



## Audit Committee Characteristics and Quality of Financial Reporting In State Corporations in Kenya

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**Abstract:** *The study sought to assess the influence of audit committee characteristics on the quality of financial reporting in state corporations in Kenya. Audit committees are created with a sole purpose of affirming the trust towards the company' integrity in the hearts of the stakeholders in regard to the internal procedures; the exercise by the committee gives the stakeholders' confidence in matters oversight assigned to the committee. Specifically, the study sought to examine the effect of audit committee expertise and audit committee independence on quality of financial reporting among state corporations in Kenya. An explanatory research design was employed to attain the study's purpose. The study's target population was the 187 government-owned enterprises in Kenya. A sample of 127 firms was selected using a stratified random sampling. A structured questionnaire was utilized to collect data. The data was analysed through descriptive and inferential statistics using the SPSS software. The findings from the study revealed that audit committee expertise has a significant influence on the quality of financial reporting in state corporations. The findings further revealed that the independence of the audit committee had a significant and positive influence on the quality of financial reporting in state corporations in Kenya. The study concluded that through the independence, and expertise of the audit committees, state corporations in Kenya had better quality of the financial reporting. It is therefore recommended that the government through the respective agencies upholds the independence and expertise of the audit committees in order to enhance their ability to deliver appropriate quality of the financial reporting in the corporations.*

**Keywords:** *audit committee; audit committee expertise; audit committee independence; financial reporting; state corporations*

### I. Introduction

Globally the state-owned companies have proved crucial in the social-economic growth and stability of states (Baxter & Cotter, 2019). These corporations are formed with the aim of enhancing the access to government services as well as bringing the gap left by the private sector in commercial services delivery. To ensure effectiveness of these agencies and corporations, accountability and responsible use of resources is highly emphasized, and to achieve this, most jurisdictions require the agencies to annually publish their financial reports (Gerayli, Pitenoiei & Abdollahi, 2021; Uddin et al., 2021). According to Raimo, Vitolla, Marrone, and Rubino (2021)., through financial reporting and publication of the financial reports, the members of the public and regulators get a chance to understand the operations of the state corporations and how the public money is utilized by the said agencies. To ensure a standardized way of reporting and promote professionalism in the auditing operations of the state corporations, the agencies have audit committees, which are constituted to undertake all the accounting and auditing operations of the corporations (Alkebeese, Tian, Garefalakis, Koutoupis, & Kyriakogkonas, 2022; Salehi, Mokhtarzadeh & Adibian, 2021). According to Furqan, Wardhani, Martani, and Setyaningrum (2020), the audit committees play an integral role in promoting the quality of financial reporting among the state corporations. These committees have distinct features which define how the operations

are done, the effectiveness of the committees and their overall ability to deliver their mandates (Habib, Bhuiyan & Wu, 2021). These features are the audit committee characteristics. Audit committee characteristics are of paramount importance to the well-functioning of the committees for department auditing. In this study, audit committee characteristics were operationalized using audit committee expertise, tenure of the audit committee members, audit committee independence and audit committee diversity. Oyetunji and Handayani (2018) operationalised audit committee characteristics using audit committee expertise. According to Pham et al. (2021), audit committee expertise is a combination of experience, financial knowledge, managerial competence and business skills possessed by the audit committee members. Sagitaria and Mita (2019) measured audit committee expertise focusing on the education qualification, skills, and knowledge of the members composing the audit committees.

For instance, possessing some background in finance, management and accounting laid a foundation for the members in the committees in assessing and analysing the financial data (Atieno, 2017). The formal or academic qualification therefore is a defining feature in ensuring that the audit committees effectively and efficiently perform their duties. In addition, the auditing board with at minimal of one professional in finances to a great extent combine the inputs of the internal and external auditors while developing their reports (Rezaee, Olibe, & Minmier, 2018; Bedard & Gendron, 2016).

