# EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON THE AUDIT EXPECTATION GAP: EVIDENCE FROM STATE CORPORATIONS IN KENYA

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# Effect of Audit Committee Characteristics on the Audit Expectation Gap: Evidence from State Corporations in Kenya

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## DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

Signature ………………………………… Date ……………………………..

**Michael Mutugi Gacheru**

This thesis has been submitted for examination with our approval as the university supervisors

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## DEDICATION

I dedicate this work to my family, friends, and colleagues for their support and encouragement in coming up with the thesis.

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## ABBREVIATIONS

| | |
|---|---|
| **ACC** | Audit Committee Chair |
| **ACIND** | Audit Committee Independence |
| **ACM** | Audit Committee Meeting |
| **AEG** | Audit Expectation Gap |
| **ANOVA** | Analysis of Variance |
| **BCBS** | Basel Committee on Banking Supervision |
| **BM** | Annual Board Meeting |
| **BRC** | Blue Ribbon Committee |
| **CAE** | Chief Audit Executive |
| **CEO** | Chief Executive Officer |
| **CFO** | Chief Financial Officer |
| **CoV** | Coefficient of Variation |
| **CPA** | Certified Public Accountants |
| **IASB** | International Accounting Standards Board |
| **IB** | Independent Board |
| **IIA** | Institute of Internal Auditors |
| **ISA** | International Standards on Auditing |
| **KENAO** | Kenya. National Audit Office |
| **KPMG** | Klynveld Peat Marwick Goerdeler |
| **MA** | Moderate Agreement |
| **NSSF** | National Social Security Fund |
| **NYSE** | New York Stock Exchange |

| | |
|---|---|
| **PAC/ PIAC** | Public Audit Committee |
| **RCM** | Risk Committee Meeting |
| **ROA** | Return on Asset |
| **SACCOS** | Saving and Credit Cooperative Organization |
| **SCAC** | State Corporations Advisory Committee |
| **SD** | Standard Deviation |
| **SEC** | Securities and Exchange Commission |
| **SOE** | State-Owned Enterprises |
| **SOX** | Sarbanes-Oxley Act |
| **SPSS** | Statistical Package for Social Sciences |
| **VIF** | Variance Inflation Factor |

## DEFINITION OF KEY TERMS

| | |
|---|---|
| **Audit** | An audit is an independent examination of and expression of an opinion on the financial statement of an entity by an appointed auditor (Asare, Davidson, & Gramling, 2008). |
| **Audit Committee** | An operating committee of the Board of Directors charged with oversight of financial reporting and disclosure (Martinov-Bennie, Soh, & Tweedie, 2015). |
| **Audit Expectation Gap** | A disparity exists when the external auditor's understanding of their role and duties is compared against the expectations of the user group and the general public (Adams & Evans, 2004). |
| **Audit Meetings** | Formal deliberative assembly of individuals called to debate certain issues and problems, and to take decisions (Bruynseels, Krishnamoorthy, & Wright, 2015). |
| **Audit Team Composition** | A group of persons elected or appointed to perform some service or function, as to investigate, report on, or act upon a particular matter (Kamau & Kariuki, 2012). |
| **Statutory Audits** | A statutory audit is conducted to meet the particular requirements of a governmental agency (Lin, Pizzini, Vargus, & Bardhan, 2007). |
| **State Corporation** | A legal entity created by a government to undertake commercial activities and service delivery on behalf of an owner government (SCAC, 2017). |

# ABSTRACT

Audit committees are a vital mechanism that institutions need because of their ability to monitor the behaviour of the firm's management to enhance transparency**.** This study sought to identify the relationship between audit committee characteristics and the audit expectation gap within the state corporations in Kenya. This study sought to specifically establish the effect of audit committee independence, audit committee composition, audit committee meetings and audit committee technical skills on the audit expectation gaps in Kenyan state corporations. The study was anchored on the institutional theory, stakeholder theory, the resource dependency theory and the agency theory. A descriptive research design was adopted, targeting 119 respondents working within state parastatals as well as 119 select personnel within state corporations who are users of the audit reports and aid in assessing the audit expectation gap. The study further adopted a census sampling of the respondents. The sample size for the study was 238 individuals. The study relied on primary data that was collected using semi-structured questionnaires and key informant interview schedules. This was supplemented using secondary data that was sourced from government reports and published reports. The research instruments were tested with 24 respondents. Statistical tests utilized in the study were correlation tests, regression analysis, and ANOVA tests. The study was able to obtain a response rate of 87 audit committees' members and 87 users of audit committee reports. The findings of the study indicated that there was a statistically significant positive effect of audit committee characteristics and the audit expectation gap within state corporations. The results of the study indicated that audit committee independence, audit committee composition, audit committee meetings, and audit committee technical skills had a positive effect on the audit expectation gap. From the results, the study concluded that audit committees should ensure that their independence is not violated to ensure impartiality in their reporting. The study as well concluded that audit committees should ensure regional and gender representation was achieved in the committees. Further, the study recommended that audit committee members should possess accounting skills as well as be averse in financial management as this would reinforce their audit function. The study further specified that audit committee members should conduct a periodical review of their compliance with the regulatory requirements. The study recommends that audit committees should ensure their independence is not compromised. The audit committees should also emphasize on the minimum number of members, ensuring that attendance levels are at the required standards. Committees should similarly ensure that they should have frequent meetings after a specified number of days. The audit committees should also ensure there is diversification in membership as this would influence the quality of the committees' report. The study faced some limitations in data collection due to the unavailability of some of the audit members. The study recommends that future research should assess the effect of corporate governance practices in state corporations.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Auditors are part of the force that drives organizations towards achieving their strategic goals (Lenz, Sarens, & Hoos, 2017). The paradigm shifts of corporate governance risk, evolving business practices, and ever-changing business environments are putting pressure on Internal Auditors not only to relay opinion on controls but also to work in partnership with management to help them do things in a better way (Van-Gansberghe, 2005). These challenges require a strategic approach to solve them (Asare, Davidson, & Gramling, 2008).

Auditing is analytical, based on fact-finding and critical (Ruhnke & Schmidt, 2014). It is concerned with the basis of measurements and assertions. The major emphasis is proof and evidence which supports the financial statements and other reported information; hence the auditors‟ approach is based on logic as well as accounting principles (Ernst & Young , 2012). Auditing continues to be the most acceptable measure to control public financial stewardship (Iyoha & Oyerinde, 2010). There is no good financial management without proper accountability of the same being mentioned (Adams & Evans, 2004).

The Institute of Internal Auditors (IIA) (2010) asserts that public sector governance involves all guidelines set aside to direct the operation of large corporations to ensure that they act in an ethical manner to ensure transparency. In the public sector, governance entails how goals are implemented to satisfy certain stakeholders. Additionally, all activities aimed at increasing the credibility of the government to promote equitable service and product delivery and reduce the corruption of government officials all involve public sector governance (Osborne, 2010).

There have been several attempts to define the audit expectation gap, and available literature has accepted that the expectation gap problem does exist (Odoyo, Omwono, & Okinyi, 2014). Datuk (2007) notes that the public and the auditors have different opinions about their roles in public oversight. The public tends to expect that any wrongdoing is the responsibility of the auditing company. Pierce and Kilcommins (2006) state that the audit expectation gap exists only when the comparison is made about the role of external auditors in the general public's view and in the understanding of the external auditor. Salehi (2011) notes that the gap exists due to the unreal expectations of the users on the role of external auditors.

