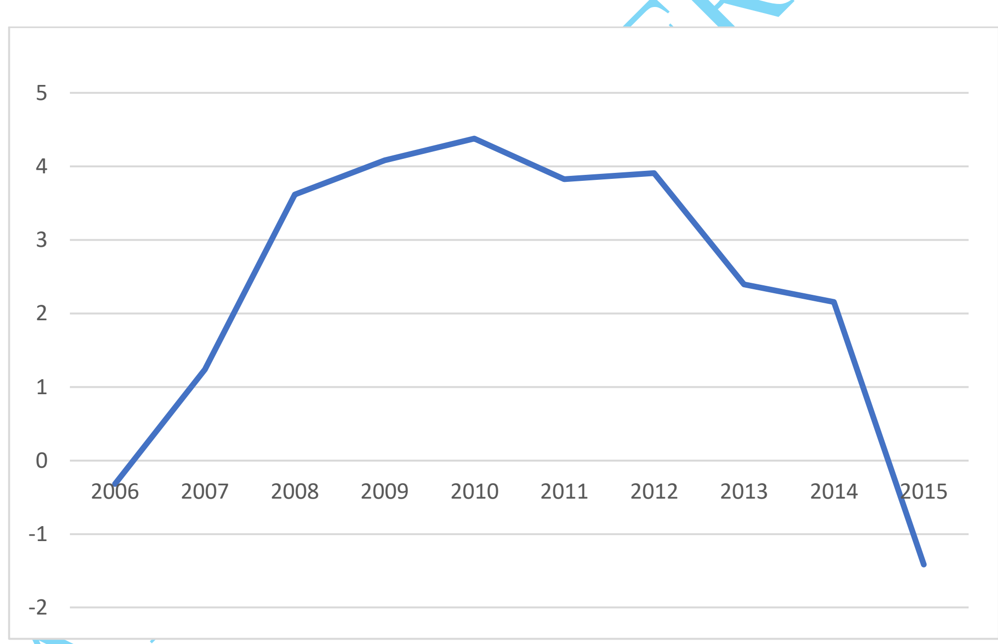

Figure4.4*: The Z Score values calculated across the years*

The figure above shows the Altman's Z-scores calculated between the years 2006 and 2015. The results show that in 2006 and 2007, Uchumi Supermarkets had a Z score of below 1.1, meaning Uchumi was operating in financial distress. This was the period when the Supermarket was placed under receivership to salvage the

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situation. However, between 2008 and 2014 when the receivership was in place, Uchumi reported a Z score of between 1.1 to 4.3 which showed the institution was operating both in the grey and safe zones and not in distress.

In 2015, when the receivership was lifted, the institution had a Z score of -1.4, showing financial distress. This corroborates Shisi, et.al (2014) who established that the Altman failure prediction model was appropriate to Uchumi supermarket in predicting chances of the company facing financial distress, as well as Macharia (2013) who established that the supermarket considered and applied key success factors (KSFs) in their change management programs which were effective, as between 2006 and 2014, the Z score showed a positive report on the operations of Uchumi. Some of these KSFs include use of CSR as a promotional strategy, vigorous advertising, use of national pricing policy where one price is charged for all products in all Uchumi stores, as well as adopting technology to aid its operations among others. Comparing this with the auditor's unqualified opinion given throughout the periods of the study, the auditor noted the company was operating as a going concern in each year and that everything was working well for the Company.

The study throughout the period, other than in 2013, has noted that Uchumi supermarkets in its audited reports had not mentioned any challenges that might have affected their operations to support the data presented in the reports. The only management report that mentioned various issues was in 2013 and they include;

i. High interest rates affecting cost of borrowing.
ii. The 2013 general elections.

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iii. Freezing of government expenditures which contributed to poor performance in their operations.

All these are external factors which the company had no control over. Without this, it might be challenging to pin out what made Uchumi Supermarkets to go down and close most of the branches it had.

Figure 4.5: *Adherence to audit rules and standards*

From the audit reports throughout the study period, it was noted that the rules and standards on audit were followed during the process. The audit was carried out in compliance with the International Standards on Auditing, which demand that the audit firm adhere to ethical standards, plan and carry out the audit to have a reasonable assurance regarding whether the financial statements are accurate. Also captured in the auditor's report is the summary of the significant accounting policies and other explanatory information that the auditor reported to have been followed during the

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preparation of the financial statements, such as the basis of preparation of the financial statements which was on historical cost basis as stipulated by IFRS.

It was evident that all the audit phases were followed in all the years under the study. In order to develop the most suitable audit methods, the auditors took into account internal controls that were pertinent to Uchumi's compilation and fair presentation of the financial statements. The stages were all captured in the auditor's reports on what the auditor was required to perform yearly. The Annual General Meetings were held annually where the Auditor appointment was done and approved as reported on the financial statements. Uchumi supermarkets Limited was also involved from the planning stage to the finalization stage of the audit. Uchumi Supermarkets Limited was represented in this process by the Audit committee which had a mandate of reporting to the Board on any findings of the audit process. This corroborates the findings of Manitaa & Elommal (2010), who reported that a sign of efficiency and competence of the auditor, the level of communication and collaboration of the auditor with the audit committee would guarantee quality audit procedures and results.