In operationalizing audit committee tenure, Liu and Sun (2018) used number of years served, mandatory rotation, learned confidence, and innovativeness. Bedard and Gendron (2016) define audit committee tenure as the audit committees' expected duration of service. The duration of audit committees, according to Bedard and Gendron (2016), may indicate monitoring efficacy. On the one hand, audit committee members with long period possess a lot of knowledge and expertise, and thereby producing best monitoring outcomes of an audit committee. Members on audit committees with a lengthy history and stable system, on the other hand, are more likely to be close to management and more subjective to audit issues reported by internal and external auditors.

One of the integral goals of audit committees is to enhance the quality of financial reporting. This according to Mardessi (2021) is the accurateness, appropriateness and adequate relevant disclosures in financial statements of a company. Tran (2022) indicates that organizations through their auditors and audit committee show their committeemen and competence by producing good quality financial reports that can be easily understood, disclose what is required to be disclosed and representing the financial reality of the company. Furqan, Wardhani, Martani, and Setyaningrum (2020); Pham et al. (2021); and Kalabeke, Sadiq and Keong (2019) described quality financial reporting as the comparability, reliability and ability of the financial reports to give the expected information regarding the financial health of the company.

Malo-Alain, Aldoseri, and Melegy (2021); and Furqan et al. (2020) operationalized quality financial reporting in terms of how well were the statements useful to the company's decision-making, the reliability of the reports, and accuracy of the financial reports. Uddin, Cheng, Ahmad, Sheikh, Adedigba, Zhao, and Nazneen (2021) on the other hand analysed quality financial reporting through earnings variability and persistence, the nexus between income, accruals and cash as well as future performance predictability. Li (2017) posited that, among other factors in the institution, quality of financial reporting's key determinant is accounting standards. According to Bushman and Piotroski (2016), there must be high accounting standards for there to be high quality financial reports, and this streamlines the usefulness of the financial reports.

In Kenya, state-owned enterprises are established and controlled under Kenya's State Corporations Act, Chapter 446, and have the authority to administrate and focusing on

particular missions in order to improve service delivery to people (Jerubet, Chepng'eno, & Tenai, 2017). The state corporations are normally directed by the Kenyan head of state. The corporations have audit committees comprising of seven to nine members, with at least one specialist in financial management and at least one-third of the board members being independent that is they neither work for the national or county governments and are not suppliers of the state corporation to which they have been appointed and they should serve for terms not longer than six years should they be reappointed and three if not (Ekai, 2017).

The financial reporting's basic minimum requirements in Kenya are laid down by the Kenyan Companies Act (CAP 486) which also governs the broad framework for financial accounting as well as financial reporting (GoK, 2018). Companies are required by the Act to present an account of its affairs that is true and fair. ICPAK is the statutory entity granted the sole mandate of providing guidelines on accounting standards as well as auditing principles (Atieno, 2017). Since the year 2000, companies in Kenya are supposed to be in compliance with International Financial Reporting Standards (IFRS) after the adoption of IFRS by ICPAK in the 1999. Additionally, the state-owned corporations are guided by Mwongozo, which is the Government Owned Entities' Code of Governance (Githinji, 2017). The Code speaks to issues concerning the internal controls, good corporate citizenship, disclosure and transparency, risk management, effectiveness of Boards, accountability and ethical leadership. The code also provides a policy for the engagement of stakeholders as well as a platform to address the obligations and rights of the shareholders (Githinji, 2017).

The Public Finance Management Act 2012 forms the basis of forming Audit committees in Kenya (GoK, 2018). Every public institution is required to form audit committees as per the Public Finance Management Regulation 2015 and the Public Finance Management Act 2012. In the process of governance, the audit committee has a special place as it provides to the executive management, an impartial expert assessment of financial management and internal audit, risk assessment quality, top leadership operations, and financial reporting by a supervisory board or board of directors (GoK, 2018).