The main issues surrounding the audit expectations gap concern the roles and responsibilities of the auditors (Nazri & Ahmad, 2004). Lee, Ali, and Gloeck (2009) posit that the expectation gap is a result of the difference in expectations of the public about the role of an expert group and the view of the expert group, and in most situations, the public depends on the expertise of the professionals. Tricker (2002) states that the expectation gap exists due to the expected time lag by the professional auditors as they adjust their roles to meet the public's ever-changing expectations while some authors argue that it is a result of the auditing firms operating without government intervention or oversight. Furthermore, Humphrey (2008) made four classifications of the audit expectations gap: audit assurance, audit independence, audit reporting, and audit regulation.

Audit assurance within the audit profession is the set of activities that foster independence, objective assessment of financial statements, and ensure accurate reporting is done (Contessotto & Moroney, 2014). The audit reporting, on the other hand, refers to the independent audit reports written either by an internal or external auditor regarding the entity's financial statements (Rehana, 2010). Audit independence is the level of freedom afforded to internal or external auditors by interested parties (Ahmad & Taylor, 2009). Audit regulation refers to the mechanisms put in place to regulate professional auditors (Bhasin, 2015).

### 1.1.1 Concept of Audit Committees

Auditors work closely with managers to review operations such as systems, processes, and people and report finding (Bedard & Johnstone, 2014). The Institute of Internal Auditors- IIA (2009) defines auditing as the objective activity of certification and consultation that seeks to streamline the operations of a company.

The institute defines evaluating controls and operations as assessing the board's attitude and actions towards the company's control structure (IIA, 2011).

Internal auditors are responsible for financial operations and controls and are important elements of corporate governance because of their knowledge in financial reporting having a primary contribution to ensuring reliability and integrity of financial statements (IIA, 2011). There is a need for auditors to be familiar with the strategic objectives of the organization and different departments to have a clear understanding of the operations (Allen & Vani, 2013). Corporate governance concerns the development and maintenance of an adequate and effective audit system to protect assets loss (Ahmad & Taylor, 2009). It is necessary for the internal auditing activity to evaluate whether internal controls are adequate and effective enough to respond to risks (IIA, 2011).

Blue Ribbon Committee- BRC (2009) reports that audit committees have become imperative for financial management in the public sector in recent years. An audit committee is one of the mechanisms used to ensure that there is reliable corporate governance. It is necessary for firms to carry out projects aimed at increasing their global standards management so as to intensify efficiency and effectiveness within organizations. The audit committee makes sure that financial reports are accurate, ensuring stakeholders of their credibility. All audit committee members have a role in the organization's oversight responsibility (BRC, 2009). The characteristics of the audit committee are meant to take their responsibilities more effectively, and they include its composition, qualifications, and channels of communication with associated parties (Waweru, Kamau, & Uliana, 2011).

The Audit Committee is a key fulcrum in any corporate organization in monitoring and placing a check on good accounting and management practices (El-Sayed, 2011). The Audit Committee plays a significant role in enhancing good corporate governance (Bédard & Gendron, 2010). According to the IIA (2011), the audit committee has to have a direct and functional relationship with external auditors whose professional opinion about a firm's financial reporting is key. Oversight matters also include compensation, selection criteria, scope, independence, monitoring, and rotation, and performance assessment.

According to Moran and Kral (2015), since 2005, it became a policy that all publicly listed companies all over Europe have to prepare their financial reports in accordance with the International Financial Reporting Standards (IFRS) set by the International Accounting Standards Board (IASB) (IIA, 2011). The objective of setting up the IFRS is the development of internationally acceptable quality financial reporting standards (Puri, Trehan, & Kakkar, 2010). This was a strategic attempt to bring about a proper reporting mechanism in financial reporting (Rajagopalan & Zhang, 2008).

By creating these internationally recognized set of standards, the International Accounting Standards Board (IASB) has been able to make principle-based standards (Razak, Ahmad, & Aliahmed, 2008). The audit committee should ensure that these standards and accounting principles are followed. The principles are an important understanding which informs transaction economic events. The monitoring done by the audit committee helps the organization to use the best accounting principles, thereby ensuring that the financial reports are done according to international best practices (Waruhiu, 2015).

In the public sector, audit committees are required to have a number of characteristics to effectively carry out their roles of ensuring financial reporting integrity (Hidayah, Sukirman, & Mahmud, 2018). These characteristics include: director independence, tenure of the directors, audit committee size, audit committee's financial expertise, and frequency of committee meetings; these characteristics can be used to evaluate the committee's effectiveness (Ogoro & Simiyu, 2014).

The Treasury Circular of 4 October 2005 and the public finance management Act for 2012 are some of the documents used by the Kenyan government in an attempt to empower audit committees (SCAC, 2017). Recent scandals that faced the Ministry of agriculture and education revealed the existence of huge gaps between boards of directors, executive management, internal control, and the performance of these institutions. These scandals were about corruption in business dealings involving the purchase of maize and the Laptop scam, which was cancelled Public Procurement Administrative Review board. These conditions make it necessary to have the Public Audit Committee (PAC) within the public system (Ogoro & Simiyu, 2014).

According to the perspective of the agency theory, strong governance is a result of the need to reduce agency costs by making sure that all stakeholders' interests are aligned (Goodwin-Stewart & Kent, 2006). There are various mechanisms that can be used to enhance corporate governance by monitoring the behaviour of the management, including having independent directors, an effective audit committee, and both internal and external audits. In the public sector, the audit committee performs the role of overseeing the financial and compliance reporting and disclosure process (Ministry of Finance Kenya, 2006).

### 1.1.2 Global Perspective of Audit Committee and Audit Expectation Gap

The current section reviewed the global perspective on the relationship between the characteristics of the audit committee and the audit expectation gap within public institutions. According to Ernst & Young (2012), in the United States, the Sarbanes-Oxley Act (SOX) was passed in 2002 due to the collapse of huge corporations like Enron Corporation, Tyco International, Adelphia, and WorldCom. The bill had eleven sections that were enacted as a reaction to scandals, where investors lost billions of dollars. However, to partake its role effectively, SOX needed the companies to furnish the audit committees with relevant resources to carry out their duties. In addition, SOX also demanded the audit committees create avenues for any confidentiality about any complaints related to financial auditing and internal control irregularities.

Sarens, Abdolmohammadi, and Lenz (2012) studied the factors associated with the internal audit function's role in corporate governance. The study factored 782 Chief Audit Executives in the United States. The results of the research showed that quality assurance programs, audit committee independence, audit plan, and internal auditor's qualifications positively enhanced the active corporate governance within the firms. Mason (2013) conducted a study to determine the legal implications of auditors in New Jersey and found that there existed an expectation gap between the expectations of the judges and the expectations of the auditors. The study relied on the Heuristic-Systematic model and found that when internal controls are effective and, third-party regulations lead to the lowest risk assessment. Therefore, judges also demanded more from external auditors than they demanded of themselves.