From the findings of the study, it was evident that the auditors gave an unqualified opinion, a clean result, implying that all the operations of the Supermarket followed the set out standards and procedures. The financial statements audited were prepared with conformity to the International Financial Reporting Standards and the company was operating as a going concern. This is always the good news that all investors expect out of an audit process and motivates the stakeholders to continue their engagements with an entity.

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Audit independence.

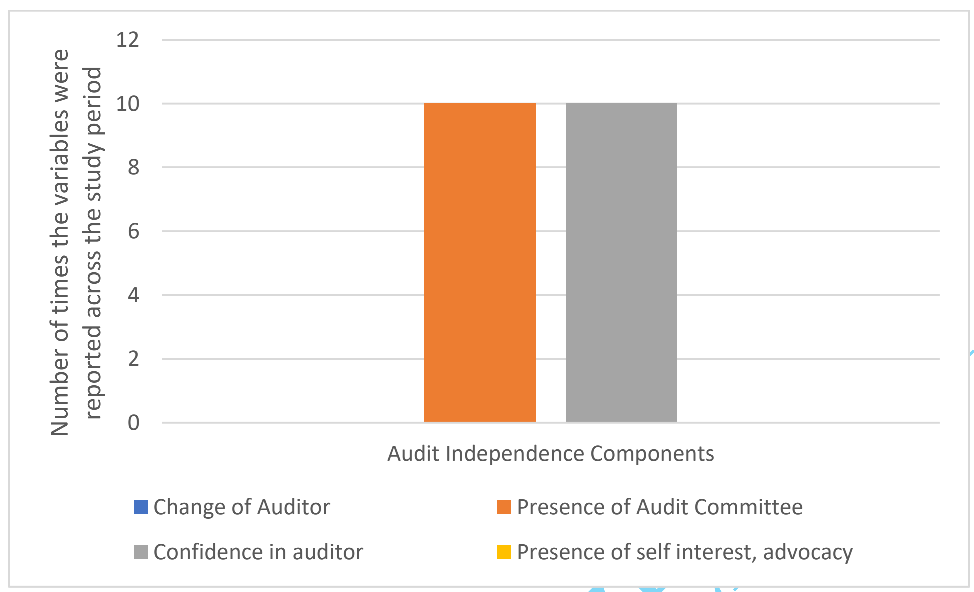

Figure 4.6: *Audit Independence variables*

Throughout the study period, Uchumi's audit independence was guaranteed. It was noted that Uchumi Supermarkets never changed the audit firm and only used one, Ernst & Young. In the prior years, Uchumi used the services of PwC while the periods after the study the company used KPMG. This is also in line with Pattillo (n.d) who opines that changing audit firms regularly interferes with the auditor's independence and that there is a likelihood of misrepresenting facts in the first years of engaging an audit firm as the audit firm has to rely on a third parties' opinions on the previous audit held. However, changing the audit firms just before and after the study period ensured there was engagement with Ernst & Young for a period of 10 years only, reducing the chances of familiarity with the audit firm which might have compromised the audit independence. Moreover, issues of self-interests in the operations of Uchumi or advocacy issues were not reported on the side of the audit

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firm which might have compromised on the audit report's independence. The continuous use of one audit firm, Ernst & Young, over the years corroborate the Mohd-Sanusi et.al (2012) findings that the quality of the financial audit service has a significant impact on the clients' loyalty.

The audit firm was always approved by the Board and the audit committee of Uchumi, and presented in the Annual General meetings of the company. The approval of the audit firm by the Board and the AGM ensured that there was no interest in the management of Uchumi which would have influenced the audit findings. This showed a level of loyalty, which represented the trust between the firm and Uchumi over the study period. The presence of the audit committee ensured constant interaction and effective communication between the audit firm and the company's Board which eventually guarantees audit quality.