### **1.1 Statement of the Problem**

Despite the presence of laws established for the formation of efficient audit committees in the public sector with the required features and defined responsibilities for quality financial reporting and accountability in Kenya, numerous state corporations still fail to appropriately carry out financial reporting (Mwangi et al., 2017). A report by World Bank (2021) revealed that most of the state corporations in Kenya failed to meet key aspects of quality of financial reporting such as timeliness, understandability of the financial reports and accuracy of the financial reporting, a matter that the reported noted that could lead to inappropriate decision making and in the long-run affect the performance of these corporations. According to National Treasury (2021), most of the state corporations and semi-autonomous government agencies (SAGAs) fail to uphold quality of financial reporting as depicted in the guidelines and the International Public Sector Accounting Standards (IPSAS), thus leading to ineffective financial reports. Most of the state corporations have failed in ensuring quality of financial reporting, and this exposes the corporations to financial inefficiencies and gaps that allow malpractices (Public Financial Management Reforms Secretariat – PFMR - , 2021).

Empirical evidence shows that audit committee is fundamental in enhancing quality of financial reporting in public entities. Studies by Gerayli, Pitenoai, and Abdollahi (2021); Raimo, Vitolla, Marrone, and Rubino (2021); and Ruhnke and Schmidt (2017) showed that audit committee expertise and independence are crucial characteristics of the committee that significantly influence the quality of financial reporting. Such studies have however have been carried out in different contexts, thus they may not be applicable in a Kenyan context.

Moreover, local studies have focused on non-commercial state corporations (Mwangi et al., 2017), others have focused on private entities such as firms listed in the NSE (Singoei, 2022), while others have focused on a single characteristic of the audit committees (Okeyo, 2021; Machini, Nyaberi, & Mugo, 2022). This evidences lack of adequate literature on the relationship between audit committee characteristics and quality of financial reporting in state corporations in Kenya. This study therefore sought to fill these empirical, contextual and conceptual gaps by assessing the effect of audit committee characteristics on the quality of financial reporting in state corporations in Kenya.

### **1.2 Objectives of the Study**

1. To analyze the effect of audit committee expertise on the quality of financial reporting in state corporations in Kenya
2. To determine the effect of audit committee independence on quality of financial reporting in state corporations in Kenya.

### **1.3 Research Hypotheses**

H01: Audit committee expertise has no significant effect on quality of financial reporting in the state corporations in Kenya

H02: Audit committee independence has no significant effect on quality of financial reporting in the state corporations In Kenya

## **II. Review of Literature**

### **2.1 Theoretical Framework**

#### **a. Institutional Theory**

The institutional theory was put forward by Schneider (1984), in an aim to expound how institutions operate and how they achieve their autonomy for effectiveness and efficiency. The theory describes organizations as a socially-connected entity, where individuals (people) have varied relations and roles, which in turn form the mandate of the organization (Goodwin, 2004). It is recommended that the firm's outer image be linked inexactly with its operating cycles (Sterck and Bouckaert, 2006). The theory was relevant in explicating the audit committee expertise variable and its influence on quality of financial reporting (Zamzulaila, Zarina, & Dalila, 2007). Chang and Sun (2017) posit that audit committee officials exercises to cover personal responsibility conduct which influences administration conveyance. Bedard and Gendron (2016) argued that an audit committee which has included at least one member with money related and administration skill is powerful in lessening the profit the executives rehearses which influences delivery of services.

#### **b. Agency Theory**

The agency theory by Jensen and Meckling (1976) is one of the effective theories in addressing the relationship between appointees (audit committee) and the appointing authority as far as achieving their mandate (ensuring quality of financial reporting) is concerned. The theory clarifies the connection between the directors and operators (Hannafey and Vitulano, 2013). As indicated by Bosse and Phillips (2016), the agency theory can be utilized to comprehend different ventures' exercises as the predominant hypothesis of monetary endeavour and the board. In any case, when specialists are selected, they will in general be pioneering, putting their enthusiasm in front of the chiefs (Evans and Tourish, 2016).

In this study, the theory was relevant in explicating the audit committee independence variable and how it influences the quality of financial reporting. Kallamu and Saat (2015) stated that the board of directors should put proper mechanisms in place such as ensuring the independence of the audit committee to reduce corrupt practices by agents. Quality financial reporting can be accomplished, as per agency theory, when competing interests are addressed in a timely manner, a function that audit committees can effectively perform.