Pourheydari and Abousaiedi (2011) conducted an empirical investigation of the audit expectations gap in Iran. The study findings revealed that the difference between the opinions of users and independent auditors concerning the reliability of audited financial statements was insignificant. Alzeban and Gwilliam (2014) examined the factors that affect the effectiveness of internal auditing processes in the Saudi public sector. The findings of the study indicated that hiring of trained and experienced auditors, having an independent auditor as well as providing sufficient resources made audit teams more effective.

Cohen and Sayag (2013), in his study, examined the effectiveness of internal auditing within Israel. The study focused on private versus public, the professional aptitude of internal auditors, quality of audit work, independence of the organization, and support from the top management to determine their relationship with the effectiveness of internal audit processes. The top management determines the performance of internal audits to their roles in recruitment, career development, and organizational independence. This meant that it was important for audit committee composition and technical skills to be considered in fostering the expectation gap within the public sector.

Internal audit functions and the audit committee affect the independence of the auditing process (Blay & Geiger, 2013). A number of studies have examined the factors that affect the selection of an external auditor by the audit committees. On the other hand, audit committees may affect the very audit independence they are expected to safeguard (Reinstein & Weirich, 2006); in their paper on "Testing for bias in the audit committee," the findings on 247 New York Stock Exchange firms revealed a significant relationship between Certified Public Accounting (CPA) firms selected by audit committees and the firm which audits the audit committee member's own organization. The paper showed the existence of bias by members of the committee when selecting the auditors of the company. This study was centred on large firms where size within the audit committee can affect audit independence, and they are meant to safeguard hence jeopardizing the integrity and reporting of the auditing function (Gitare, 2013).

According to Jabbour (2013), in a study investigating risk management changes in insurance companies in the United Kingdom concluded the external auditor has to directly report to the audit committee on the findings of their auditing so as to ensure that the financial reporting is up to best practice. Further, it is also important to develop a direct relationship between the internal and external auditors, and there needs coordination between internal audit activity and the external audit activity to ensure that both parties work together efficiently. The external auditors can raise the efficiency in which financial statements audit have been done. By establishing a direct relationship, they ensure that there is no interference by management and the board of directors.

Al-Matari, Al-Swidi, Fadzil, and Al-Matari (2012) examined the effect of the board of directors and characteristics of the audit committee on the performance of companies listed in Saudi Arabia. The study indicated that the independence of the audit committee and meetings of the audit committee had insignificant effects on the performance of the firms. Further, the researchers indicated that several characteristics of the audit committees, such as independence and nature of meetings, enhanced the quality of the financial reporting within listed firms.

Houghton, Jubb, and Kend (2011) studied materiality in the context of audit: the real expectations gap. The research was conducted across EU member states. The results showed some of the stakeholders in the financial auditing process did not grasp the meaning of audit materiality, which limited their understanding of the real expectation gaps. This they posited could be avoided by ensuring that the audit teams have an adequate understanding of their practice.

Brennan and Kirwan (2015) sought to interrogate the effect of characteristics of the audit committee members on the execution of their roles in Europe. The findings indicated that audit committee members who were more effective had enhanced oversight roles. Results further indicated that frequent engagement of the audit committees enhanced corporate governance within institutions in European countries. Rochmah and Mohd-Ghazali (2012) examined Indonesian firms to identify the effect of an effective audit committee on the timeliness of reporting. The study showed that timeliness in the reporting process was associated with the effectiveness of audit committees. The findings further showed that the increase in the frequency of meetings contributed positively to a reduction in the financial reporting lead time and the quality of audit reports.

Saeidi (2012) used evidence from Iran to study the effects of the audit expectations gap on corporate fraud. The results indicated that the competency of the auditors, their responsibility, and technical competence was instrumental in limiting corporate fraud. Alzeban (2015) examined the influence of audit committees on internal audit conformance with internal audit standards in Saudi Arabia. The study concluded that characteristics of the audit committee, such as the independent members in the committee, the expertise of the members, and audit committee meetings with Chief Internal Auditors positively influenced conformance to audit standards. This improved the audit report's quality.

### 1.1.3 Regional Perspective of Audit Committee and Audit Expectation Gap

The current section reviewed the regional perspective studies on the relationship between characteristics of the audit committee and the audit expectation gap within public institutions. Adeyemi and Uadiale (2011) investigated the audit expectation gap in Nigeria and acknowledged that the value of the auditing profession is undermined by the existence of the audit expectation gap. The findings of the study indicated that the audit expectation gap exists within the Nigerian public sector, particularly due to issues concerning the auditor’s responsibility, such as their role, ethical guidelines, and qualifications.

Okafor and Otalor (2013) undertook a study on narrowing the expectation gap in auditing: the role of the auditing profession. The study was conducted in Nigeria. The study found that the public is not well informed about the duties of the auditor leading to the existence of the expectation gap. The researchers further indicated that the auditor’s role and responsibilities should be expanded to cover issues on educating users on the standard auditor’s report and issues concerning the audit expectation gap.

Firsteberg and Malkiel (2014) studied the effect of the functions of the internal audit committee on the financial performance of the Ugandan National Social Security Fund (NSSF). The study found that the functions of the internal audit committee significantly influenced performance since they determine the risk assessment, control environment, information and communication, control activities, and advisory services. The study also indicated that the internal audit committees had fostered the financial reporting as well as the quality of financial information being released within public organizations.

Badara and Saidin (2013) examined the causes of an effective internal audit committee at local levels of governance in Nigerian firms. The results of the study showed that an effective audit committee vis independence of the committee, technical skills, and adoption of the charter has a significant effect on the audit report’s effectiveness. In a study on the role played by internal audit function on the performance of Egyptian firms, El-Sayed (2011) discovered that it was very much entrenched in the corporate sector. That the role of the audit committees was not yet pronounced, making their role complicated, thus negatively affecting their corporate governance. Sometimes the management affects internal audit independence by ensuring that it is not independent through manipulating the composition of the committee as well as the adoption of the audit department charter. Adeniyi and Mieseigha (2013) studied the effect of audit tenure on the quality of audit reporting in Nigeria. The findings of the research indicated the effect of audit tenure on the quality of the audit report in insignificant.

In his study Moloi (2015) studied audit committee reporting in national government departments and indicated that the voluntary information submitted by audit committees enhanced their usefulness and promoted the independence of the committee. In another study in South Africa, Ruhnke and Schmidt (2014) considered the audit expectation gap in terms of its existence, causes, and impacts on the corporate governance of firms. The findings of the study indicated that increasing information content and mandatory rotation of the audit committee members helped in reducing the audit expectation gap.

Kaawaase, Assad, Kitindi, and Nkundabanyanga (2016) examined Ugandan firms to determine the effect of audit quality on the performance of audit firms in developing economies. The results of the study indicated that audit quality was a multi-dimensional construct being affected by compliance with accounting standards, levels of discretionary accounts, audit fees, regulations, and the independence of the audit team. Onumah and Yao Krah (2012) conducted a study on factors that encourage and inhibit effective internal auditing of firms operating in the Ghanaian public sector. The results of the research indicated that effective audit was hampered by the low professionalism of the internal auditors, poor support from the management, weak functioning of audit committees as well as lack of budget authority within the internal audit department.