Sustainability levels

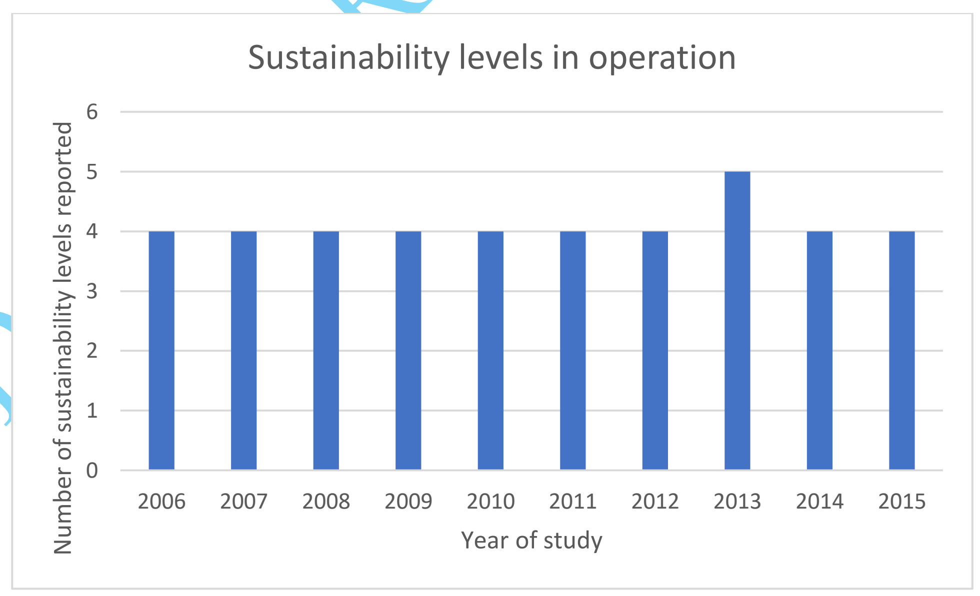

Figure 4.7: *Sustainability levels reported*

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Using the Mura, et.al (2018) suggested model of assessing a company's sustainability and putting the sustainable practices into practice, the study sought to find out on the sustainability levels which Uchumi operated on. The model, involves defining sustainability goals and objectives, measuring profitable, ecological and societal indicators, communicating the results, and continuously assessing the company's sustainable practices. Throughout the study period, there was no report published by the company about its sustainability or a report on its operating sustainability levels other than in the 2013 audited financial statements where a report of its CSR activities is presented. This is also in line with the CSRHUB, an institution that provides sustainability ratings for established organizations, which reports that there was no data available to help rate Uchumi's sustainability levels as at August 2022.

In all the study periods, Uchumi paid attention to four sustainability levels, that is level zero where the company only focused on its profitability, level one, that is complying to various legislations impacting their business, level two sustainability, that is taking social and ethical issues into consideration and level four sustainability where the focus was on its governance structures and workable solutions (Appendix VII). However in 2013, from the company's CSR report, Uchumi paid attention to ecological issues as well which are in the level three sustainability. This was done through engaging in wildlife conservancy initiatives partnered with the Kenya Wildlife Services.

Despite there being no report on Uchumi's sustainability levels, according to the company's brochures available, the company engaged in CSR activities on a yearly basis which was vital to local development which in turn had a positive effect

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on the life of others. Representatives from Uchumi's various stores visit more than seven children's homes each December and donate food, bedding and other items as well as giving services like painting the homes or donating medical supplies (Jarvis, 2015). Moreover, the company engages in various wildlife conservation programs across the years in Kenya. The business is well recognized for its involvement in the yearly Lewa and Ndakaini Dam marathons as well as for funding walks to benefit women and children, such the First Lady Marathon. These are in addition to supporting athletic competitions like golf.

Uchumi prides itself from the CSR activities they carry out yearly to have paid back through creating the awareness of the company's existence. The CSR activities have enabled the company forge new alliance with its stakeholders in various capacities which in the long rung improve the company's sales and business in general (DneinNuqer, 2014). This is in support of Mwancha & Ouma (2017) findings that engaging in CSR activities is beneficial to the company in the long run, despite the costs incurred in engaging the activities. This can also be linked to Kanika et.al (2021) study that showed that although there is only a modest correlation between CSR and corporate performance, these initiatives raise sustainability practice adoption, which boosts market performance of organizations in the long-run.

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Government policies

It is also reported that there was no mention of any intervention through government policies other than the 2006 intervention to place the company under receivership. Secondly, in the 2013 financial reports, Uchumi reported of freezing of government expenditures which contributed to poor performance in their operations.

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This two actions prove Mwai's (2019) case that government actions have impacts on organizations operations, and these could be either positive or negative. The 2006 intervention to place Uchumi under receivership helped the company change its operations through appointment of caretaker management team to spearhead the turnaround strategies in place. The impact of this was improved performance as earlier discussed in the financial performance section. No recommendations were however made by the audit firm for Uchumi to improve on and thus no mention of how the audit report was implemented by the management of the company.

Summary of Key Findings

From the audited financial statements of Uchumi, the study was able to establish various findings. A summary of the key findings is listed below:

1. Uchumi reported a positive working capital balance between 2006 and 2012, while a negative working capital reported from 2013 to 2015.
2. In 2006 and 2007, the Z score calculated shows the company was in financial distress while the operations of between 2008 and 2014 show the company was operating in the safe zone.
3. Uchumi's audit adhered to the International Auditing Standards.
4. Over the study period, the company only used one audit firm which was approved in every AGM held. This impacted on the auditor's independence.
5. Uchumi Supermarket did not have a sustainability report published throughout the study period other than in 2013.

