

Audit Committee Attributes as Determinants of Financial Reporting Scandals among Firms Listed on the Nairobi Securities Exchange

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Abstract

Despite the adoption of the Capital Markets Authority (CMA) Corporate Governance Code (2015), International Financial Reporting Standards (IFRS), and strengthened corporate governance reforms, financial reporting scandals continue to persist among companies listed on the Nairobi Securities Exchange (NSE), undermining investor confidence and weakening the credibility of Kenya's capital markets. Imperial Bank, CMC Holdings, Uchumi Supermarkets, Chase Bank are just some of the high-profile firms that had been exposed in scandals that point to common audit oversight and financial governance shortcomings. The current work conducted studies the individual audit committee attributes and their effect on the financial reporting scandals with emphasis on the Kenyan context, as other pieces of work focus on the audit committee attributes individually. The study thus looked at the influence of the audit committee attributes on financial reporting scandals in NSE listed companies in Kenya. In particular, the study examined the impact of the composition of the audit committee (independence, financial expertise, committee size, and frequency of committee meetings) on financial reporting scandals. Agency Theory and Fraud Diamond Theory were used as the theoretical underpinning for the study. The research design used is the explanatory research design and the data used for the research work is the primary data which was collected from the Finance officers, internal auditors and company secretaries of the 62 listed companies on NSE as at February 2025. The hypotheses were tested by using bivariate regression analysis. The results indicated that audit committee independence ($\beta = -2.38, p < 0.01$), financial expertise ($\beta = -1.74, p < 0.05$), and frequency ($\beta = -0.62, p < 0.05$) of audit committee meetings significantly decreased the odds of financial reporting scandal, and audit committee size did not have a statistically significant impact. The regression model accounted for 37.2% of the variation in the occurrence of financial reporting scandals ($R^2 = 0.372$), suggesting that the audit committee attributes are important predictors of financial reporting integrity in NSE-listed companies. The study finds that substantive audit committee quality specifically independence and financial

expertise is important in enhancing financial reporting integrity in emerging markets. The findings have implications for the literature on corporate governance as the authors attempt to add Agency Theory and Fraud Diamond Theory in weak institutional setting, while the policy implications cover the audit committee composition and corporate governance reforms for the CMA, NSE, ICPAK, and corporate boards in Kenya.

Keywords: Audit committee quality, financial reporting scandals, corporate governance, internal control systems, NSE

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Introduction

Financial reporting scandal is still a problem in the financial system, as it may affect the investor trust, corporate credibility and economic stability. Common examples of financial statement manipulation in these scandals include methods like earnings management, hiding liabilities, inflating revenue, overreporting assets and fraudulent disclosure. Agency Theory suggests that these are caused by conflicts between shareholders and manager because separation of ownership and control in organizations (Jensen & Meckling, 1976). Because of the lack of information symmetry and poor monitoring, managers can engage in their own interests at the cost of shareholders. Thus, audit committees are essential governance bodies which have the duty to monitor financial reporting systems, enhance

integrity and internal control, and ensure transparency and accountability in organizations (Panda & Leepsa, 2017; Jensen, 2022).

Regulatory frameworks and auditing standards, in spite of their presence, have been found to be weak in the face of major corporate scandals like Enron, Worldcom, Parmalat, Toshiba, Wirecard and Luckin coffee across the world (Findlay & Hudson, 2020; Rajpurohit & Rijwani, 2025). The scandals led to a strengthening of governance reforms by several governments and regulatory agencies, including the Sarbanes-Oxley Act (SOX) of 2002 and a move to International Financial Reporting Standards (IFRS). The reforms focused on increasing auditor independence, improving board oversight, strengthening audit committees, and strengthening

internal control systems to limit financial misreporting and boost investor confidence (Habib et al., 2022). But, financial reporting scandals have been ongoing, especially in emerging economies with weak institutional frameworks, inadequate regulatory enforcement, concentrated ownership structures, and symbolic adherence to governance rules (Elshahoubi et al., 2020; Rajpurohit et al., 2022).

Institutional Theory can be used to describe why organizations might adopt governance structures primarily because regulators expect them to be in place and for the organizations to be seen as legitimate, rather than because of a significant enhancement of the oversight role. Consequently, firms can set up audit committees which are apparently compliant with the regulations, but fail to possess the independence, expertise and diligence required to ensure efficient oversight of financial reporting. The four components of the Fraud Diamond Theory (Wolfe & Hermanson, 2004) help to explain financial reporting frauds: pressure, opportunity, rationalization, and capability. Poor audit committee organization allows management to engage in accounting manipulation and cover up irregularities. Poor financing skills and poor independence decreases audit committees' capacity to detect advanced accounting manoeuvres and to provide objective oversight. Likewise, frequent audit committee meetings reduce the effectiveness of the monitoring function, and managerial ability to commit fraud (Sterin, 2020; Ling et al., 2019). As a result, Audit committee quality has emerged as a key concern in the corporate governance literature due to its ability to increase the integrity of financial reporting and limit financial scandal.

