

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.



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ABSTRACT: Fraudulent financial reporting poses significant risks to the integrity of financial markets, investor confidence, and the overall economy. As a result, effective corporate governance mechanisms are crucial in mitigating the occurrence of fraudulent activities. The audit committee, as a key component of corporate governance, plays a vital role in overseeing financial reporting and providing assurance on the reliability of financial statements. This paper aims to explore the effects of audit committee characteristics on fraudulent financial reporting of listed firms in Kenya. Specifically, the study assessed the effect of Audit Committee; gender, financial expertise, size and independence on fraudulent financial reporting. The study was anchored on the Fraud Pentagon theory. Explanatory research design and longitudinal research design was employed in this study where secondary panel data was obtained through content analysis from audited financial statements spanning from 2012 to 2021. The study targeted listed firms in Kenya during the study period and only firms that met the inclusion and exclusion criteria were retained. After applying the inclusion/exclusion criteria only 40 firms formed the study population. Data was analyzed using descriptive and inferential statistics with the significance of each independent variable being tested at 95% confidence level. The findings show that Gender ($\beta_1 = -.1154, p=.000<.05$) and Financial expertise ($\beta_2 = -.200, p=.000<.05$), Size ($\beta_3 = -.1457, p=.001<.05$), and Independence ($\beta_4 = -.1818, p=.000<.05$) had negative and significant effect on fraudulent financial reporting on firms in Kenya. Thus, the study concluded that audit committee characteristics such as gender variability, audit committee size, audit committee financial expertise and audit committee independence significantly influence fraudulent financial reported among listed firms in Kenya. Based on the findings, the study recommends enhancing the effectiveness of the audit committee in preventing fraudulent financial reporting, organizations should strive for gender diversity within the committee. This can be achieved by actively seeking and appointing qualified female candidates to the audit committee. Promoting diversity ensures a range of perspectives and experiences, leading to more robust discussions, increased scrutiny of financial reporting practices, and improved decision-making. Secondly, Organizations should prioritize the independence of the audit committee by ensuring that committee members are free from any conflicts of interest and have no direct ties to management. Additionally, Organizations should carefully consider the size of the audit committee to optimize its effectiveness in addressing fraudulent financial reporting. Lastly, Organizations should establish mechanisms for continuous monitoring and evaluation of the audit committee's performance. Regular assessments of the committee's effectiveness in detecting and preventing fraudulent financial reporting can help identify areas for improvement.

KEYWORDS: Gender, Audit committee size, financial expertise, independence, fraudulent financial reporting

INTRODUCTION

Fraudulent financial reporting poses significant risks to the integrity of financial markets, investor confidence, and the overall economy (Jaswadi, Purnomo & Sumiadji, 2022). As a result, effective corporate governance mechanisms are crucial in mitigating the occurrence of fraudulent activities (Rehman & Hashim, 2020). The audit committee, as a key component of corporate governance, plays a vital role in overseeing financial reporting and providing assurance on the reliability of financial statements. This paper aims to explore the effects of audit committee factors, such as gender diversity, independence, financial expertise, and size, on fraudulent financial reporting of listed firms in Kenya.

Gender diversity within the audit committee refers to the presence of both male and female members on the committee. Alkebesee et al., (2021) suggests that gender diversity can enhance the effectiveness of the audit committee in preventing fraudulent

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

financial reporting. A diverse committee brings a broader range of perspectives, experiences, and skills, which can lead to more robust discussions, better decision-making, and increased scrutiny of financial reporting practices (Miglani & Ahmed, (2019). Consequently, gender diversity may act as a deterrent to fraudulent activities by improving oversight and accountability within listed firms (Chijoke-Mgbame et al., (2020).