Asiedu and Deffor (2017) conducted a study exploring the use of effective internal audit function in the fight against corruption in the Ghanaian public sector. The results of the study indicated that the full adoption of regulations governing the Internal Audit Agency in Ghana, as well as the independence of the audit department, had significantly affected the effectiveness of the internal audit function. Amare (2016) examined the factors that determine internal audit effectiveness in Ethiopian Private Commercial Banks. The findings of the research indicated that the competence of the audit committee, the independence of the audit committee, operation of the audit charter, and support of external auditors enhanced the internal audit effectiveness. The focus should be on state corporations

### 1.1.4 Local Perspective of Audit Committee and Audit Expectation Gap

The current section reviewed the Kenyan perspective on the relationship between audit committee characteristics and the audit expectation gap within public institutions. Njeru (2013) conducted a study on how internal audit committee independence affected corporate governance performance within Kenyan banks. According to the study, independence of the internal audit was in danger of manipulation from the Chief Executive Officer (CEO) since, among the roles of the CEO was to approve the budget of the internal audit committee, to hire and fire the Chief Audit Executive (CAE), and to determine the CAE's compensation. Hence, the dilution of corporate governance within the banking sector. However, the above study failed to take into consideration the governance aspects within state corporations hence the need for the current research.

Waweru, Kamau, and Uliana (2011) investigated the effect of corporate governance on the performance of audit committees in developing countries. The findings of the research showed that the reported cordial relationships of the audit committee with the management, internal auditors, and external auditors had a positive effect on the quality of financial reports. The researchers further noted that the independence of the audit committees was key to supporting better financial reporting and development in the Kenyan capital market. Kirima (2016) examined the factors affecting the performance of the internal audit function in Government Ministries in Kenya. The study results showed that the internal auditors' work environment, internal auditor independence, auditor's technical competences, and better exposure to professional audit programs impacted the performance of the audit function in Government Ministries.

Sigowo (2009) explored the role that internal audit function played in promoting good corporate governance in SACCO. The findings of the study indicated that the independence of the audit function was guaranteed since there were audit committee at the Board level; the internal audit function spent around 36% of their time in doing corporate governance test, assessing internal controls, risk management and ensuring compliance and finally it was noted that internal audit function was being involved in pre-auditing tasks hence limiting their effectiveness. However, the study failed to take into consideration the audit expectation gap.

Kamau, Kariuki, and Mutiso (2014) explored internal auditor independence motivators: Kenyan perspective. The findings of the research showed that the involvement of auditors in the management and audit committee activities had a significant influence on the independence of the auditor. The study, however, failed to examine the audit expectation gap within internal audit teams in Kenya. Matendera (2013) conducted a survey of factors that affect the performance of Kenyan public auditing institutions. The findings of the research indicated that lack of integrity within the audit team, limited professionalism, and lack of adequate training were the key factors influencing the performance of the audit function within public institutions in Kenya.

According to Kamau, Nduati, and Mutiso (2014), in their study on the internal auditor independence motivators, the researchers indicated that promoting auditor's independence and objectivity enhances the performance of the audit profession. However, the study did not consider the auditor expectation gap. KPMG (2017) conducted a review of audit committee challenges the report indicated that 4 out of 10 audit committees promoted effectiveness within their services. The study further indicated that audit committees are largely focussed on meeting their legal and regulatory compliances hence improving their effectiveness.

Mohammed (2017) assessed the impact that external financial auditing had on corporate governance in Kenyan banks. The findings of the study indicated that audit committees are appropriately structured to ensure their independence and their issues alert to fraud opportunities within the institutions. The study further showed that in most audit committees, their independence was limited due to a lack of involvement of outside auditors in the committee. Gitare (2013) conducted a study on differences in the quality of the big 4 Kenyan audit firms (an audit committee's perspective). The study examined audit quality proxies such as frequency of litigation occurrences, the audit fees, audit tenure, and size of the audit indicated there were no statistically significant differences among the audit committees provided the audit quality proxies were adhered to.

### 1.1.5 Auditing in the Kenyan Public Sector

According to Allen (2009), Kenya's internal audit system was initiated in 1962, but its implementation was stalled within the public sector. Its importance became apparent over the next few years when mismanagement of public resources was blamed on the lack of internal auditing, leading to its reintroduction in 1984. With limited institutional support and an outdated focus on pre-audit activities, Kenya's internal audit function was neither efficient nor effective. Being an independent department, Risk-based audit is an important means for the public sector to strengthen operational management (Papas, 2009).

Internal auditing was restricted to ensuring that big organizations could safeguard their assets (Munene, 2013). The audit committee assists members of the public sector to improve public governance (Getie-Mihret & Wondim, 2007). Since the audit committee is a subcommittee of the governing body, it makes the public assured that firms are complying with the required guidelines through increased scrutiny, which improves accountability, making sure that there is efficient utilization of resources (Odoyo, Omwono, & Okinyi, 2014).

The audit committee also serves to advise the management about how to improve performance. The constraints to improving the quality of auditing in the country include inadequate financing making the services offered to the public inefficient (Kamau & Kariuki, 2012). Poor corporate governance practices within the Kenyan public sector highlighted the huge gaps between boards of directors, executive management, internal control, and performance of organizations (Mutua, 2015). The role of the Public Audit Committee (PAC) in the public system becomes necessary in these conditions. These structures have been developed by the support needed to ensure their effective implementation (Kamau & Kariuki, 2012).

Public auditing institutions function by reducing the issues between citizens and government. Available literature states that auditors are the people's "watchdogs" and make sure that large corporations improve their transparency, fight fraud, misappropriation of funds, and corruption (Waweru, Kamau, & Uliana, 2011). The Department of State Corporations carries out financial audits for state corporations. Most of the state corporations in Kenya have had financial difficulties in the past as their performance has always been below expectations (Achuora, Arasa, & Ochriri, 2012). This called for some of the corporations to be privatized due to increasing incidences of poor corporate governance, mismanagement and overall political interference in the audit duties, which has eroded their contribution to prudent financial management in the public sector (Harrison & Ochieng, 2018; ICPAK, 2017)). This has also seen the introduction of performance contracting in the public sector (Muli, 2009). Public auditing is also meant to put up controls in the corporations so that their performance can be improved (SCAC, 2017).

## 1.2 Statement of the Problem

Audit committees are a mechanism that ensures quality, credible, and objective financial reporting (Turley & Zaman, 2004). They perform the oversight role, assisting the board in monitoring role in an organization or institution; hence their effectiveness is crucial in proper financial management (Baxter & Cotter, 2009). The negative effects of the audit expectation gap have made researchers conduct various studies aimed at ensuring that the gap is narrowed (Masoud, 2017; Bananuka, Nkundabanyanga, Nalukenge, & Kaawaase, 2018). Minimizing the audit expectation gap will foster the reliability of the audit function as well as strengthen the financial health of the institution (Naynar, Ram, & Maroun, 2018).

However, despite the increasing adoption of audit committee characteristics within the state corporations, there has been a limited effect of the committee’s presence on the quality and usefulness of the audit reports (ICPAK, 2017). Further, there has been limited examination of how the audit committees can help in minimizing the expectation gap within state corporations. From the reviewed background information, it is evident that minimizing the audit expectation gap is paramount within the public sector (Waweru, 2018). ICPAK (2017) indicates that the effectiveness of the audit committees within the public sector has been under scrutiny owing to the rampant fraud within the state corporations and lack of stringent adherence to the corporate governance practices. This has negatively impacted the expectation gap within the public domain.