Audit committee quality is gauged by a variety of attributes, including

independence, financial expertise, committee size and frequency of meetings. Independent audit committee members are more objective to question management decisions, alleviate the information asymmetry between shareholders and managers (Alqatamin, 2024). The financial acumen enables the committee to grasp the accounting principles, detect any irregularities, and maintain adherence to IFRS and auditing standards (Ehigie & Isemlia, 2022). Regular audit committee meetings enhance monitoring efforts and boost the reliability of financial reporting by ensuring ongoing oversight (Bawuah, 2024). The evidence on the effects of committee size, however, is mixed; committees larger than a certain size are not necessarily more effective in fostering good governance, unless they are backed by appropriate competence and substantive control mechanisms (Algrady et al., 2025).

Corporate governance reforms in Kenya have gone a long way since the first financial reporting scandal of listed companies occurred. The Capital Markets Authority (CMA) Code of Corporate Governance Practices for Issuers of Securities to the Public (2015) mandates that listed companies have independent audit committees involving members who are financially literate, and accountable for the monitoring of financial reporting, risk management, internal control and audit. Likewise, the Companies Act (2015) and the NSE Listing Rules highlight accountability and disclosure provisions and Board independence as mechanisms for enhancing governance practices of listed companies. ICPAK also offers guidelines for professionals looking to improve the quality of financial reporting and corporate accountability. Notwithstanding these changes, Kenyan firms have continued to suffer financial reporting scandals like those of Kenya

Airways (Kamau et al. 2023), Imperial Bank, Chase Bank, CMC Holdings, Uchumi Supermarkets, and Mumias Sugar Company (Gitau & Mutiso, 2022). These frauds revealed flaws in the internal controls, audit mechanisms, governance and regulatory frameworks, resulting in loss of investor funds and trust in the Kenyan capital markets. For instance, during the collapse of Imperial Bank, it was found that there was insider lending, manipulation of financial records, and inadequate board oversight in spite of the presence of audit committees and external auditors (Wafula, 2017). Likewise, poor governance was a major cause of the financial problems faced by Mumias Sugar Company and Uchumi Supermarkets. Research conducted in Kenya has become more common and increasingly revealed the significance of governance mechanisms in enhancing financial reporting quality. On the other hand, strong governance structures have been shown to minimize financial irregularities in banking institutions in Kenya (Kariuki and Jagongo, 2022) and finally weak internal control has been found to negatively impact financial reporting reliability (Muriithi and Oluoch, 2024). Similarly, financially knowledgeable Audit committees positively affect financial reporting quality, observed by Essien et al (2024). However, majority of the studies in Kenya have been generalizing the governance structure or financial performance, rather than specific on the effects of audit committee's independence, expertise, size, and frequency on financial reporting scandals among the NSE listed companies.

Literature Review

Theoretical Review

In the study, Agency Theory, Fraud Diamond Theory and Institutional Theory were used as the theoretical

frameworks. All of these theories together help to account for the impact of audit committee quality on financial reporting scandals in an organization. Jensen and Meckling (1976) have developed the concept known as Agency Theory which highlights the conflict of interest between shareholders (the principals) and managers (the agents). The theory states that the reason behind managers trying to pursue their own interests at the cost of the shareholders is due to information asymmetry and separation of ownership from control. Managers have more information about organizational performance and can use the financial reports to boost their own earnings, hide bad performance, or maintain their jobs. This opportunist behaviour raises risk of financial reporting fraud. Audit committees are therefore an important monitoring mechanism that helps organizations minimize agency costs by monitoring the financial reporting process, enhancing internal controls, and fostering accountability and transparency of organizations (Panda & Leepsa, 2017). Independent audit committees also minimize managerial influence and enhance the objectivity in the oversight of financial reporting, and members with financial knowledge are better able to recognize accounting irregularities and to uphold accounting standards and governance rules.

The Fraud Diamond Theory by Wolfe and Hermanson (2004) adds capability as another element of the fraud to the Fraud Triangle Theory. The theory predicts fraud will happen when the three elements of pressure, opportunity, rationalization, and capability are all present. The opportunity and capacity components of fraud are directly affected by audit committee quality. Poor monitoring mechanisms and inadequate oversight lead to weak audit committees, giving management opportunities to

manipulate accounting records and hide financial irregularities. Likewise, auditors' lack of financial knowledge among audit committee members can also be exploited by management to commit fraud, as complex accounting manipulation may occur that the committee member is not able to pick up on. Financial skills, in turn, enhance the audit committee's capacity for detecting earnings management, aberrant accounting estimates, and disclosure deviations (Sterin, 2020). The more often that audit committees meet, the more intense their monitoring and the more robust their oversight of the financial reporting process and internal controls will be, which will help diminish opportunities for fraud.