Independence is a crucial characteristic of an effective audit committee (Buallay & Al-Ajmi, 2020). Independence ensures that the committee members are not unduly influenced or compromised by management. Independent audit committees are better positioned to provide unbiased assessments of financial reporting practices, challenge management's judgments, and exercise due diligence in detecting and preventing fraudulent activities (Pozzoli, Pagani & Paolone, 2022). The presence of independent audit committee members reduces the likelihood of collusion between management and auditors, enhancing the committee's effectiveness in mitigating fraudulent financial reporting risks

Financial expertise refers to the knowledge, skills, and experience of audit committee members in financial reporting and analysis (Khemakhem & Fontaine, 2019). Members with financial expertise possess a deep understanding of accounting principles, auditing standards, and financial statement analysis. Their expertise enables them to critically assess the accuracy, completeness, and fairness of financial statements, reducing the likelihood of fraudulent financial reporting (Sultana, Singh & Rahman, 2019). Financially literate committee members can effectively evaluate complex transactions, identify red flags, and engage in meaningful discussions with management and auditors, enhancing the committee's ability to detect and deter fraud.

The size of the audit committee refers to the number of members serving on the committee (Al Farooque, Buachoom & Sun, 2020). Dakhlallah et al., (2020) suggests that larger audit committees may be more effective in curbing fraudulent financial reporting. Larger committees provide a broader range of skills, knowledge, and experience, which can enhance the committee's collective expertise in financial oversight. Additionally, larger committees are more likely to allocate sufficient time and resources to their oversight responsibilities, ensuring comprehensive scrutiny of financial reporting practices. The presence of multiple committee members increases the likelihood of identifying irregularities, encouraging open dialogue, and challenging management's assertions.

Fraudulent financial reporting poses significant challenges to the integrity of financial markets and the trust of stakeholders in listed firms (Roszkowska, 2021). In the Kenyan context, where corporate governance practices are crucial for investor confidence and market stability, the role of the audit committee in preventing and detecting fraudulent financial reporting is of utmost importance (Herbert & Agwor, 2021). However, the specific effects of audit committee factors such as gender diversity, independence, financial expertise, and size on fraudulent financial reporting in listed firms in Kenya have not been extensively explored.

Firstly, the issue of gender diversity within the audit committee requires investigation (Miglani, & Ahmed, 2019). The representation of both male and female members in the committee may have an impact on the committee's effectiveness in identifying and preventing fraudulent financial reporting. The extent to which gender diversity influences the committee's ability to provide critical oversight, ask challenging questions, and offer diverse perspectives remains unclear in the Kenyan context. Secondly, the independence of the audit committee is a crucial determinant of its effectiveness in addressing fraudulent financial reporting. Independent committee members are expected to maintain objectivity, exercise professional skepticism, and act in the best interests of the firm and its stakeholders (Miglani, & Ahmed, 2019). However, the specific effects of audit committee independence on fraudulent financial reporting in listed firms in Kenya require further examination to understand the extent to which independent committees can effectively identify and prevent fraudulent activities.

Thirdly, the financial expertise of audit committee members is essential in evaluating financial statements, assessing internal controls, and detecting potential fraud indicators (Chukwu & Nwabochi, 2019). The impact of financial expertise on the committee's ability to identify irregularities, ask probing questions, and provide valuable insights into financial reporting practices needs to be explored within the Kenyan context. Understanding the effects of financial expertise on fraudulent financial reporting is crucial for assessing the adequacy of skillsets within audit committees. Lastly, the size of the audit committee may have implications for its effectiveness in addressing fraudulent financial reporting. Larger committees have the potential to bring diverse skills, experiences, and knowledge to the table, thereby enhancing their ability to identify red flags and engage in meaningful discussions. However, the specific effects of committee size on fraudulent financial reporting in listed firms in Kenya require further investigation to determine whether larger committees are more effective in detecting and preventing fraudulent activities (Miglani, & Ahmed, 2019). By addressing these gaps in the literature, this study aims to shed light on the effects of audit committee factors, including gender diversity, independence, financial expertise, and size, on fraudulent financial reporting in listed firms in Kenya. The findings will contribute to enhancing corporate governance practices, improving the effectiveness of audit committees, and safeguarding the integrity of financial reporting in the Kenyan business environment