## **2.2 Empirical Literature**

### **a. Audit Committee Expertise and Quality of Financial Reporting**

Kirui (2022) carried out a study on the effect of audit committee characteristics on the audit effectiveness in Kericho County, Kenya. The study focused on the frequency of audit committee meetings, the independence of the committee, the tenure of the committee and the financial expertise of the committee. The findings revealed that the financial expertise of the audit committee had a significant effect on the audit effectiveness of the county government of Kericho. According to Kirui (2022), continuous training of the audit committee members on financial skills and their level of experience in the financial auditing was integral in enhancing their ability to contribute to the effectiveness of the audits in the county. Saeed *et al.* (2018) assessed the role of audit committee expertise on the timeliness of financial reporting in state corporations in Oman. The findings indicated that the auditing board's financial competence had a significant influence on financial reporting timing. Velte (2018) conducted a study on the role played by competencies and skills (expertise) of the audit committees on clarity and dependability of the financial reports European organizations.

### **b. Audit Committee Independence and Quality of Financial Reporting**

Alkebeese, Tian, Garefalakis, Koutoupis, and Kyriakogkonas (2022) assessed the role of audit committee's independence on the quality of financial reporting in China. The study focused on public entities in the manufacturing sector. The findings revealed that the independence of audit committee members had a significant impact on the quality of financial reporting. The results further showed that the quality of financial reporting dependent upon the individual commitment of the audit committee members, which was on the other hand influenced by the independence of the members.

In addition, Oji and Ofoegbu (2017) investigated the impact of auditing board independence on the financial reporting quality of Nigerian publicly listed companies. The findings revealed that audit committee autonomy has a considerable detrimental impact on the quality of financial reporting of publicly traded companies. Musa, Oloruntoba, and Oba (2017) investigated the link between audit committee independence and the quality of deposit bank financial reporting in Nigeria. The findings revealed that the independence of audit committees and the quality of financial reporting are closely connected. The authors alluded that an independent audit committee is more effective and committed to achieve the organizational goals through promoting quality financial reporting.

### **c. Quality of Financial Reporting**

Features that generate usefulness of information provided to the consumer of financial statements should be embedded by financial reporting quality. These features, as indicated by Malo-Alain *et al.* (2021) are known as qualitative features of financial reporting. They comprise of enhancing characteristics such as comparability, understandability, timeliness and verifiability as well as fundamental characteristics such as faithful representation and relevance. As postulated by Beest *et al.*, (2019) the content of financial reporting is determined by fundamental features while its decision usefulness is improved on by the enhancing features.

Braam and Beest (2018) indicated that the financial information is said to be neutral and complete if it is verifiable, meaning that various consumers of the information agree on the faithful representation of the reports. Ensuring better financial reporting is also termed as a way of increasing the usability of financial reports, thus promoting effectiveness and efficiency in an organization. According to Salehi et al. (2021), the more organizations strengthen their focus on ensuring better quality in financial reporting, the more it becomes for stakeholders to trace and track the clarity of the financial reports. According to Jonas and Blanchet (2018) clearly and concisely presented information promotes users' comprehension of what it means because it is regarded as understandable. According to Tran (2022) and Braam and Beest (2018), timely posted financial reports are more useful than the late ones, since they show the company's commitment to reporting to stakeholders on time. It also raises doubts on the credibility of financial reports if the reporting is not done on time.