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6. The audit opinion throughout the study period was unqualified, and thus the company was operating as a going concern hence all its operations were in line with the regulations and policies available governing business operations.

Chapter Summary

In this chapter, the study presented the research findings. After the data collection process, the key variables are computed and presented in graphs to show their movements across the study periods. Qualitative data gathered from the audit reports and other sources have also been captured in the summary of key findings.

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CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the discussions on the key findings of the study. The discussion is presented around each objective to ensure the objectives are satisfactorily met. At the end, conclusions drawn from the study are discussed, as well as recommendations and other areas for further research.

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Discussions of Findings

The study was guided by three key objectives. These were discussed based on the findings of the study and compared to what other scholars have found out in various studies.

The first objective was to examine the role of financial audit performed by Uchumi Supermarkets Limited. This was the quantitative part of the study, where from the data gathered, figures were calculated and interpreted to give meaning. From the findings of Sunardi et.al (2022), financial auditing has been used as a tool of measuring the economic health of various companies. From the audited financial reports of Uchumi, its working capital over the years among other ratios can be calculated and analyzed by various stakeholders and be used to help in making decisions on how the various stakeholders can interact with the Uchumi. Profitability ratios will help investors tell the kind of returns to expect when investing in Uchumi, while the management team will use the liquidity ratios to estimate how the operations of the business are progressing. This is defined by the signaling theory, where the management of Uchumi misrepresented the operations of the company

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which led to the suspension of its CEO and CFO, according to the Capital Markets Authority report (2016). This is in line with Changawaa and Theuri (2014) findings in their study on the role of financial audit on effective corporate governance in companies. By accurately depicting the entity's financial situation at every given moment and over a predetermined amount of time, the management of Uchumi have to ensure their actions are guided by the GAAPs which will be reflected in their financial statements. The audited financial statements therefore provide the necessary data to help calculate the Z score which is used to predict the possibility of a company facing financial distress.

Financial audit therefore serve to reinforce the relationship of trust and stewardship between the management of a business and the owners, hence reducing the agency theory problems that might exist. Financial audit will act as a pillar of faith and help foster the agency relationship of the company. This is achieved by the financial audit verifying that the financial statements presented by the management have been prepared in accordance with the set standards, IFRS, and thus present the true state of the company's affairs.

The second objective of this study was to investigate the sustainability levels Uchumi Supermarkets Limited operates in. This objective was studied using qualitative data reported in the audited financial statements of Uchumi as defined by the triple bottom line theory which defined sustainability levels. Despite there being no sustainability reports recorded by Uchumi, from the management reports of the company captured in the audited financial statements, Uchumi has been operating on various sustainability levels across the years. This has been possible through taking into consideration various components that form up the sustainability levels.

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According to the triple bottom line theory, Uchumi supermarkets does not focus on its profitability alone, but on the other components that enable it survive in the business environment.

By conducting financial audit yearly over the study periods, Uchumi has been complying with the law, specifically, the Companies Act, which dictates that all public companies have to conduct the audit. The audit report and the auditor's opinion also confirm that Uchumi's financial statements have always been prepared in adherence to the set rules, the IFRS, and following the set accounting standards. Moreover, the organization reports of taking its corporate social responsibility activities to be core to its operations. This, as highlighted by Jarvis (2015), aims at building the company's relationship with the people and environment. However in 2013, from the reported Uchumi's CSR activities, an additional component of the sustainability level was reported. Uchumi engaged in environment friendly activities, which is participating in wildlife conservation programs in partnership with the Kenya Wildlife Services.

As noted in The Africa Business Journal (2014), Uchumi allocates 2% of its marketing budget to initiatives aimed at resolving local problems with the environment, health, and education. These CSR activities are all reported in the company's audited financial reports as they have a financial implication to the business. This corroborates Speziale and Kloviene (2014) study findings that management accountants, who are traditionally responsible for performance measurement play a more active role in sustainability reporting. These findings contribute to the Triple Bottom Line theory which advocates that if a firm looks at

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profits only, ignoring people and the planet, it cannot account for the full cost of doing business.

The third objective of the study was to determine the role of financial audit on organizational sustainability using the case of Uchumi Supermarkets Limited's sustainability. By acting as a pillar of faith and improving the trust between the management and owners of a business, the financial audits will guarantee the economic health of the business by ensuring the management have the necessary resources to run the entity through raising of funds, and ensuring there is compliance with the law such us in the administration of taxes. The organization will therefore have the funds to run its operations as well as not being in conflict with the government and other stakeholders, thus guaranteeing its sustainability over time. The capacity to improve the quantity of pertinent information supplied to shareholders can be achieved by incorporating corporate social responsibility reports into financial statements, like the case of Uchumi's 2013 audited financial statements where their CSR report is captured. Comparatively speaking, businesses who have incorporated CSR into their financial reporting enjoy higher auditor quality standards (Lemus, 2016). Once more as reported by Speziale and Kloviene (2014), the accountants who are responsible in preparing the financial statements showing the fair operations of the organization are significant in the organizations achievement of their sustainability goals.