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

LITERATURE REVIEW

In a study that was carried out by Dewi and Anisykurlillah, (2021), the researchers wanted to investigate how the fraud pentagon affected false financial statements with the audit committee serving as a moderating variable. Companies in the property, real estate, and construction industries that were listed on the Indonesia Stock Exchange between the years 2016 and 2018 made up the study's population. Purposive sampling was utilized as the method for collecting data, and the results were 52 companies and 156 units of analysis. Logistic regression analysis utilizing IBM SPSS Version 26 was used to make sense of the collected data. According to the findings, the expansion of the company had a beneficial effect on the number of fake financial statements. During this time, fraudulent financial statements were not affected by the quality of external auditors, the efficacy of oversight, the years of experience held by directors, or the presence of a dual CEO. The influence of firm development, the efficiency of monitoring, and the experience of directors on misleading financial statements was greatly reduced by the audit committee. On the other hand, the effect of the quality of the external auditors and the CEO duality on misleading financial statements was not moderated by the audit committee. According to the findings of this study, the number of fake financial statements will increase as the growth of the organization does as well. The presence of an audit committee reduces the impact of factors such as the efficiency of monitoring and the years of experience held by directors on the likelihood of misleading financial statements.

Another investigation into this topic was carried out by Mardessi (2022), who wanted to investigate the relationship between the characteristics of audit committees (such as audit committee independence, financial expertise, meeting frequency, gender diversity, and ethnic composition) and the likelihood of fraudulent financial reporting. 116 companies, both fraudulent and legitimate, that were listed on Bursa Malaysia between the years 2005 and 2010 make up the sample. According to the findings of the study, a lack of independence on the part of audit committees is positively associated with fraudulent financial reporting. The committee's exposure to the risk of financial fraud increases inversely with the proportion of independent or outside directors that it contains, and vice versa. The findings also demonstrated that a high level of knowledge among members of the audit committee has an inverse relationship with the incidence of corporate fraud. This suggested that audit committee members who are financially literate are more competent to stop dishonest financial reporting when they are members of the committee. On the other hand, the findings on the frequency of audit committee meetings, gender, and ethnicity all show that there was no relationship between these characteristics and corporate fraud. The findings of the study held up even when additional factors peculiar to the firm were taken into account.

Marzuki et al. (2019) conducted research to determine whether or not there is a relationship between the features of audit committees, the diversity of boards of directors, and the likelihood that Malaysian companies will commit fraud. They came to this conclusion after doing research spanning the years 2002–2014 using a matched-pair sample of 64 observations. Their findings indicated that there is limited evidence to imply that audit committee characteristics matter. On the other hand, they discovered that the chance of fraud was inversely proportional to the number of female directors that were on the board. The findings brought to light the significance of the effectiveness of the audit committee as well as the relative importance of women serving on corporate boards in Malaysia. When we take into account a fundamental shift in the policies governing corporate governance in Malaysia, their findings hold up well.

RESEARCH METHODOLOGY

Research Design

This study utilized both an explanatory and longitudinal methodology. By explicating or elucidating a problem in terms of causal relationships, an explanatory design facilitates the identification of factors that influence a particular phenomenon. This design allows the researcher to revisit a problem with the intention of constructing, elaborating, extending, or testing a theory by identifying quantitatively important variables in the problem at hand (Kamal, 2019). According to Hunziker et al., (2021), longitudinal research is applicable when each subject or experimental unit is measured (or observed) at more than one time point. From 2012 to 2021, data were compiled for 40 firms, which led to the adoption of this design.

Data Type and Source

The majority of the quantitative data used in the study came from secondary sources. The annual audited financial reports of each individual company served as the source of the data for this investigation. Utilization of this existing data provides a feasible alternative for researchers who may have limited time and resources, require opportunity for longitudinal analysis, and need for reanalysis, which may offer new interpretations. The target population consisted of listed companies that had been incorporated with the Nairobi stock exchange between 2012 and 2021. There were 63 registered firms in Kenya, according to reports. In spite of this, the implementation of inclusion and exclusion criteria resulted in the eligibility of forty organizations for conducting research. Inclusion and exclusion criteria were based on whether or not a company was fully operational throughout the entire

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

study period, data availability, and whether or not the company underwent significant reorganizational changes that hindered its financial reporting.

Data Analysis Method

In this particular investigation, the likelihood of financial statement fraud is employed as the dependent variable. In light of this, the Benish M-Score model served as the basis for determining how likely it was that false information had been included in financial statements. Beneish model is a statistical or mathematical model that uses eight financial measurements from corporate accounting data, weighted by a coefficient, to compute the high probability of whether the company's reported earnings have been manipulated.