Alawi, Wadi, and Kukreja (2018) examined the determinants of the audit expectation gap and indicated that lack of independence, technical skills, and composition of audit committees led to the expectation gap among users. In a research examination on the Accounting professions in Kenya, Harrison and Ochieng (2018) indicated that lack of clear policy guiding the tenure of audit committee members, technical capacity, independence, and lack of clarity among users on the perception of audit reports are some of the key challenges affecting the audit function. This has largely contributed to the audit expectation gap within the public sector. Mugo and Makori (2018) indicated that financial expertise, technical skills, and the independence of the audit firms enhanced the perception of the public on the audit reports. Waweru (2018) concluded that the independence of the audit committees, technical skills, and membership fostered the public perception of the audit reports. However, the above empirical studies failed to examine the causal link between characteristics of the auditing committee and the expectation gap within the public sector.

From the above, it is clear that there is a policy gap within the public sector in relation to the practice of audit committees. This research sought to expand the available empirical evidence in order to foster policy formulation within the state corporations that will guide audit committees in enhancing their effectiveness. Further, the inconclusiveness of the empirical studies examining the effect of audit committee characteristics on the audit expectation gap within state corporations was a major motivator for conducting the research. This will help not only in bridging the knowledge gap but expanding policy formulation and practice within audit committees in the public sector.

## 1.3 General Objective of the Study

The general objective of this study was to examine the effect of audit committee characteristics on the audit expectation gap: evidence from state corporations in Kenya

### 1.3.1 Specific Objectives

i. To establish the effect of audit committee independence on the audit expectation gap within state corporations in Kenya
ii. To establish the effect of audit committee composition on the audit expectation gap within state corporations in Kenya
iii. To establish the effect of audit committee meetings on the audit expectation gap within state corporations in Kenya.

iv. To determine the effect of audit committee technical skills on the audit expectation gap within state corporations in Kenya

v. To examine the moderating effect of Regulatory Requirements Compliance level on the relationship between audit committee characteristics and the audit expectations gap within Kenya's state corporations

## 1.4 Hypotheses of the Study

**$HO_1$** Audit committee independence has no significant effect on the audit expectations gap within state corporations in Kenya

**$HO_2$** Audit committee composition has no significant effect on the audit expectations gap within state corporations in Kenya

**$HO_3$** Audit committee meetings have no significant effect on the audit expectations gap within state corporations in Kenya

**$HO_4$** Audit committee technical skills have no significant effect on the audit expectations gap within state corporations in Kenya

**$HO_5$** Regulatory Requirements Compliance level has no significant moderating effect on the influence of audit committee characteristics on audit expectation gap within state corporations in Kenya

## 1.5 Scope of the Study

The scope of the study contextually focused on an examination of the audit committees in the public sector and the audit expectation gap. The audit committee characteristics were conceptualized into the audit committee independence, audit committee composition, audit committee technical skills, and the audit committee meetings. The research utilized the agency theory, the stakeholder theory, resource dependency theory, and the institutional theory. The research scope was further limited to a target of the state corporations and the users of audit reports within state corporations in Kenya.

The research further utilized a positivist research philosophy. This philosophy was utilized as it allowed for hypotheses testing to be conducted in a scientific manner. The sample scope of the research focused on state corporations in Kenya. The research selected the state corporations owing to the current reforms being undertaken within state corporations to improve the quality of the audit function in the organizations. The study examined state corporations under the new reconstitution of state corporations since 2017 by the State Corporations Advisory Committee.

## 1.6 Significance of the Study

### 1.6.1 To the National Government

The findings of this study are useful in diagnosing the problems affecting the successful implementation of policies related to the auditing profession within state corporations. The results of the study will help in fostering the audit committee function within state corporations. Furthermore, with the increasing dilution of the audit function in state corporation as evidenced by the lack of implementation of Auditor General recommendations the results of this research will help in directing audit committee members within state corporations on how to leverage on their constitutionally given mandate to expand prudent financial management in the country.

### 1.6.2 To the County Governments

In the current dispensation, the county governments have been obligated to enhance service delivery in the grassroots as well as support the national economic and social development. The findings of the research likely will empower the county governments to foster their audit departments as well as design audit charters that will enhance the auditing profession at the county level. This will likely be of importance in supporting better governance and accountability within the units.

### 1.6.3 Policy Makers in State Parastatals

The study will likely be of great importance to the auditing practice in general as well as in policy formulation as well as enhancing the audit expectation gap in the public sector in the wake of increased corruption and embezzlement. Further, the recommendations of this study will likely help policymakers to design more progressive and effective policies aimed at ensuring good advancement of the audit practice in the public sector.

### 1.6.4 To Shareholders

The management of different business organizations also benefits from the study since it provides a way to understand the importance of the audit committee and the role that it plays in the organization in improving corporate governance and ensuring that the public remains satisfied with the financial reporting of the firm.

### 1.6.5 To scholars and Academicians

Scholars and academicians will likely benefit from the information as it will contribute to the existing knowledge as well as illustrate the gaps that come along with the study of the audit committee's effectiveness and financial management, therefore opening more areas for future studies in the field. The study is expected to enhance the empirical evidence on the causal link between audit committee characteristics and the audit expectation gap. The study will likely enhance the theoretical literature on the applicability of the research theories in future studies.

## 1.7 Limitations of the Study

The research was limited in scope to a review of state corporations only; hence the findings of the research may not be entirely replicable within private organizations where there are minimal corporate governance lapses. The study also anticipated ambiguity in the responses given by respondents who may seek to paint a fair view of their respective audit committees in response to enhancing the audit expectation gap. This was mitigated by assuring the respondents that their responses will be kept private and confidential, only to be used for educative purposes.

The study population was limited to audit committee members within the state parastatals. The research was further limited to a semi-structured questionnaire as the main data collection instrument. This ensured the data collection process was convenient. This was pivotal in assessing the reliability score of the study instruments. The study was further limited to a conceptual examination of audit committee characteristics and the audit expectation gap within state corporations in Kenya.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter of the research examined the literature review based on the research theme. The first section of the research reviewed the theoretical review of the study, and the second section presented the conceptual framework indicating the interrelationships between the research variables. The next section contains the empirical review of previous research work, a critical review of the literature, and a summary of the chapter.

## 2.2 Theoretical Review

The theories pertinent to the audit committee and audit expectation gap reviewed in this study are; institutional theory, agency theory, stakeholder theory, and the resource dependency theory. These theories are discussed in the sections below.

### 2.2.1 Institutional Theory

The institutional theory, as proposed by Meyer and Rowan (1977), holds that the environment within which a firm operates has significant roles to play in the adoption and implementation of various innovations, practices, and structures within the organization which fosters the technical aspects of the firm. DiMaggio (1988) further holds that the basic tenets of the institutional theory offer guidelines geared towards analyzing the environment within which an organization operates. This theory depends on engaging in legitimately-appropriate activities as opposed to the effectiveness of attaining organizational goals (Scott, 2005).