From the study findings, Uchumi Supermarkets Limited carried out its financial audit on a yearly basis as required by the law. The reports of these audit have been unqualified, which shows compliance to all the GAAPs. Moreover,

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Uchumi engaged in various CSR activities on a yearly basis as a way of reaching out to the society, with a budget for this task yearly.

Conclusion

The discussion of this paper was guided by three key objectives. First the paper looked at the role of financial audits carried out by Uchumi. From the audited financial statements, different data and ratios, can be derived from the audited financial statements that can be used to determine how the company is running and its capacity to fulfill its duties to the various stakeholders. In most circumstances, the type of auditor's opinion provided and how this is taken by the management team will determine how the firm runs moving forward. The goal of any business is to ensure its economic health is doing well, hence able to support its operations. The paper also looked at the various sustainability levels which Uchumi Supermarket Limited operates in. From the management reports captured in the audited financial statements, Uchumi strived to operate in various sustainability levels across the study period. Despite the challenges the company was going through, the management ensured that all the various components of sustainability were looked into. Issues to do with abiding to the laws of doing business, ethical issues, society's wellbeing and ecological aspects were incorporated in the operations of Uchumi, therefore indicating the level of sustainability to be attained. However, it has been highlighted that not all firms, like in the instance of Uchumi Supermarkets, would have a published sustainability reports and a predetermined sustainability level that they work towards.

Lastly, the paper sought to identify the role financial audit plays in helping organizations achieve their sustainability. From the study, it was evident that how an

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organization relates with its stakeholders will in the long-run determine how sustainable the organization is. Financial audit therefore acts as a pillar of faith in ensuring what the organization's management reports in its financial statements present the true and fair position of the organization. Financial audit therefore have a direct relationship with the sustainability of an organization as much as the sustainability level an organization operates in remains a management decision. Organizations will therefore provide its sustainability reports, the CSR reports, together with their audited financial reports as in the case of Uchumi in 2013.

Recommendations

The study recommends to Uchumi supermarket policy makers to continuously use the Altman Score model with their audited financial records to help them predict chances of financial distress in their operations. This would help them make informed judgments and decisions on how to carry out various operations in the company.

Despite carrying out corporate social responsibility activities, the company can set out various strategic sustainability levels and seek to achieve them on various timeframes. This would help the company monitor how it relates with the other components of the Triple Bottom Line model.

The study also recommends to Uchumi Supermarket to conduct other non-financial audit such as the *Fair for Life* audit, which focus on the processes involved in ensuring customers get value for their money. This takes into consideration the people involved in making the products available as well as the eco-system where the company operates in.

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Areas for Further Research

From the review of the Company's audited financial records, throughout the study period, the auditors gave an unqualified opinion on the financial reports. This is the good news majority of the shareholders would be looking forward to. However, it's also during these periods that the company continued to close down most of its branches and currently run only three outlets. Future studies could interrogate the relationship between the financial audit opinion given and the actual operations of companies focusing on the economic health of the company.

Despite Uchumi Supermarket going through the turbulent periods in its operations and shutting down most of its branches, the supermarket is still in operation with three outlets in Nairobi, showing the company is still sustainable. Further studies can be done to check the effectiveness of the turnaround strategies put up by the care taker management team. This will bring out what the company is doing differently to keep it sustainable to date when other companies that faced almost similar challenges closed their doors.

Chapter Summary

In this chapter, the paper discussed the various findings and how they helped achieve the objectives of the study. From findings and discussion, the recommendations to Uchumi Supermarkets Limited were made as well as areas where the paper did not capture were suggested for further studies to look into.

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APPENDICES

Appendix I: Secondary data collection tool for the study

SRN	Description	Outcome	2006	--n--	2015
1	Financial audit process (If not mentioned 0, if stated 1)	Auditor's judgment given			
		GAAP Conformation			
		Auditors' opinion given			
		Comply with set control			
		Disclosures made			
2	Level of Auditor's Independence	AGM Meetings held			
		Appointment of Auditors			

3. Organizational Sustainability
a. Availability of sustainability Report: (No shows no regard of sustainability)
b. If a is Yes, then check the levels of organizational sustainability.