Beneish M-Score = $-4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SFI + 0.115*DEPI - 0.172*SGAI + 4.679*TATA - 0.327*LVGI$.

Where DSIR = Days Sales in Receivables Index GMI= Gross Margin Index (GMI), AQI= Asset Quality Index, SGI= Sales Growth Index, DEPI = Depreciation Index, SGAI= Sales General and Administrative Expenses Index, TATA = Total Accruals to Total Assets, LVGI= Leverage Index. The Beneish Model variables are derived from the income statement and balance sheet accounts. Using the Beneish Model, forensic accountants determine the M-score of a business. Based on their M-scores, companies are categorized. -2.22 is the limit value of the M-score. A company is unlikely to be a manipulator if the calculated manipulation score is lower than the threshold value. And, vice versa, M-Score will be used to detect false financial statements in this study if the calculated manipulation score exceeds the limit value, indicating that an enterprise is likely to manage earnings. If M Score is greater than -2.22 (a positive or less negative value than this), the company is said to commit financial statement fraud; if M Score is less than -2.22 (a negative value greater than this), the company is said not to commit financial statement fraud.

Independent variables of the study were measured as follows:

$$\text{Gender diversity} = \frac{\text{Female members of audit committee}}{\text{Total board members of audit committee}}$$

$$\text{Board Independence} = \frac{\text{Independent board members of the audit committee}}{\text{Total board members of audit committee}}$$

$$\text{Financial expertise of Board} = \frac{\text{Board members with financial expertise}}{\text{Total board members of audit committee}}$$

$$\text{Board Size} = \text{Total number of members in the audit committee}$$

Data was analyzed using descriptive (mean, standard deviation, minimum and maximum) and inferential statistics (correlation and multiple regression). Hypotheses were tested and the probability values and beta coefficients interpreted the findings.

ANALYSIS AND DISCUSSION

Descriptive statistics

Variables	Obs.	Mean	Std. dev.	Minimum	maximum
M-SCORE	400	0.289	0.454	0	1
Gender	400	0.347	0.781	0	6
Financial Expertise	400	0.548	0.4509	1	15
Size	400	0.213	0.6867	5	12
Independence	400	0.304	0.756	0	7

Source: (Field data, 2022)

The M-SCORE variable has a mean of 0.289 and a standard deviation of 0.454. The values for M-SCORE range from 0 to 1. The Gender variable has a mean of approximately 0.347 and a standard deviation of 0.781. The minimum value is 0, and the maximum value is 6. The mean being less than 0.5 indicates that, on average, there are more observations in the lower category. However, the relatively high standard deviation suggests a wide variation in gender representation among the observations.

The Financial Expertise variable has a mean of 0.548 and a standard deviation of 0.4509. The values for Financial Expertise range from 1 to 15. This variable appears to measure the level of financial expertise, and the mean indicates a relatively moderate level

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

of financial expertise among the observations. The Size variable has a mean of approximately 0.213 and a standard deviation of 0.6867. The values for Size range from 5 to 12. Without additional context, it is not clear what this variable represents. However, the mean being less than 0.5 suggests that, on average, the observations might have a lower Size value. The Independence variable has a mean of 0.304 and a standard deviation of 0.756. The values for Independence range from 0 to 7.

Stationarity Results

	Fisher-Type Unit root	
	Statistic	p-value
M-score	198.8760	0.000
Gender	-17.238	0.002
Financial Expertise	-14.930	0.000
Size	-19.309	0.000
Independence	-22.189	0.000

Source: (Field data, 2022)

The Fisher-Type unit root statistic for M-SCORE is 198.8760 with a p-value of 0.000. The p-value is less than the significance level of 0.05 (commonly used), indicating strong evidence to reject the null hypothesis of a unit root. Therefore, M-SCORE is stationary, meaning it does not exhibit a stochastic trend over time. The Fisher-Type unit root statistic for Gender is -17.238 with a p-value of 0.002. Similar to M-SCORE, the p-value is less than 0.05, indicating strong evidence to reject the null hypothesis of a unit root. Therefore, the Gender variable is also stationary. The Fisher-Type unit root statistic for Financial Expertise is -14.930 with a p-value of 0.000. As the p-value is less than 0.05, there is strong evidence to reject the null hypothesis of a unit root. This means that Financial Expertise is stationary. The Fisher-Type unit root statistic for Size is -19.309 with a p-value of 0.000. The p-value is less than 0.05, providing strong evidence to reject the null hypothesis of a unit root. Hence, the Size variable is stationary. The Fisher-Type unit root statistic for Independence is -22.189 with a p-value of 0.000. As the p-value is less than 0.05, there is strong evidence to reject the null hypothesis of a unit root. This indicates that the Independence variable is also stationary. In summary, all the variables (M-SCORE, Gender, Financial Expertise, Size, and Independence) are found to be stationary based on the Fisher-Type unit root test.