### 2.3 Conceptual Framework

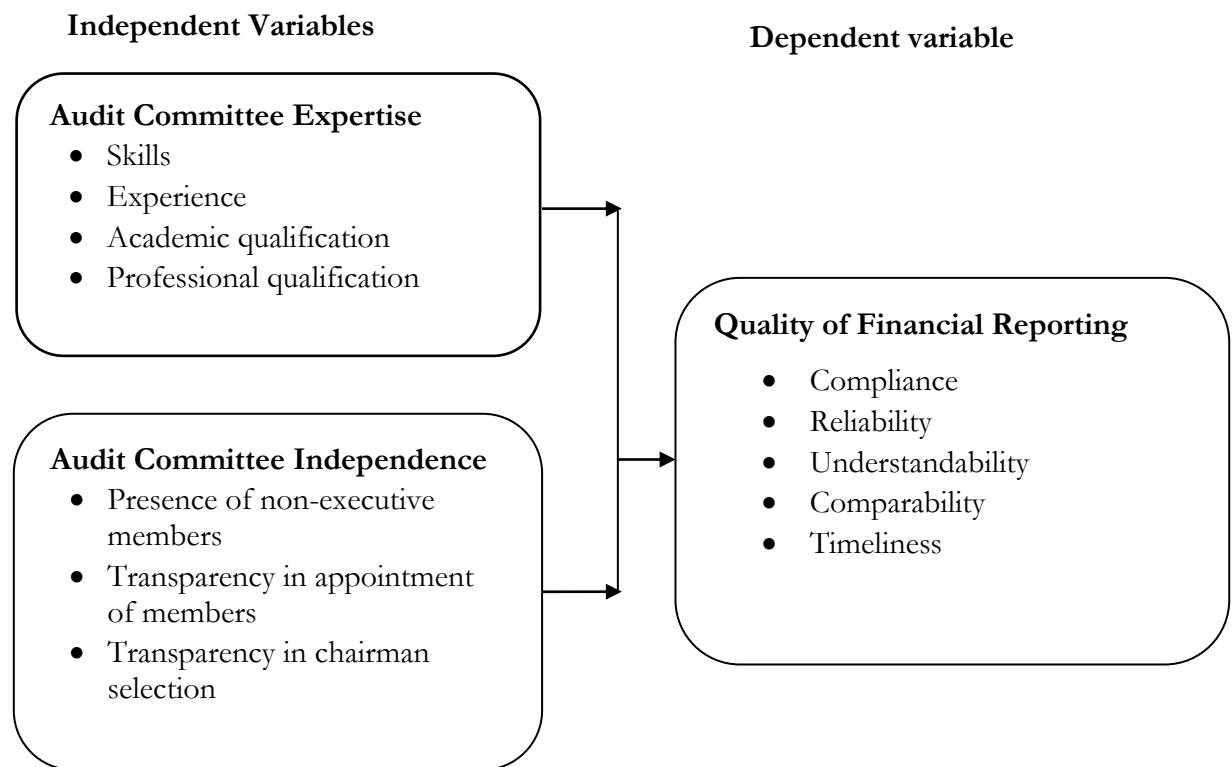


Figure 1. Conceptual Framework

## III. Research Methods

### 3.1 Research Design

The study employed an explanatory research design. An explanatory research approach aims at distinguishing the degree and nature of cause-impact connections of the study factors. This kind of study is related with more noteworthy degrees of internal legitimacy because of precise choice of subjects.

### 3.2 Targeted Population

The target population was 187 government owned companies in Kenya. These corporations are distributed across various categories which include: State Corporations with Commercial

Strategic Functions, Commercial State Corporations, Regulatory Agencies, Public Universities, Research Institutions, Training Institutions and Tertiary Education, and Executive Agencies

### 3.3 Sampling and Sample Size

This study utilized a stratified random sampling to select the sample size. This technique ensures that the population is well represented across different clusters. To establish the appropriate sample size for the study, a sampling formula by Yamane (1967) was used. The formula is as shown:

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = sample size, N = Population size (187), e = Margin error of the study set at  $\pm 5\%$  (0.05)

The sample size was therefore computed as follows:

$$= \frac{187}{1 + 187(0.05)^2}$$

= 127 which is 68% of the total population.

To sample the units of analysis (state corporations), a stratified random sampling technique was employed in realizing the sample of 127 corporations.

### 3.4 Data Collection Instruments and Procedures

The study relied on primary data collected primarily through the use of a structured questionnaire. The questionnaire contained closed and open-ended items arranged by the study factors or the objectives. The “drop and pick” technique was used. The respondents were given a period of one week to read, understand, and respond to the questions.