SRN	Description	Years from 2006 – 2015					
		2006	2007	2011	2012	2013	2015
1	Noncompliance with ESG (Level 0)						
2	Comply with Law (Level 1)						
3	Economic issues (Level 2)						
4	Environmental issues (Level 3)						
5	Social issues (Level 4)						
6	Governance (Level 5)						

Include any barriers you come across within the period of study----------------------------------
----
----

4. Financial Performance Measurement (0. Not used; 1 benchmark 2. Higher)

SRN	Description	Ratio Analysis	Benchmark	2006	2007	2008	2009
1	Liquidity ratio	Current ratio					
		Acid test ratio					
2	Solvency ratio	Gearing ratio					
		Interest cover ratio					
3	Profitability ratio	ROE					
		NPM					

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5. Intervening factors (If mentioned 1 if not 0)

SRN	Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Government policies										
2	Organizational culture										

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Appendix II: ERB approval

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Nairobi, Kenya
Tel: 020 2723 002 (3) (4)
Fax: 020 2728338
E-mail: admissions@daystar.ac.ke

Mombasa Campus
Apollo House, Moi Avenue
P.O. Box 99483 - 80107,
Kilindini Mombasa
Tel: 020 2416916
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VERDICT – APPROVAL WITH COMMENTS
Daystar University Ethics Review Board

Our Ref: **DU-ERB/26/05/2020/000424**

Date: 26th May 2020

To: Andrew Kaggwa AndereDear Andrew,

RE: ROLE OF FINANCIAL AUDIT IN ACHIEVING ORGANIZATIONAL SUSTAINABILITY: A CASE OF UCHUMI SUPERMARKETS LIMITED

Reference is made to your ERB application reference no. 060520-01 dated 6th May 2020 in which you requested for ethical approval of your proposal by Daystar University Ethics Review Board.

We are pleased to inform you that ethical review has been done and the verdict is to revise to the satisfaction of your Supervisors and Head of Department before proceeding to the next stage. As guidance, ensure that the attached comments are addressed. Please be advised that it is an offence to proceed to collect data without addressing the concerns of Ethics Review board. Your application approval number is **DU-ERB- 000424.** The approval period for the research is between **26th May** ***2020 to 25th May 2021*** after which the ethical approval lapses. Should you wish to continue with the research after the lapse you will be required to apply for an extension from DU-ERB at half the review charges.

This approval is subject to compliance with the following requirements;

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by Daystar University Ethics Review Board.
iii. Death and life threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to Daystar University Ethics Review Board within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to Daystar University Ethics Review Board within 72 hours.

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v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of a signed one page executive summary report and a closure report within 90 days upon completion of the study to Daystar University Ethics Review Board via email [duerb@daystar.ac.ke].

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) https://oris.nacosti.go.ke and other clearances needed.

Yours sincerely,

Mrs. Purity Kiambi,
Secretary, Daystar University Ethics Review Board

Encl. Review Report

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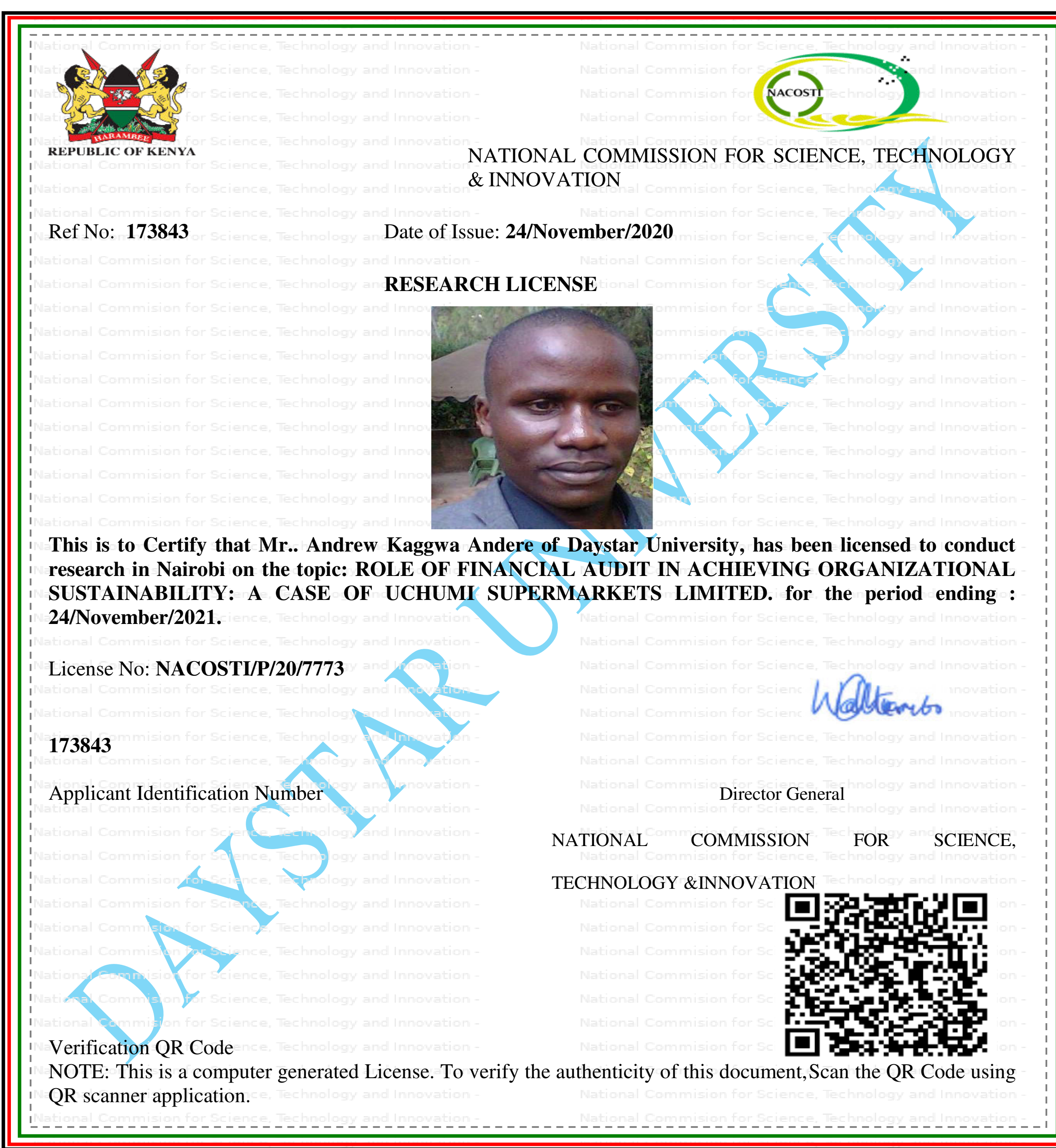
Appendix III: Nacosti permit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Appendix IV: Originality report