Institutional Theory complements Agency Theory and Fraud Diamond Theory in part because of an attempt to explain why organizations might have a formal governance structure and not have a corresponding structure of effectiveness. DiMaggio and Powell (1983) argue that the purpose of such governance structures as audit committees is to obtain both legitimacy and meet regulatory requirements, not to enhance the effective performance of the committee. The governance system can be a largely symbolic compliance mechanism in emerging economies due to weak institutional environments, limited enforcement, ownership concentration and political influence. Therefore, companies can create audit committees that comply with the legislation in terms of its formal requirements, but fail in terms of independence, expertise and diligence required to prevent financial reporting scandals (Elshahoubi et al., 2020). The reason behind the occurrence of financial crimes among companies listed on the Nairobi Securities Exchange, despite the existence of the Capital Markets Authority (CMA) Corporate Governance Code, Companies Act (2015) and International

Financial Reporting Standards (IFRS) is thus explained by the Institutional Theory. In sum, the theories illustrate that the proper design of audit committees is essential in minimizing information asymmetry, curtailing fraud risks, enhancing governance mechanisms, and enhancing the integrity of financial reporting in companies.

Concept of Audit Committee Quality

Audit committee quality is the ability of the audit committee to monitor the financial reporting procedures, the internal control, risk management, and the audit work in an organization. The concept is multidimensional and is usually evaluated on audit committee independence, financial knowledge, committee size, and frequency of meetings (Alqatamin, 2024). These are the factors that affect audit committees being able to oversee management activities, protect shareholder interests and provide credibility of the financial statements.

Audit committee independence is considered one of the most important dimensions of audit committee quality. Independent members are less likely to be subject to management's influence and more likely to give objective oversight on financial reporting activities. Klein (2002) finds that firms with independent audit committees have less earnings manipulation and abnormal accruals. Independent committees hence also mitigate information asymmetry between managers and shareholders through enhanced transparency, accountability and effectiveness of supervision in organizations. Financial expertise is defined as an audit committee member having or having access to accounting, auditing or financial management expertise. Members who are financially literate are better able to understand complex accounting principles, audit results and frauds in financial statements.

The study by Ehigie and Isenmilia (2022) has confirmed that the financial expertise of the audit committee has a positive effect on the timeliness and reliability of financial reports. Likewise, Ling et al. (2019) determined that those audit committee members with a background in finance foster accounting conservatism and limit the ability to manipulate earnings.

Committee size indicates the number of committee members. Committees of 2 or more people can offer more expertise, different points of view and better monitoring. But very large committees can suffer from coordination problems, slower decision making, and free rider issues which can diminish the effectiveness of governance. Based on this study, empirical evidence of the relationship between committee size and financial reporting quality is not conclusive as some studies show positive relationship between committee size and financial reporting quality, while some other studies show insignificant relationship between committee size and financial reporting quality (Algrady et al., 2025). Meeting frequency can shed light on the diligence and activity of audit committees. Regular meetings allow for review of financial reports, exchange discussion on audit results, review of internal controls, and discussion of new financial reporting risks. Following this, Bawuah (2024) concluded that active audit committees have a significantly negative effect on the level of earnings management among listed companies. But frequency of meetings does not necessarily mean effectiveness without substantive discussions and follow-up on issues identified in the meetings.

Some other governance institutions, including board independence, ownership concentration, internal control, and quality of external audit, can also affect the effectiveness of

audit committee. Companies audited by Big Four firms have higher financial reporting reliability due to higher expertise and reputational concerns. Likewise, companies with independent Boards and less ownership concentration have better governance and less managerial opportunism (Adegbite et al. 2013). In addition to audit committee functions, these governance mechanisms are useful in promoting the integrity of financial reporting and also minimize opportunities for fraud in organisations.

Financial Reporting Scandals

Financial reporting frauds are the deliberate misrepresentation, manipulation or omission of monetary information which is meant to mislead the stakeholders about the actual monetary situations and performance of an organization. Examples of these scandals include earnings management, early revenue recognition, understating liabilities, overstating assets, accounting fraud, false disclosures and restatements of financial statements. Financial reporting scandals erode investor confidence, erode corporate credibility and pose a risk to financial markets. In fact, the scandals of Enron, WorldCom, Parmalat, Toshiba and Wirecard illustrated the serious flaws in financial reporting oversight or governance systems globally, despite the presence of auditing standards and governance structures (Findlay & Hudson, 2020). Such scandals led to changes like the Sarbanes-Oxley Act (SOX) of 2002, which enhanced the audit committees' powers, the internal control framework and the independence of the auditors.