According to Meyer and Rowan (1991), the environment legitimizes the innovative structures that improve technical efficiency in organizations. These innovations become expected of all institutions and organizations in the long-run. The institutional theory is relevant to this study in that it suggests that organizations incorporate technical practices or management structures among departments in seeking to increase their overall performance. The audit committee is an oversight body helps to improve the audit expectation gap through the application of the principles of the institutional theory. Such principles and practices can be incorporated to better explain the adoption structures and systems into practice and hence in the improvement of the overall performance of the public sector.

Kostova, Roth, and Dacin (2008) indicated that the institution is limited in that it does not adequately address the firm as a single entity working towards achieving a common goal. The theory, therefore, was used to anchor the audit committee composition and audit committee technical skills as best practices and structures, respectively.

### 2.2.2 Agency Theory

Proposed by Jensen and Meckling (1976), agency theory explains the best way to organize relationships involving two parties; the leader and the follower (Schneider, 1984). According to this theory, agency problems (adverse selection and moral hazard) arise in conditions of uncertainty (Lin, Vargus & Bardhan, 2007). The agency theory deals with conflicts of interest involving principals and agents on financial reporting and management practices. This affects the company's corporate governance and business ethics, leading to increased agency costs. This theory has increasingly become relevant in literature which discusses the effect of management practices on financial reporting of public institutions.

The agency theory, which is also the overarching theory, is based on the assumptions and philosophy that separating ownership and management leads to transparency in the audit. It's the most discussed theory in finance as far as the internal audit is concerned (Okechukwu & Mohammed, 2011)). The theory is based on the argument that audit functions minimize the problems that may arise due to principals who are the owners and stakeholders of the firm, and the agents who are the management undertaking the assigned roles within the managerial spheres of the firm (Al-Shammari, 2010).

Modern organizations separate management from ownership. In such models, shareholders (and debtholders) are the principals, and their interests involve the actions of the management, who serve as the agents. This model brings issues arising from the inability of the owners to watch over the management (Fama & Jensen, 1983). Owners and agents can invest in control devices, which may offer Pareto optimality (maximum gains for all parties) since the agent would normally bear the cost of any moral hazard (Lin, Pizzini, Vargus, & Bardhan, 2007).

There are several ways for the management to show the quality of available information. Increased demand for monitoring leads to external audits and audit committees (Menon & Williams, 1994). Using audit committees is an important decision and can help when monitoring the board. This theory also suggests that some firms will incur the cost of additional monitoring to enhance transparency (Bar-Yosef & Livnat, 1984). In their study Al-Matari, Al-Swidi, Fadzil, and Al-Matari (2012) in their study concluded that their findings did not support the proposition that aligning the owner's interest with the company's reduces agency cost.

Increasing the quality of audits leads to increased access to private information. However, when verification of the available information is difficult, the agent may produce incorrect reports, leading to adverse selection. Agents have to pay attention to the opinion of human capital in the labour market since producing false reports has negative effects on both the agent and the principle (Fama, 1980). The associated critique on agency theory is the neglect of the institutional perspective upon which the operations of audit practices and the system takes place through a fixed set of strict hypotheses; thus, the argument of rational adoption of best auditing practices through theoretical background within the confines of the differences in the firm's operations. The decisions of the audit committee may give rise to the limited room in solving the associated challenges affecting various stakeholders, which leads to results that are not fully conclusive. Hence the agency theory was applied in the current research to link the audit committee independence as an element of the characteristics of audit committees that can affect the audit expectation gap within state corporations.

### 2.2.3 Stakeholder Theory

In line with Freeman (1994), the agency theory is a short-term perspective of an introduction and the purpose of the firm. The stakeholder theory of corporations was proposed by Donaldson and Preston (1995), who held that the theory was integral within corporations due to its descriptive accuracy, instrumental power and normative validity. The theory's main tenet is that corporate leaders should focus their efforts on encompassing all the stakeholders of the organization in their decision making, not just the shareholders. The theory posits that the management should rethink their approaches in governance and focus on the long-term success of the corporation by recognizing the value of each stakeholder of the organization.

According to this theory, corporate governance activities are meant to benefit both shareholders and associated stakeholders. Jensen (2001) notes that this theory fails to address how to protect the numerous conflicting interests of stakeholders. In general, Jensen was in agreement that business could not maximize their potential without investors or stakeholders being ignored. According to Harrison, Bosse and Phillips (2010), for a firm to manage its stakeholders, it should ensure that resources are directed towards satisfying the needs and demands of the stakeholders, more than what is necessary to simply retain their willful participation in the firm’s productive activities. Harrison and Wicks (2013) suggest that firms that tend to make their stakeholders better off will be the ones that will retain the support and participation of its stakeholders and will thrive over time. They further state that focusing on stakeholders, specifically treating them well and managing for their interests, helps a firm create value, which is good for the firm’s performance.

Stakeholder theory is useful because it harnesses the energy of stakeholders towards the fulfilment of organizational goals (Harrison, Freeman, & Abreu, 2015). In support of the model, Harrison and Wicks (2013) state that there is enough empirical literature to support the existence of a positive relationship between stakeholder-oriented management and performance. Freeman, Wicks, and Parmar (2004) hold that managers need to revisit their shared sense of value and how they relate and seek to create a relationship with the stakeholders within the firm for the better attainment of the organization's goals. This indicates the importance of the theory in the context that mechanisms need to be adopted, such as audit committees that do examine extensively the role of management and their actions. Thus, this theory was integral in examining the level to which state corporations have supported the existence of audit committees and supported them in their roles towards the attainment of the stated goals of the organization.

### 2.2.4 Resource Dependence Theory

The resource dependence theory was proposed by Pfeffer (1981), who indicated that the organization's success is rooted in maximizing the utilization of firm-specific resources. According to Tokuda (2005), the resource dependence theory has its history in the systems theory. It holds the view that organizations have some dependence on the external environment, which enables them to function. As a result, the audit firms taken from this perspective are a resource based on the connections of the auditors and directors with the outside world.

According to Hillman (2000), the audit team performs a strategic function in terms of resources mobilization and protects what the firm already has, which has the potential to determine its growth. In this case, we have resources that are unique to only a particular organization, which should be protected to bring about competitive advantage. Public sector organizations require adequate resources, skills and strategy because of the high competition involved. The audit committee team should hold key resources, such as skills, knowledge, and legitimacy. In addition, members also provide linkage with the external environment through their networks and connections (Abdullah & Valentine, 2009).

Unlike the Agency theory, Resource dependence theory is focused on the advisory support provided to the management (Wang & Huynh, 2013). The relevancy of this theory is to explain the importance of the audit committee characteristics, which require a lot of connections, resources, and networks to improve the image of the corporation (Kiel & Nicholoson, 2003). This theory is of integral benefit in linking audit committee technical skills and competency and how it affects the audit expectation gap.

### 2.2.5 The Role Theory

The role theory was proposed by Davidson (1975). The theoretical description of whether there exists an audit expectation gap or not is best explained by the role theory. According to the theory, the professional (auditor) is regarded to occupy a position of professional status within the social system. Auditors, as a result of their status, are mandated to abide by the ethical considerations which are defined by the societal system. Davidosn (1975) posits that the failure of auditors to abide by the stipulated or given responsibilities or meet the expected duties generate risks of social action to enforce conformity and to penalize nonconformity.