Andrew Andere Thesis

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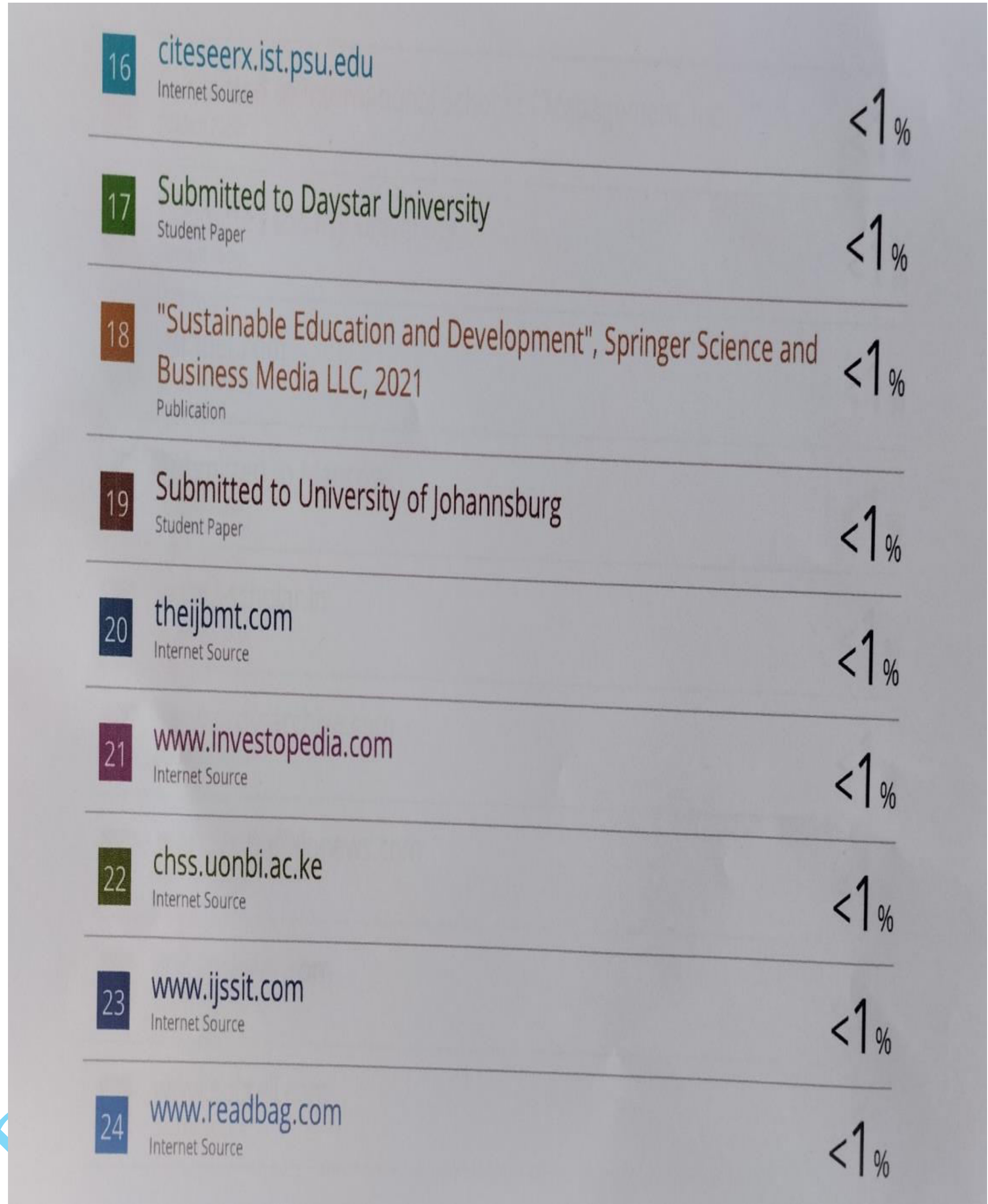