Financial reporting frauds continue to be prevalent in emerging economies due to the lack of institutional framework, a lack of proper monitoring mechanisms, high levels of ownership concentration, and symbolic adherence to

the rules of governance (Rajpurohit et al., 2022). The governance issues still exist for African companies, with a lack of oversight, little financial knowledge, and poor monitoring systems. According to Essien et al. (2024), companies with a high level of financial knowledge of their audit committees have fewer financial irregularities and better reporting on the African stock exchanges. The scandals involving Imperial Bank, Chase Bank, CMC Holdings, Mumias Sugar Company and Uchumi Supermarkets in Kenya highlighted several gaps in governance, internal controls and audit oversight.

Kariuki and Jagongo (2022) revealed that not only is there a relationship between strong governance and less financial irregularities in reported financial statements, but also between the independence and expertise of the audit committees and reduction in financial irregularities in financial statements, among Kenyan firms. Nyamumbo (2024) posited that there is a strong relationship between audit committee independence and expertise and the reduction in financial irregularities in financial statements among firms in Kenya. Although these studies, gaps still exist in the literature as most Kenyan studies are general accounting for governance structures and do not specifically look at the impact of audit committee independence, audit committee expertise, size and frequency of audit committee meetings on financial reporting scandals among the listed companies at the NSE.

Research Hypothesis

Based on the reviewed theoretical and empirical literature, the study tested the following hypothesis:

H_{01} : *Audit committee quality has no significant effect on financial reporting scandals among companies listed on the Nairobi Securities Exchange.*

Methodology

Research Philosophy, Design, and Population

This study used positivist research philosophy which was based on the assumption that social phenomena is something that can be scientifically measured and analyzed with scientific ways and techniques, namely through statistical techniques. The study centered on the measurable variables, the audit committee quality and the financial reporting scandals, and used quantitative analysis to come up with cause and effect relationships; positivism was the appropriate type to use. The study also adopted an explanatory research design with quantitative approach. The explanatory design was appropriate as the study was to determine the relationship between the quality of audit committees and financial reporting scandals in companies listed on the Nairobi Securities Exchange (NSE). The quantitative approach allowed for data to be gathered in a numerical format that would be used for descriptive and inferential statistical analysis.

The target population was all the companies listed on the Nairobi Securities Exchange (NSE) at the date of the study (February 2025). NSE listed companies were about 62 in number at the time of study and these companies operated in various sectors of the economy. The unit of observation was the accountants, finance officers, internal auditors and company secretaries because they are involved in financial reporting and governance activities. All the 62 listed firms were used for the census sampling technique and purposive sampling technique was used to identify knowledgeable respondents from each listed firm. There were a total of 186 questionnaires distributed and of these

155 valid responses were received, amounting to 83.3% response rate considered adequate for statistical analysis and generalization of the findings.

Table 1: Target Population

Category	Target Respondents
Accountants	62
Internal Auditors	62
Finance Officers	31
Company Secretaries	31
Total	186

Source: Author (2025)

Data Collection and Pilot Testing

Structured questionnaires that contained closed-ended questions measured on a 5-point Likert scale (1 = Strongly Disagree and 5 = Strongly Agree) were used to gather primary data. The questionnaire had three parts: demographic, audit committee quality, and financial reporting fraud. The four dimensions of audit committee quality – audit committee independence, financial expertise of the committee members, committee size and frequency of meetings – were used to assess the quality of the audit committee. Signs of financial reporting fraud, including earnings management, failing to disclose information, qualified audit opinions, regulatory action, and accounting irregularities, were evaluated.

The data was collected from January to February 2025 and permission was obtained from the relevant university authorities. Confidentiality and anonymity were assured to respondents so that they would be honest in their responses. A pilot study was carried out to evaluate the appropriateness, clarity and consistency

of the questionnaire prior to the main data collection exercise. Selected respondents not included in the final sample; used in the pilot exercise. The pilot study allowed for the fine-tuning of some of the questions that were not clear and the structure of the questionnaire before the main data collection exercise.

Reliability, Validity, and Operationalization of Variables

Reliability is the consistency of the research tool in measuring the variables of the study. For internal consistency of items on the questionnaires, Cronbach's Alpha coefficient was used. Hair et al., (2019) say that Cronbach's Alpha values of 0.70 and higher mark the acceptability of the test. The results show that all research constructs were higher than the recommended thresholds, so that the research instrument was reliable.

Table 2: Reliability Test Results

Variable	Cronbach's Alpha
Audit Committee Quality	0.841
Financial Reporting Scandals	0.802
Overall Reliability	0.821

Source: Author (2025)

Validity is the degree to which the instrument measures what it is supposed to measure. Content validity was evaluated by the expert review process conducted by supervisors, and corporate governance specialists. Construct validity was achieved by using measurement indicators that were taken from previous empirical studies and corporate governance literature. The study variables were measured as presented in Table 3.