### 3.5 Data Analysis

In this study, data analysis was carried out by first organizing, cleaning and coding the data into the Statistical Package for Social Sciences (SPSS Version 26). Descriptive statistics as defined by Saunders (2019) are the information that outlines what was observed by quantifying the observations. In this case, the study used statistics such as mean, standard deviation, percentages and frequencies. Inferential analysis was on the other hand used to determine the connection between the predictor (independent) variables and the predicted (dependent) variable. This was done through use of the linear regression model. The below regression equation was used to guide the regression analysis:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

Whereby;

**Y** = Quality of financial reporting

**X<sub>1</sub>** = Audit committee expertise,

**X<sub>2</sub>** = Audit committee tenure

**X<sub>3</sub>** = Audit committee independence

**X<sub>4</sub>** = Audit committee diversity.

**β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub>, & β<sub>4</sub>**. coefficients; **ε**-error term.

**ε** = Error Term

## IV. Results and Discussion

### 4.1 Rate of Response

In this study, the researcher had sampled 127 respondents from the audit committee chairs of the sampled state corporations. The questionnaires were delivered to the 127 sampled respondents, where 120 respondents returned the dully filled questionnaires. This signifies a 94% response rate. According to Kothari (2014), a response rate of above 60% is an adequate representation of the sample size.

### 4.2 Descriptive Analysis of the Findings

#### a. Audit Committee Expertise

The study sought to assess the effect of audit committee expertise on the quality of financial reporting in state corporations in Kenya. The audit committee expertise was assessed using the skills of the committee, the committee's experience, academic qualification of the members and the professional qualification. The respondents were asked to indicate their level of agreement or disagreement with key statements drawn from key aspects of audit committee expertise. Table 1 shows the findings.

*Table 1. Respondents' level of agreement on Audit Committee Expertise*

	Statements	Mean	Std. Dev.
My corporation has placed well skilled persons in the audit committee		3.15	1.455
Experience is a determining factor while selecting the audit committee members		2.70	1.381
Members of audit committee possess the necessary educational background		2.39	1.355
Professionalism in finance and accounting are common aspects for the members of the audit committee		2.65	1.325
Audit committee members have the basics of governance and management of risks		2.85	1.319
The audit committee members regularly go for training workshops and seminars		3.00	1.460

As the findings on Table 1 portray, the respondents disagreed that the audit committee members in their respective corporations were adequately skilled to run the audit processes, while majority disagreed that the experience of an individual was a key factor considered before they were selected to be members of the audit committee (Mean = 2.70; Standard deviation = 1.381). The findings are in line with those by Velte (2018) who established that insufficient skills and competencies among the audit committee is evident in most public entities in Sub-Saharan Africa, thus affecting the quality of financial reporting. The findings concur with those by Sagitaria and Mita (2019) who established that audit committees fail to achieve their mandate of ensuring appropriate and quality of financial reporting due to lack of the key skills and expertise among the members.

#### b. Audit Committee Independence

The study assessed the effect of audit committee independence on quality of financial reporting in state corporations in Kenya. The audit committee independence was assessed using the presence of non-executive members, transparency in appointment of the members and transparency in chairman selection. The respondents were asked to indicate their level of agreement or disagreement with key statements drawn from these aspects of audit committee independence, and the findings are as presented in Table 2.

**Table 2. Respondents' Level of Agreement on Committee Independence**

	<b>Statements Mean</b>	<b>Std. Dev.</b>
Audit committee within the company has non-executive members	2.52	1.222
Transparency is observed in the selection of chairman for the committee	2.95	1.413
Appointment of audit committee members is transparent and clear to all the stakeholders	2.83	1.330
The individuals composing the audit committee have no connection with the directors	2.71	1.329
Declarations for conflicts of interest is a necessity for audit committee members before taking their respective positions in the committee	2.93	1.382
The committee has controlled right to access and use the organization's documentations or databases	2.80	1.260
There is sufficient funding supplied to the audit committee	2.81	1.302