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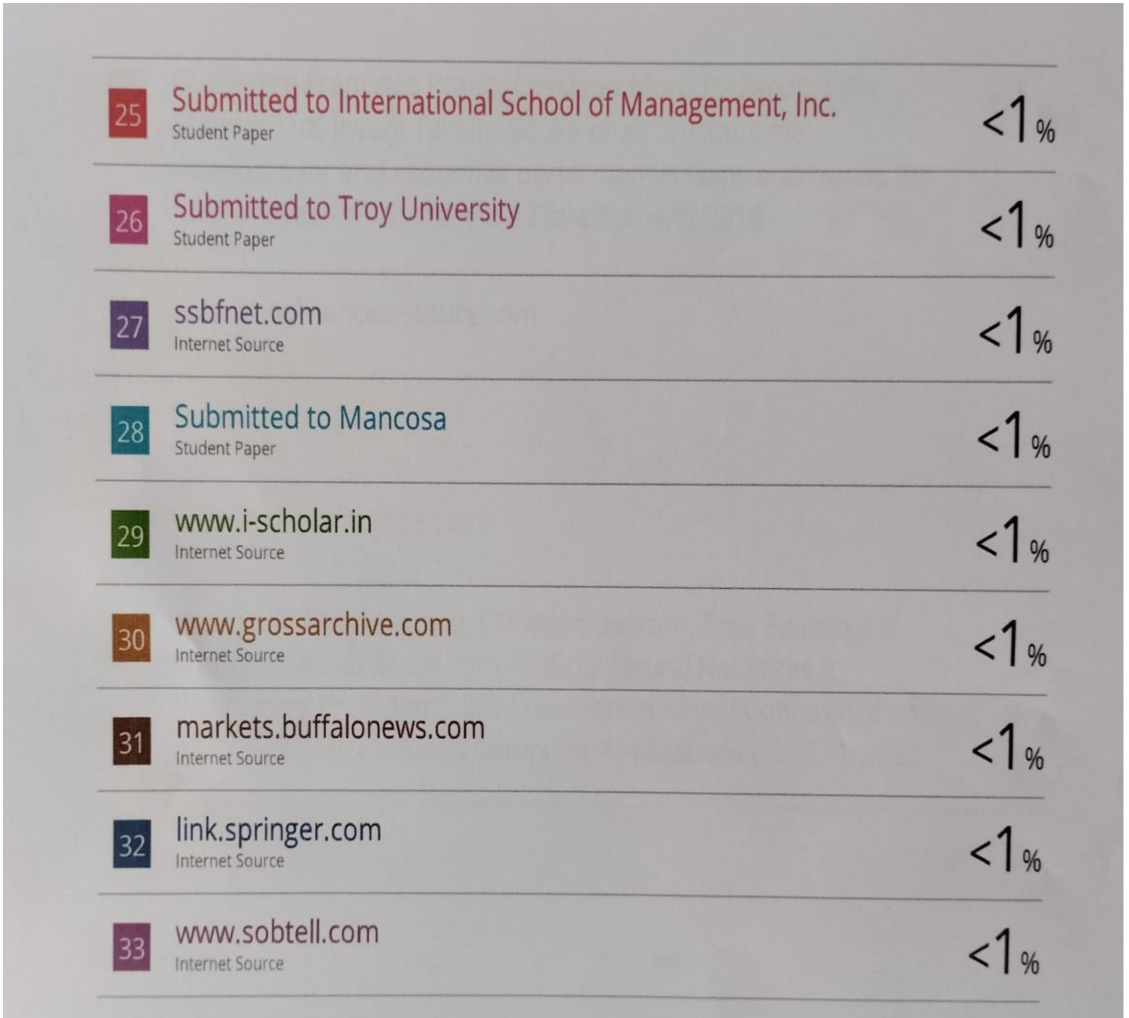

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Appendix V: Audit Independence checklist

Checklist for the Audit independence										
Audit Independence Components	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Change of Auditor	0	0	0	0	0	0	0	0	0	0
Presence of Audit Committee	1	1	1	1	1	1	1	1	1	1
Confidence in auditor	1	1	1	1	1	1	1	1	1	1
Presence of self-interest, advocacy	0	0	0	0	0	0	0	0	0	0

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