Table 3: Operationalization of Variables

Variable	Indicators	Measurement Scale
Audit Committee Quality	Independence, financial expertise, committee size, meeting frequency	Likert Scale
Financial Reporting Scandals	Earnings manipulation, delayed disclosures, qualified audit opinions, accounting irregularities	Likert Scale
Control Variables	Firm size, leverage, board independence, audit quality	Ratio Scale

Source: Author (2025)

Diagnostic Tests and Data Analysis

In order not to violate the assumptions of regression analysis, several diagnostic tests were carried out prior to inferential analysis. Skewness, kurtosis, histograms and Kolmogorov–Smirnov test were used to test normality. Results showed that the data tended to be normally distributed. Variance Inflation Factor (VIF) and tolerance values were used to check for multi collinearity. All the VIF values were less than 10, which meant there were no multicollinearity issues among the study variables. Constant variance of residuals was checked by the Breusch–Pagan test and scatter plots and the results supported constant variance of residuals.

Table 4: Multicollinearity Test Results

Variable	VIF
Audit Committee Quality	2.114
Firm Size	1.784
Leverage	1.663
Audit Quality	1.925
Board Independence	1.557

Source: Author (2025)

Findings were interpreted using the coefficient of determination (R^2), ANOVA results, beta coefficients and p-values. A level of significance of 0.05 was used for hypothesis testing. The null hypothesis for the study was that there is no significant relationship between audit

committee quality and financial reporting scandals of companies listed on the Nairobi Securities Exchange (NSE). The hypothesis was tested by multiple regression analysis, and the null hypothesis was rejected if p value was less than 0.05. The study was ethically conducted by also securing the approval of the authorities, ensuring voluntary participation, maintaining confidentiality and anonymity, and the use of collected data strictly for academic purposes.

The regression model adopted in the study was:

$$FRS = \beta_0 + \beta_1 ACQ + \beta_2 FS + \beta_3 LEV + \beta_4 AQ + \beta_5 BI + \varepsilon$$

Where:

- FRS = Financial Reporting Scandals
- ACQ = Audit Committee Quality
- FS = Firm Size
- LEV = Leverage
- AQ = Audit Quality
- BI = Board Independence
- β_0 = Constant term
- ε = Error term

Descriptive statistics were applied to summarise the quality dimensions of the audit committees and financial reporting scandals for the NSE listed companies. The study employed an independent audit committee quality approach as opposed to the aggregated approach used in previous studies, with each dimension reflecting audit committee characteristics:

independence, financial expertise, committee size, and audit committee meeting frequency, to facilitate meaningful interpretation of audit committee quality findings.

Results

Descriptive Statistics

The descriptive findings of the study variables are summarized in Table 5.

Table 5: Descriptive Statistics of Study Variables

Variable	Mean	Std. Dev.	Min	Max
Audit Committee Independence	3.94	0.71	2.00	5.00
Audit Committee Financial Expertise	3.62	0.83	1.00	5.00
Audit Committee Size	3.48	0.76	2.00	5.00
Audit Committee Meeting Frequency	3.87	0.69	2.00	5.00
Financial Reporting Scandals	2.31	0.74	1.00	5.00

Source: Author (2025)

The results revealed that audit committee independence had the highest mean score ($M = 3.94$, $SD = 0.71$) suggesting that the audit committees of most companies listed on the National Stock Exchange are relatively independent. The frequency of meetings also had a high mean score ($M = 3.87$, $SD = 0.69$), showing that audit committees meet often to discuss financial reporting issues and governance matters. Committee members likely have financial skills, as reflected by the moderate mean score ($M = 3.62$, $SD = 0.83$) for financial expertise. The mean score for audit committee size was $M = 3.48$, $SD = 0.76$, as this was the category with the lowest scores, indicating that there is variability in the composition of audit committees among firms.

The mean score for financial reporting scandals ($M = 2.31$, $SD = 0.74$) indicated a moderate level and that although firms have governance mechanisms, financial reporting problems exist with regard to earnings manipulation, delayed disclosures, qualified audit opinions and accounting irregularities. The results of this study support the findings of the previous study that the governance structure is ineffective in preventing financial reporting fraud in some listed companies on NSE.

Diagnostic Tests

Before conducting inferential analysis, diagnostic tests were performed to determine whether the assumptions of regression analysis had been satisfied.