Correlation

	M-SCORE	Gender	Financial Expertise	Size	Independence
M-SCORE	1.0000				
Gender	-0.1610*	1.0000			
Financial Expertise	-0.4015	0.3996*	1.0000		
Size	-0.6177*	-0.0149	-0.1074	1.0000	
Independence	0.1040	-0.2186*	0.1463*	0.5070*	1.0000

Source: (Field data, 2022)

Results in Table 4.3 indicate that gender is negatively related with fraudulent financial reporting ($r = -0.1610$, $p < 0.05$). Consequently the higher the gender variability, the less likely a firm will engage in fraudulent financial reporting. Results further show that audit committee size is negatively related with fraudulent financial reporting ($r = -0.6177$, $p < 0.05$). Therefore, the higher the audit committee size, the lower the possibility of fraudulent financial reporting. Additionally, the correlation results indicate that financial expertise is positively related to fraudulent financial reporting ($r = 0.3996$, $p < 0.05$). Thus, an increase of financial expertise of members will also increase gender variability.

Hausman test

Mscore	(b) Fe	(B) Re	(b-B) Difference	Sqrt(diag(V _b -V _B))
Gender	.4859986	.473671	.0123515	0.016113

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

Financial expertise	-.0908141	-.0817645	-.0090495	0.0120752
Size	.0839172	.0871272	-.00321	0.0019362
Independence	-.029387	-.0419973	.0126103	0.0092019

b= consistent under H0 and Ha; obtained from xtreg

B= inconsistent under Ha, efficient under H0; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$Ch2(4) = (b-B)' \{ (V b - VB)^{-1} \} (b-B)$

= 4.14

Prob>chi2=0.0393

Typically, panel data is analyzed using the random effect regression model or the fixed effect regression model to derive the model's results. Nonetheless, the hausman test is typically used to determine whether to employ the fixed effect regression model or the random effect regression model. The Hausman test investigates the correlation between the unique error and the regressors. The hausmann test null hypothesis holds that the random regression model is adequate, whereas the fixed effect model holds that the fixed effect regression model is adequate. When the null hypothesis is rejected ($p < 0.05$), the fixed effect regression model is the most effective, whereas when the null hypothesis is accepted ($p > 0.05$), the random effect regression model is the most effective. The study used a random effect regression model, as displayed in Table 4.4 below. This is supported by a p value of 0.0393, which is greater than 0.05 and therefore indicates that the null hypothesis was accepted.

Normality test

Jarque Bera normality test

Jarque-Bera test for H0: normality

Jarque-Bera test: 4.979 Chi(2) = 0.067

Source: (Field data, 2022)

Table 4.5 demonstrates that the chi (2) p value is 0.067, which was greater than 0.05 and indicates that the null hypothesis was not ruled out. The implication was that the premise of normal distribution was not broken.

Autocorrelation test

	Chi(2)	df	Prob>chi(2)
Durbin Watson Test d statistic:		1.8674	

Source: (Field data, 2022)

In this case, with a Durbin-Watson test statistic of 1.8674, the value is closer to 2, indicating that there is little to no significant autocorrelation in the residuals of the regression model. This suggests that the error terms are likely uncorrelated, and the assumptions of the regression analysis are reasonably met. A Durbin-Watson test statistic of 1.8674 is within the range of values close to 2, which provides confidence in the regression analysis results. However, it is still essential to verify the assumptions thoroughly and ensure that other relevant diagnostic tests are conducted to confirm the validity and reliability of the regression model.