Davidson (1975), further argues that the duty of the auditor is dependent on the interactions of the normative expectations of the various interest clusters in the society, which have either direct or indirect relationship to the position of the auditor. Lastly, Davidson (1975) indicated that the various clusters of users in a way have different expectations about auditors and that they (expectations) are likely to change over time. Asare, Davidson, and Gramling (2008), in their study, indicate that the role theory is limited by its emphasis on the social conformity of the auditors rather than their questioning of the social policies. Further, the researchers point out that the socialization process in the role theory is not comprehensive as it fails to examine the human-agency relationship. The role theory anchored the examination of the audit expectation gap within state corporations in Kenya.

## 2.3 Conceptual Framework

The conceptual framework gives a depiction of how the variables are related to one another. The variables defined here are the independent (explanatory) and the dependent (test) variable. An independent variable influences and determines the effect of another variable. The independent variables in this study are Audit committee member composition, Audit committee independence, the audit committee composition, and Audit Committee member’s technical skills. The dependent variable for the current research is the audit expectation gap within Kenyan public state corporations.

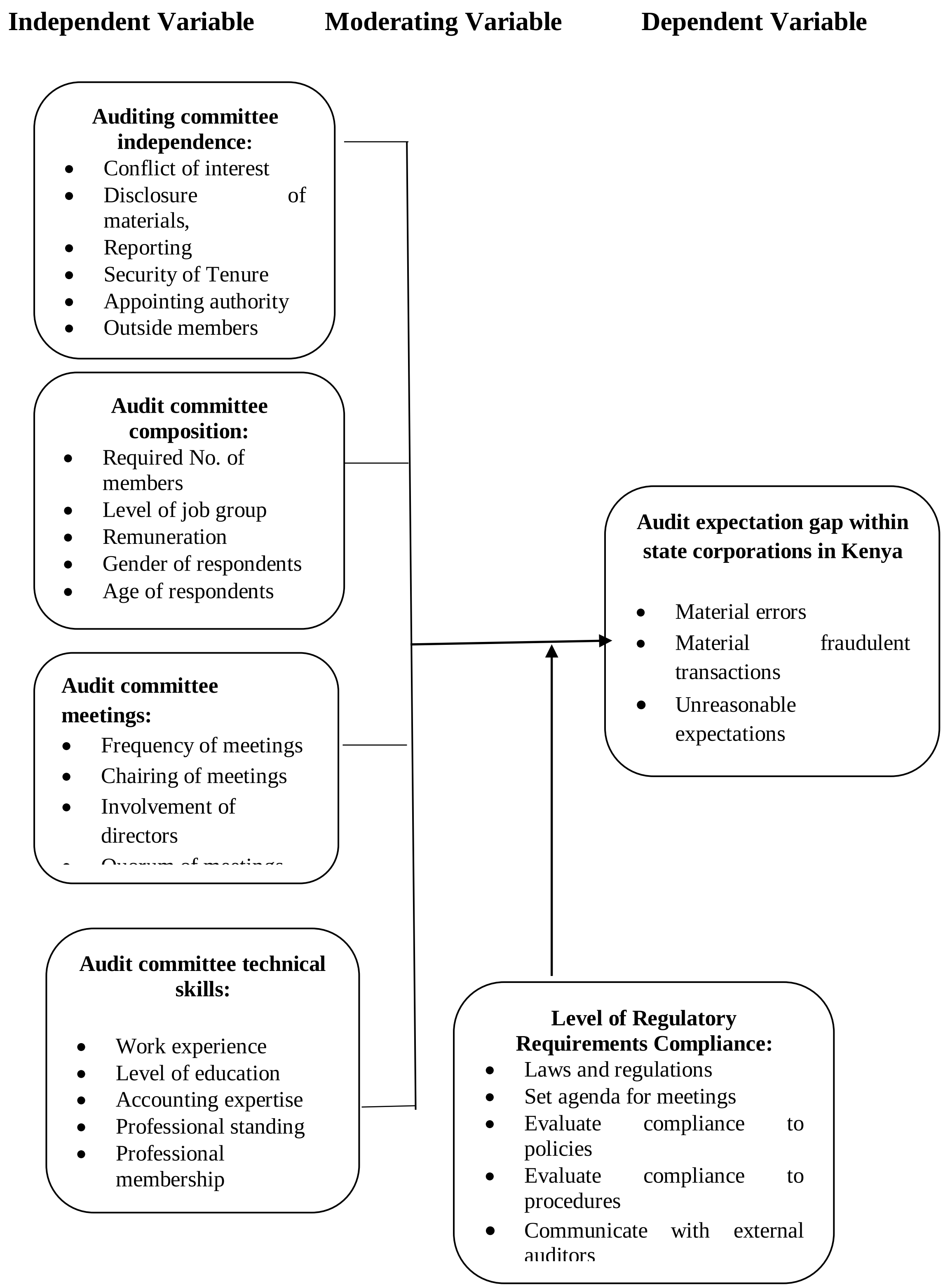


**Figure 2.1: Conceptual Framework**

### 2.3.1 Audit Committee Independence

Institute of Internal Auditors (2011) defines independence as the conditions which enable organizations or auditing firms to carry out their tasks in an unbiased manner. Threats to the independence of auditing committees must be managed at the individual, functional, and organizational levels. Independent internal audit firms carry out their functions more effectively when they have the freedom to provide feedback to the management on how to ensure continuity in control policies (Warga, 2014). In order to perform his/her duties, both the professional Code of Ethics and the Company's Act require the auditor to possess true independence (Harrison & Ochieng, 2018). Professional independence refers to professional remoteness from the client, independence of mind, status and outlook. It is an important professional attribute because it enables the auditor to express an opinion without sub-ordination to the client's management. Bakar, Rahman, and Rashid (2005) stated that audit independence includes individuals with qualities of integrity, objectivity, and impartiality.

Independence and neutrality of the auditor are the critical factors that improve the reliability and credibility of the economic declaration. In coming across the financial travesties earlier than they affect independence, the auditor should take the precise defending methods (Nawaiseh & Alnawaiseh, 2015). The auditor should not undertake any service without consumer order, and if he concurs to try this, he must select a qualified assistant to assist in the process. The auditor's independence additionally affects the use of auditing standards, the satisfactory controlling, the management pressure, and providing non-audit services. The independence of the auditor increases by way of his specialty, experience, the performance of the inner auditing (Abdullah, 2010).

The audit committee is important in monitoring the activities of the government and providing vital information to concerned stakeholders such as the citizens, showing its value in serving the public interest (Baxter & Cotter, 2009). This makes it important for the audit committee to have its own independence for it to execute its duties of financial management in an appropriate manner. If it lacks independence, the audit committee may be a puppet committee that cannot execute its duties appropriately. The independence of the audit committee is vital in promoting better financial reporting and accountability, which strengthen the expectation gap. The independence of the committee serves as an active element of ensuring financial reporting is accurate and within the bounds of best international practices (Baxter & Cotter, 2009). An independent audit committee is an incentive for more efficient financial reporting. The independence of the audit committee's independence is a measure of the quality of financial reports of an organization (Bédard & Gendron, 2010).