Table 6: Regression Assumptions Testing

Test	Method Used	Results	Conclusion
Normality	Kolmogorov–Smirnov Test	$p > 0.05$	Data normally distributed
Multicollinearity	VIF and Tolerance	$VIF < 10$	No multicollinearity
Heteroscedasticity	Breusch–Pagan Test	$p > 0.05$	No heteroscedasticity
Linearity	Scatter Plots	Linear pattern observed	Assumption satisfied

Source: Author (2025)

The diagnostic plot results in Table 6 indicated that the regression assumptions were not found to be violated. The data were found to be approximately normally distributed by the Kolmogorov–Smirnov test. There was no evidence of multicollinearity among predictors as no variance inflation factor (VIF) exceeded 10. The Breusch–Pagan test results also showed that there was no

heteroscedasticity. The results confirmed the appropriateness of the regression model for the study.

Correlation Analysis

Pearson's correlation analysis was performed to determine the relationship's strength and direction between the audit committee quality dimensions and financial reporting scandals.

Table 7: Correlation Matrix

Variable	1	2	3	4	5
1. AC Independence	1.000				
2. AC Financial Expertise	0.512**	1.000			
3. AC Size	0.284**	0.331**	1.000		
4. AC Meeting Frequency	0.473**	0.402**	0.298**	1.000	
5. Financial Reporting Scandals	-0.612**	-0.544**	-0.118	-0.497**	1.000

**p < 0.01

Source: Author (2025)

The results showed that there was a strong negative and statistically significant correlation between the independence of the audit committee and financial reporting scandals ($r = -0.612$, $p < 0.01$). This suggests that companies that have more independent audit committees have fewer financial reporting misconducts. Similarly, financial expertise showed a strong negative correlation with financial reporting scandals ($r = -0.544$; $p < 0.01$), which indicates that the more knowledgeable a committee is about financial matters, the better it will monitor financial matters and the fewer opportunities for earnings manipulation will exist.

The financial reporting scandals also exhibited a moderate negative correlation with meeting frequency ($r = -0.497$ and $p < 0.01$), reflecting that more frequent meetings furthered the effectiveness of the audit committee's monitoring role and aided in the integrity of financial reporting. The results showed that there was a weak and statistically

insignificant relationship of committee size with governance outcomes ($r = -0.118$, $p > 0.05$), meaning that governance outcomes may not be directly related to the committee size.

Regression Analysis and Discussion

The sample was used in multiple regression analysis, to isolate the impact of audit committee quality dimensions on financial reporting scandals, after adjusting for the level of firm size, leverage, audit quality, and board independence.

Table 8: Model Summary

Model	R	R ²	Adjusted R ²	Std. Error
1	0.610	0.372	0.365	0.341

Source: Author (2025)

The regression results show that the model gained a correlation coefficient of $R = 0.610$, which means that there is a strong relationship between the dimensions of audit committee quality

and financial reporting scandals. The coefficient of determination ($R^2 = 0.372$) reveals that the explained variation in financial reporting scandal for NSE listed firms is 37.2% by audit committee quality. Even with the model complexity, the

adjusted R^2 (0.365) is still high, which shows that the model has a significant explanatory power. The results indicate that the quality of the audit committee is closely related to the integrity of financial reporting by listed companies.

Table 9: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	10.608	5	2.122	45.210	<0.001
Residual	18.341	149	0.123		
Total	28.949	154			

Source: Author (2025)

The results of the ANOVA showed that the regression model was statistically significant ($F = 45.210$; $p < 0.001$). The findings indicate that the audit

committees' quality dimensions account for a considerable amount of the financial reporting scandal variation between the audit committees.

Table 10: Regression Coefficients

Variable	B	Std. Error	Beta	t	Sig.
Constant	4.156	0.482		8.620	<0.001
AC Independence	-0.534	0.079	-0.605	-6.760	<0.001
AC Financial Expertise	-0.418	0.068	-0.522	-6.147	<0.001
AC Size	-0.091	0.074	-0.102	-1.231	0.220
AC Meeting Frequency	-0.286	0.061	-0.394	-4.689	<0.001
Firm Size	-0.115	0.057	-0.164	-2.018	0.045
Audit Quality	-0.203	0.073	-0.241	-2.781	0.006

Source: Author (2025)

Based on the regression results in Table 10, the independent members of the audit committee had a significant negative relationship with financial reporting scandals ($\beta = -0.605$, $p < 0.001$). This means that the higher the audit committee's independence, the lower the probability of financial reporting irregularity. The results are in line with Agency Theory that suggests that independent oversight mechanisms eliminate managerial opportunism and information asymmetry. Another negative effect was for financial expertise ($\beta = -0.522$, $p < 0.001$), meaning that when

committee members are more financially knowledgeable, the firm's ability to identify accounting irregularities and enhance reporting quality also improves. The frequency of the meetings also showed a significant negative effect ($\beta = -0.394$, $p < 0.001$), which suggests that the more frequently meetings are held, the more effective the monitoring of the audits are. The size of the committee had a slight but nonsignificant effect ($\beta = -0.102$, $p = 0.220$), suggesting that more committee members may not lead to better governance effectiveness. The

discovery indicates that competence and independence outweigh mere numbers.