Multicollinearity test

Variable	VIF	Tolerance (1/VIF)
Gender	1.33	.752
Financial Expertise	1.35	.741
Size	1.39	.719
Independence	1.02	.980
Mean VIF	1.27	

Source: (Field data, 2022)

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

The presence of a high correlation between one or more study variables and one or more of the other independent variables was examined using the multicollinearity test. The Variance Inflation Factor (VIF) calculated the inflated variances due to linear dependence with other explanatory factors and assessed the correlation between the predictor variables. Multi-collinearity is indicated by VIFs of 10 or greater. The VIF test yielded scores ranging from 1.02 to 1.39 as shown by table 4.7. The mean VIF value of 1.27 which smaller than the generally accepted thumb rule of 10, indicates that there is no multicollinearity among the independent variables.

Homoscedasticity

Source	Chi(2)	df	Prob>chi(2)
White test for heteroscedasticity	22.51	15	0.0978

Source: (Field data, 2022)

Since the p-value (0.0978) is greater than the common significance level of 0.05, we do not have sufficient evidence to reject the null hypothesis of homoscedasticity. In other words, there is no significant evidence to suggest that the residuals exhibit heteroscedasticity. Based on the White test results, it was concluded that the assumption of constant variance of the residuals (homoscedasticity) in the regression model was met.

Model Estimation

Random-effects GLS regression	Number of obs	= 400
	Number of groups	= 40
	Obs per group: min	= 10
	Avg	= 10.0
	Max	= 10
	Wald chi2(6)	= 128.44
	Prob > chi2	= 0.0000

PD	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]
Gender	-.1154078	.0327309	-3.53	0.000	-.0512564 - .1795592
Financial Expertise size	-.2000962	.0457739	-4.37	0.000	-.110381 - .2898113
Independence	-.1456905	.0414701	-3.51	0.000	-.2269704 - .0644105
_cons	-.1817874	.054475	-3.34	0.001	-.0750183 - .2885564
	.88394	.1542255	5.73	0.000	.5816637 1.186216

Source: (Field data, 2022)

Testing of Hypotheses

H₀₁: Gender has no significant effect on fraudulent financial reporting among listed firms in Kenya. Based on the findings on model in table 4.9 ($\beta_1 = -.1154078$, $p = .000 < 0.05$), hypothesis 1 was rejected; and the study concluded that gender composition reduces the likelihood of fraudulent financial reporting among listed firms in Kenya. The findings are supported by previous studies done by Kaituko, Githaiga, & Chelogoi, (2023) and Mwangi, (2018). The representation and influence of different genders in key positions within listed firms could play a crucial role. If there is greater gender diversity in decision-making roles, women may bring unique perspectives, ethics, and values to the table. Studies have shown that women, on average, tend to exhibit stronger ethical decision-making and risk aversion, which could contribute to a reduced likelihood of engaging in fraudulent practices. Secondly, the presence of a more inclusive and ethical organizational cultures that values transparency and accountability may be a contributing factor. Firms with better gender diversity may foster cultures that prioritize ethical conduct and corporate governance, leading to lower instances of fraudulent financial reporting.

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

H₀₂: Financial expertise has no significant effect on fraudulent financial reporting among listed firms in Kenya. Based on the findings on model in table 4.9 ($\beta_2 = -.2000962$, $p = .000 < 0.05$), hypothesis 2 was rejected; and the study concluded that gender composition reduces the likelihood of fraudulent financial reporting among listed firms in Kenya. The findings are supported by previous studies done by Owens-Jackson, Robinson & Waller Shelton, (2009) and Mwangi, (2018). Firstly, individuals with higher levels of financial expertise are likely to possess a deeper understanding of financial systems, accounting principles, and regulatory frameworks. This expertise equips them with the ability to detect irregularities or discrepancies in financial statements and transactions more effectively. As a result, they may be better equipped to identify and prevent fraudulent financial reporting practices. Secondly, a higher level of financial expertise could lead to increased awareness and adherence to ethical principles. Professionals with strong financial knowledge often have a clear understanding of the consequences of fraudulent behavior and the potential legal and reputational risks involved. This awareness may act as a deterrent against engaging in fraudulent activities.