As shown in Table 2, most of the respondents disagreed that audit committees within the corporations had non-executive members and that the committees had controlled right to access and use the organisations' documentations or databases. The findings imply that there is insufficient independence in the audit committees, an aspect that according to Bello *et al.* (2017), affects the quality of financial reporting and the general effectiveness of audit committees in public sector. The findings also concur with those by Maqсад (2018) who established that without having an independent audit committee, corporations risk having compromised financial reporting, thus affecting the effectiveness of the entire audit process. The findings depict that the audit committee members were not independent in their decision making. According to Nurul *et al.* (2018), the independence of audit committees is an integral enabler of the effectiveness of the audit process which steers the quality of financial reporting.

### **c. Quality of Financial Reporting**

The study sought to establish the quality of financial reporting in state corporations in Kenya.

The opinions of the respondents were sought in regard to their level of agreement or disagreement on key statements on quality of financial reporting. A 5-points Likert's scale was used and the findings are as shown in Table 3.

**Table 3. Respondents' Level of Agreement on Quality of Financial Reporting**

	<b>Statements Mean</b>	<b>Std. Dev.</b>
Information that relates to business risks and opportunities are revealed in annual reports	2.49	1.289
Consumers of annual reports derive feedback from reported earnings concerning how the company was affected by significant transactions and various events	2.57	1.332
Sufficient and valid clarifications are provided by financial reports concerning estimates and assumptions made when preparing financial statements	2.76	1.476
When deliberating on annual results, both positive and negative events are highlighted in the financial reports in a balanced way	2.76	1.418
The annual report contains a lot of information on corporate governance issues.	2.59	1.184
In the annual report, there are detailed descriptions for the accounting standards chosen.	2.57	1.351
Financial report's information is categorized and its presentation is organised well	2.77	1.312

Financial statements' notes are clearly written and are easy to understand	2.37	1.237
Information presented in the annual report is clarified using tables and graphs	2.60	1.232
The technical jargon and language used in the annual report is easily understandable and glossary of jargon used in the report is included	2.25	1.310
The impact of accounting policy changes is detailed in the notes that refer to the changes.	2.80	1.231
In the notes to the revision, the impact of the modification of accounting estimates and judgment is described.	2.77	1.253
The findings of the preceding accounting period are compared to the current period's performance.	2.65	1.351
The yearly report includes financial ratios and other index numbers.	2.50	1.263
Changes in accounting estimates or accounting policy are included into prior accounting period figures.	2.74	1.312

As indicated in the findings in Table 3, most of the respondents disagreed that information that related to business risks and opportunities was revealed in annual reports. The findings imply that the quality of financial reporting in most of the surveyed state corporations has not been adequately achieved. According to a report by the Auditor General (2019), the quality of financial reporting in most of the state corporations fails to conform to the international standards, and this goes ahead to affect the effectiveness of the audit processes in the corporations.

#### 4.3 Correlation Analysis

The study sought to establish the correlation between the audit committee characteristics (audit committee expertise, and audit committee independence) and quality of financial reporting in state corporations in Kenya. The Pearson Correlation was used and the findings are as shown in Table 4.

**Table 4. Correlation Analysis Results**

		Quality of Financial Reporting	Audit Committee Expertise	Audit Committee Independence
Quality of Financial Reporting	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	120		
Audit Committee Expertise	Pearson Correlation	.463**	1	
	Sig. (2-tailed)	.000		
	N	120	120	
Audit Committee Independence	Pearson Correlation	.478**	.248**	1
	Sig. (2-tailed)	.000	.006	
	N	120	120	120

As the findings on Table 4 reveal, audit committee expertise has a positive and significant correlation with the quality of financial reporting in state corporations as shown a Pearson correlation coefficient (R) of 0.463 and a level of significance of  $0.000 < 0.05$ . The findings

further revealed that the correlation between audit committee independence and quality of financial reporting in state corporations in Kenya was positive and significant as shown by a Pearson correlation coefficient (R) of 0.478 and a level of significance (P-value) of  $0.000 < 0.05$ . The findings concur with those by Habib, Bhuiyan, and Wu (2021) who established that key characteristics of audit committees such as the independence of the committee and their level of expertise play a significant role in enhancing the quality of financial reporting.