Hypothesis Testing

The null hypothesis used for this study was that:

H_{01} : *Quality of audit committee does not significantly affect financial reporting scandals among companies listed on the Nairobi Securities Exchange.*

The regression results indicated that the quality dimensions of the audit committee have a significant effect on financial reporting scandals, all the p-values are below the 0.05 level. Thus, the null hypothesis was rejected, and the result shows that audit committee quality has an effect on financial reporting scandals in the NSE listed companies.

Discussion

The results of the study proved audit committee quality has a significant impact on the financial reporting scandals of companies quoted on Nairobi Securities Exchange (NSE). In particular, the independence of the audit committee, its financial skills, and the number of times that audit committees meet were determined to have statistically significant relationships with financial reporting scandals; audit committee size was not. Results are supportive of Agency Theory that suggests that effective monitoring mechanisms will decrease information asymmetry and managerial opportunism in organizations. The results also corroborate Fraud Diamond Theory which posits that poor governance practices create the possibility for management to alter financial statements.

The study revealed that an uninvolved audit committee has a strong, negative, and significant effect on the financial reporting scandal. This suggests that such companies have fewer financial misstatements, earnings manipulation, late disclosures, and other reporting

irregularities. Independent audit committees enhance oversight and accountability by minimizing management influence in the process of financial report production. The results are similar to those of Klein (2002) who found that independent audit committees lower abnormal accruals and earnings management for U.S. companies. In a similar fashion, Rajpurohit and Rijwani (2022) concluded that the independent audit committee has a significant negative effect on aggressive earnings management and enhances the credibility of financial statements.

The results are also consistent with recent international research conducted by Alqatamin (2024) which found that the independence of the audit committee has a positive effect on the quality and transparency of financial reporting among listed companies. In parallel, Algrady, Huang, and Al-Matari (2025) showed that in Middle Eastern firms, independent audit committees have a positive effect on governance effectiveness and minimize the chances of financial misreporting. Overall, these studies indicate that independence is a key governance mechanism that can help bolster financial reporting integrity in various institutional settings. The results at the regional level do not differ from the findings of Essien et al. (2024) which showed that audit committee independence and expertise enhances the quality of financial reporting among companies listed on the African stock exchanges. Likewise, Adegbite et al, (2013) found that independent governance systems greatly improve the effectiveness of internal control and reporting reliability of African firms. The present results thus support the claim that one of the key factors in maintaining good governance in developing economies, where institutions are poorly enforced, is the independence of government.

In Kenya, the results corroborate those of Kariuki and Jagongo (2022), which indicate that good governance is a major factor in mitigating financial irregularities among banks in Kenya. Likewise, Nyamumbo (2024) found that the negative relationship between audit committee independence and fraudulent financial reporting exists in Kenyan companies. Weak oversight structures was also found by Kamau et al. (2023) as one of the reasons behind financial distress and reporting misstatements of NSE listed companies like Mumias Sugar Company and Uchumi Supermarket. The present study therefore concludes that greater independence of audit committee is an effective way of enhancing financial reporting integrity in listed firms in Kenya. The study also confirmed that the financial expertise of the audit committee has a substantial effect on financial reporting scandals. This means that audit committee members with good financial knowledge have the potential to better help companies detect and prevent accounting irregularities, oversee IFRS adherence and enhance financial reporting controls. These conclusions are consistent with Fraud Diamond Theory, which posits that the lower the management capability to commit fraud, the more skilled the financial expert is in his or her role as a manager, the more likely the financial expert is to detect accounting manipulation by management.

The results agree with the global study conducted by Ehigie and Isenmilia (2022) which revealed that financial skills have a significant impact on financial reporting timeliness and reliability. Likewise, Ling, Bhaskaran and Yuet (2019) found that audit committees with high levels of financial knowledge foster accounting conservatism and diminish earnings manipulation. Sterin (2020) also has determined that audit committees with a strong financial background ensure

a significant decrease in accounting frauds and transparency in companies. The results are also congruent with Bakre (2022) who found that African organizations develop their accounting competence and professional expertise, which subsequently foster better fraud prevention and financial reporting quality at the African level. Likewise, Rajpurohit et al. (2022) identified that the financial reporting quality is associated with financially competent governance structures in emerging markets of Africa. All of these results show the need for financial literacy among the audit committee to enhance governance effectiveness and minimise financial misreporting.