H₀₃: Size has no significant effect on fraudulent financial reporting among listed firms in Kenya. Based on the findings on model in table 4.9 ($\beta_3 = -.1456905$, $p = .001 < 0.05$), hypothesis 3 was rejected; and the study concluded that gender composition reduces the likelihood of fraudulent financial reporting among listed firms in Kenya. The findings are supported by previous studies done by Owens-Jackson, Robinson & Waller Shelton, (2009) and Teguh & Kristanto, (2020). Firstly, larger firms often have more extensive resources, including robust internal control systems, internal audit functions, and compliance teams. These resources enable them to implement and enforce stricter financial reporting procedures and monitor financial activities more effectively. As a result, larger firms may be better equipped to detect and prevent fraudulent financial reporting compared to smaller firms. Secondly, larger firms typically face greater scrutiny from various stakeholders, such as investors, regulators, and the public. The heightened level of scrutiny may act as a deterrent against engaging in fraudulent activities, as the potential repercussions and damage to the firm's reputation are significantly higher.

H₀₄: Independence has no significant effect on fraudulent financial reporting among listed firms in Kenya. Based on the findings on model in table 4.9 ($\beta_4 = -.1817874$, $p = .000 < 0.05$), hypothesis 4 was rejected; and the study concluded that gender composition reduces the likelihood of fraudulent financial reporting among listed firms in Kenya. The findings are supported by previous studies done by Manurung & Hadian, (2013). Firstly, an independent board is more likely to act in the best interests of the company and its stakeholders, free from undue influence from management or other external parties. Independent directors are less likely to be swayed by personal interests or conflicts of interest, allowing them to exercise objective judgment and oversight of financial reporting processes. Secondly, an independent board is better positioned to provide effective checks and balances within the organization. Independent directors can challenge management decisions, question financial results, and demand transparency in reporting practices. This active oversight can deter fraudulent activities as potential wrongdoers know that their actions will face scrutiny.

RECOMMENDATIONS

To enhance the effectiveness of the audit committee in preventing fraudulent financial reporting, organizations should strive for gender diversity within the committee. This can be achieved by actively seeking and appointing qualified female candidates to the audit committee. Promoting diversity ensures a range of perspectives and experiences, leading to more robust discussions, increased scrutiny of financial reporting practices, and improved decision-making. Organizations should prioritize the independence of the audit committee by ensuring that committee members are free from any conflicts of interest and have no direct ties to management. This can be achieved by appointing independent directors to the committee and establishing clear criteria for independence. Independent audit committee members are more likely to provide unbiased assessments of financial reporting practices, challenge management's judgments, and exercise due diligence in detecting and preventing fraudulent activities. It is crucial to have audit committee members with adequate financial expertise. Organizations should focus on appointing individuals who possess a deep understanding of accounting principles, auditing standards, and financial statement analysis. Providing ongoing training and development opportunities to audit committee members can enhance their financial expertise and enable them to effectively evaluate the accuracy, completeness, and fairness of financial statements. This expertise will contribute to better detection and prevention of fraudulent financial reporting.

Organizations should carefully consider the size of the audit committee to optimize its effectiveness in addressing fraudulent financial reporting. While there is no universally prescribed size, a larger committee can provide a broader range of skills, knowledge, and experience. However, it is essential to strike a balance to avoid excessive committee size, which can lead to inefficiencies in decision-making. Organizations should assess their specific needs and appoint a committee size that allows for comprehensive oversight without compromising efficiency. Organizations should establish mechanisms for continuous monitoring and evaluation of the audit committee's performance. Regular assessments of the committee's effectiveness in detecting and preventing fraudulent financial reporting can help identify areas for improvement. This can include periodic self-assessments,

Effects of Audit Committee on Fraudulent Financial Reporting Among Listed Firms in Kenya.

external evaluations, and feedback mechanisms from management, auditors, and other stakeholders. Monitoring and evaluation should be supported by clear performance metrics and benchmarks. Effective collaboration and communication between the audit committee, management, auditors, and other stakeholders are crucial for preventing and detecting fraudulent financial reporting. Organizations should encourage open lines of communication, promote a culture of transparency, and provide opportunities for the audit committee to engage with key stakeholders. Regular meetings and reporting mechanisms should be established to facilitate effective communication and exchange of information.

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