#### 4.4 Regression Analysis

The study carried out a multiple regression analysis to establish the effect of the audit committee characteristics (audit committee expertise, and audit committee independence) on the quality of financial reporting in state corporations. Table 5 shows the findings.

**Table 5. Regression Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.151	.169		.892	.374
	Audit Committee Expertise	.241	.053	.281	4.571	.000
	Audit Committee Independence	.235	.059	.271	3.990	.000
F-Statistic (P-value)		53.163 (0.000 < 0.05)				
Adjusted R-Square		0.650				

a. Dependent Variable: Quality of Financial Reporting

As the findings on Table 5 portray, the R-square for the model was 0.650, an indication that when combined, the audit committee characteristics (audit committee expertise, and audit committee independence) will influence the variation of quality of financial reporting by 65.0%. As the results further portray, the F-statistic for the model was 51.163 at a significance level of  $0.000 < 0.05$ . This implies that the model can statistically predict the relationship between the combined audit committee characteristics (audit committee expertise, and audit committee independence) and quality of financial reporting in state corporations.

##### a. Audit Committee Expertise and Quality of Financial Reporting

The first null hypothesis of the study was that audit committee expertise has no significant effect on the quality of financial reporting in state corporations in Kenya. Based on the results (Table 5), therefore, the null hypothesis that audit committee expertise has not significant effect on the quality of financial reporting is rejected, and a conclusion drawn that audit committee expertise has a significant effect on the quality of financial reporting in state corporations in Kenya. The findings are in concurrence with those by Velte (2018) who indicated that the expertise of an audit committee is an instrumental characteristic that ensures the full commitment for the committee towards enhancing the quality of financial reporting.

According to Kirui (2022), by having the appropriate pool of skills and competencies, the committee can actively advocate for enhanced quality of financial reporting since they already understand and aware of what is required as far as financial reporting is concerned.

### **b. Audit Committee Independence and Quality of Financial Reporting**

The third hypothesis of the study was that audit committee independence has no significant effect on the quality of financial reporting in state corporations in Kenya. As the results on Table 4.5 portray, audit committee independence had a significant influence on the quality of financial reporting in state corporations in Kenya, thus the hypothesis that audit committee independence does not significantly influence quality of financial reporting was rejected. The findings compare with those by Alkebsee *et al.* (2022) who indicated that independence is a key factor in the audit committee that enables the committee to act fully and unconditionally to ensure quality financial reporting. According to Oji and Ofoegbu (2017), for quality to be achieved in financial reporting, there is need for organizations to have audit committees that are not controlled by any third-party and independent of any social influence.

## **V. Conclusion**

### **5.1 Conclusions of the Study**

Based on the findings, the study concluded that audit committee expertise is key in enhancing financial reporting quality. The study also concluded that professional qualifications in finance and accounting are paramount aspects for the members of the audit committee.

The study further concluded that the expertise of audit committee in educational qualifications had a significant influence on financial reporting timing. The study also concluded that experience was a key determining factor while selecting the audit committee members.

The study concluded that an independent audit committee plays its role better as compared to non-independent committees and one benefit of this independence is to improve the quality of financial reporting. Inclusion of non-executive committee members ensures that there are no conflicts of interests hence ensuring shareholders' interests supersedes self-interests. The study further concluded that declarations for conflict of interest is a necessity for audit committee members before taking their respective positions in the committee.

### **5.2 Recommendations of the Study**

Based on the findings, the study recommends that in composition of the audit committees, emphasis should be placed on the professionalism of the committee members in finance and accounting. The study also recommends that audit committee members be regularly taken for training workshops and seminars on quality financial reporting. The study also recommends that the audit committees should be accorded full independence to carry out their duties free from interference and undue influence. Autonomous decision making should be enhanced for the audit committees.

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