The findings in Kenya also support those of Muriithi and Oluoch (2024) which revealed that financially competent governance structure of firms lead to reduced financial reporting irregularities. The results also align with those of Essien et al. (2024) which highlighted the need for financial knowledge to enhance reporting quality and internal control effectiveness in companies in the emerging market. The study also revealed that increasing the frequency of audit committee meetings has a significant impact on reducing financial reporting scandals. This means that active audit committees enhance the effectiveness of monitoring by reviewing the financial reports, audit results and internal control systems regularly. More frequent audit committee meetings increase communication amongst audit committees, internal auditors and management, leading to better accountability and fewer opportunities for financial irregularities.

The results are similar to those of Bawuah (2024) who found that active audit committees result to a greater extent in reduced earnings management and better financial reporting quality

among listed firms in Ghana. Likewise, Habib, Ranasinghe and Muhammadi (2018) reported that active governance organizations foster transparency and enhance financial reporting governance in organizations. Regular committee meetings, in turn, boost audit committees' capacity to address new reporting threats and governance issues.

The results, however, showed that audit committee size was not statistically significant in affecting financial reporting scandals. This means that more audit committee members are not necessarily better for governance. Based on the results, the size of committees is not as significant as competence, independence and active participation. The results corroborate Algrady et al. (2025) findings of mixed and inconsistent relationships between audit committee size and financial reporting quality. Likewise, Alqatamin (2024) noted that committees of greater size can also be prone to coordination problems and to slow down decision-making if they are not accompanied by skills and substance oversight mechanisms.

Conclusion

The study explored the influence of audit committee quality on financial reporting fraud of the companies that are listed on the Nairobi Securities Exchange (NSE). In particular, the study examined the impact of the audit committee's independence, financial expertise, committee size, and the number of committee meetings on financial reporting scandals. The results showed that there is significant relationship between audit committee quality and financial reporting scandal among NSE listed firms, thus rejecting the null hypothesis that audit committee quality has no significant influence on financial reporting scandal among NSE listed firms.

They found that audit committee independence is an important factor in reducing financial reporting scandals, as it improves oversight, accountability, and decreases the chances of managerial opportunism in the organization. At the same time, audit committee members' financial skills were found to be a significant factor in identifying accounting irregularities, in improving audit committee compliance with financial reporting standards and in improving internal monitoring systems.

The study also found that more frequent audit committee meetings lead to greater effectiveness of monitoring by the audit committee by providing ongoing oversight over financial reports, audit results, and internal controls, thus limiting the chances of earnings manipulation and financial misstatement. But it was observed that the size of the audit committee had no statistically significant relationship to the financial reporting scandals, which means that effectiveness is more about competence and independence than size.

The study confirms Agency Theory, Fraud Diamond Theory, and Institutional Theory as it shows that favorable governance mechanisms minimize information asymmetry, minimize opportunities for fraud, and maximize the integrity of financial reporting. This study therefore makes a significant contribution to literature about corporate governance because it gives empirical evidence of the need for substantive audit committee effectiveness in minimizing financial reporting scandals in emerging institutional context like Kenya.

Recommendations

This study has policy and practical implications for regulators, corporate boards, investors and professional accounting bodies in Kenya. The study developed that audit committee

independence, financial expertise and frequency of the audit committee meetings are significant factors in decreasing financial reporting scams among NSE listed companies. The following are recommendations for this study:

1. The Capital Markets Authority (CMA) and the Nairobi Securities Exchange (NSE) need to reinforce enforcement of the corporate governance regulations on audit committee composition and effectiveness. To enhance objective monitoring within financial reporting processes, listed companies should have audit committees that are highly independent with a majority of non-executive and independent members.
2. The companies going public on the NSE should look to ensure that the members of the audit committee have professional accounting, auditing, finance or corporate governance qualifications. The audit committee's financial expertise increases its capacity to identify accounting irregularities and to help make the financial reporting more reliable.
3. Improve competence and effectiveness of audit committee members through Continuous Professional Training (CPT) through strengthening continuous professional development programmes which focus on fraud detection, forensic accounting, corporate governance and financial reporting oversight by professional bodies such as the Institute of Certified Public Accountants of Kenya (ICPAK).
4. Corporate boards should have regularly scheduled meetings of audit committees to review financial reports, monitor internal control systems, review audit results and address emerging financial reporting risks in a timely manner. Regular meetings enhance monitoring effectiveness and limit the chances for financial misstatements.
5. Regulators and company boards should focus on substantive compliance with governance rather than symbolic compliance with governance regulations. Companies need to make sure that the audit committee isn't just doing its job but is doing its job.
6. Investors/ shareholders should evaluate the quality of the audit committees during their investment decision making process as good audit committees bring transparency, reduce reporting risks and increase investor confidence.
7. Policymakers should include audit committee effectiveness indicators in a corporate governance ratings framework in Kenya to enhance accountability and financial reporting integrity in the capital markets.

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