To increase the effectiveness of the audit committee, it is necessary to increase the number of independent members in the committee (Baxter & Cotter, 2009). Their primary duty is to ensure the reliability of financial reports, which portrays the health of the organization's finances, although they are also required to appoint external auditors and ensure that they are empowered to carry out their oversight roles (Carcello, Nael, Palmrose, & Scholz, 2006). Sarens and Debeelde (2006) confirm that the internal audit function enables management to cover up for losing control due to the complexity of the organization. Additionally, their study concluded that internal auditors are supposed to safeguard corporate culture through personal contacts with other stakeholders in the organization.

Evans, Evans, and Loh (2002) notes that managers who use the internal audit functions for various extended roles disregard the importance of the independence of the audit committee. Findings further showed that most executives see the audit committee as a government requirement that needs to be filled. This is a threat to the effectiveness of the independence of the oversight committee. Van-Gansberghe (2005) suggests that this dilemma arises from the requirement of the internal audit to add value to management yet not satisfy their personal needs.

### 2.3.2 Audit Committee Composition

The composition of the committee determines the effectiveness of the audit committee (Abedalqader, Tawfiq, & Ata Baker, 2011). It is important to ensure that the members possess requisite skills, knowledge, independence, and good judgment capabilities. Diversity in thinking is necessary for improving the quality of audit committee deliberations, making it possible for it to add value to concerned shareholders. To improve the accountability of a firm, it is necessary for the management to know the composition of the committee, its level of independence, and the financial, leadership, and business experience (Taboi, 2010; Di Napoli, 2007). According to Ernst and Young (2012), the audit committee has to take into consideration alternative viewpoints when evaluating a firm’s crisis preparedness so as to enable considerations on whether to; rotate audit committee members, stagger the terms of service to have the benefit of new skills and perspectives, engage independent advisers, as necessary, recognize the significant workload of board service, and especially of audit committee’s members.

Abedalqader, Tawfiq, and Ata Baker (2011) studied how audit tenure and firm size determines audit quality in Jordan and findings revealed that audit tenure adversely affects audit quality while firm size had no significant impact on the correlation between audit tenure and quality. On a pricing of audit fees, Meshari (2008) concluded that audit firm size had little significance influence on external audit fees. This affirms that auditor’s independence could not be compromised much; hence larger firms had provided for improved audit committee composition, which enhances the committee’s role in mitigating the expectation gap. The above study, however, focused on private enterprises; hence the findings may not be representative of the public sector where governance has been crippled by bureaucracy.

### 2.3.3 Audit Committee Meetings

It is necessary for audit committees to have regular meetings to facilitate the performance of their role and functions (Alzeban, 2015). This is important for them to effectively carry out their activities and roles. Committees that meet twice a year do not have enough information about the performance of an organization when compared to committees that meet several times of the year and have developed relationships with important elements in the organization. These committees ultimately serve the interests of the investor (BCBS, 2010).

It is necessary for the audit committee to formulate a calendar of activities to engage, including a schedule of the meeting plan as agreed by the board (Lin, Pizzini, Vargus, & Bardhan, 2007). Frequent meetings by the audit committee are a fundamental aspect of the board and involve the number of committee meetings in one year. In some organizations, the number of committee meetings is stipulated in law and regulations, which the organization is supposed to comply with (IIA, 2011). It is necessary to organize meetings between the committee and the auditor before releasing the financial statements. Additionally, it is necessary to organize two face-to-face meetings with the external auditor in the presence of the management (BCBS, 2010).

Bedard and Johnstone (2014) examined auditors' assessments of planning and pricing decisions related to earnings manipulation risk and corporate governance risk and posited that the plans of auditors increased effort and billing rates for clients with earnings manipulation risk. The relation between earnings manipulation risk and both efforts and billing rates are greater for clients that have heightened corporate governance risk. Benneedsen, Kongsted, and Neilsen (2008) established that organizations with a lot of fraud cases were found to have had very few audit committee meetings, and those with more meetings had fewer fraud cases in Nigeria.

Chen, Chan, and Leung (2010), on the other hand in their study, noted that the frequency of audit committee meetings enhances corporate performance since the frequency makes employees be more careful in preparing necessary, correct, and accurate reports for the organization that reduces fraud and financial impropriety. Stewart and Munro (2007), in their study in Australia, examined the presence of the audit committee, the frequency of their meetings, and the reduction of risks. They found no substantial relationship though the possibility that their presence helped the auditors to provide qualified reports.

Saleh, Iskandar, and Rahmatl (2007), in a study in Malaysia on the qualities of the audit committee in relation to independence and frequency of meetings in monitoring management behaviour, established that absolute independence of the members and frequent meetings reduces the practices of earnings management as compared to other companies. Muriungi (2010) researched the relationship between auditing and the performance of Kenyan state corporations. The research sampled 10% of the 133 parastatals audited by KENAO. The primary data was assembled via structured questionnaires. The research revealed that without auditing committees, the companies were on the edge of falling into losses. On the other hand, an increase in auditing practices that were meant to improve the audit committees, through increasing the frequency of meetings and control of the meeting agendas, would improve the performance.

### 2.3.4 Audit Committee of Technical Skills

Audit committee members with professional academic qualifications are more effective monitors in reducing cases of malpractices and embezzlement of public funds (Hogan & Wilkins, 2008). The experience of the audit committee members is important for its effectiveness. The experience and expertise of audit committee members in accounting and/or financial management has a positive effect on the quality and timeliness of financial reporting (Humphrey & Turley, 2002). Robert (2006) argues that the audit committee expertise is an essential trait of the audit committee. An effective audit committee consists of experts with a high level of professionalism in their work. The nature of the work of the audit committee is complicated and thus requires the board to have regard to the candidates to ensure that they possess specialized skills. They should be competent and experienced in business, an in-depth understanding of internal control systems, conversant with compliance systems, independent of thought, and willingness to learn.

One key role of the audit committee is to ensure that organizations maintain integrity when accounting and reporting financial statements (Abernathy, Beyer, Masli, & Stefaniak, 2014). The increasing complexity of financial statements has made it necessary for the audit committee to make them easily understandable and transparent. It is necessary for the audit committee to be disciplined enough, increasing the reliability of company financial reports (Lary & Taylor, 2012).

It is necessary for them to understand complex accounting and reporting issues such as fair value accounting and related assumptions, and how these issues are affected by economic conditions (Bananuka, Nkundabanyanga, Nalukenge, & Kaawaase, 2018). This knowledge is important when interpreting regulatory developments and how they affect the financial statements of the company (Ernst & Young, 2012). To be able to do this, the audit committee members need to be trained and taught on the basics and the principles of the role of the committee members in order for them to effectively and efficiently deliver on the outputs of the responsibility required of them (Matendera, 2013).

Audit committees with the high frequency of training in accounts usually have higher effects on the return on equity and return on assets and hence increasing their organizational performance (Abernathy, Beyer, Masli, & Stefaniak, 2014). Similarly, Qin (2007) asserts that firms that post-high earnings are associated with well-trained audit committee members. Arena and Azzone (2013) carried out a study to examine the drivers of internal audit effectiveness and used data from 153 Italian companies. The study findings indicated that; the characteristics of the internal audit team influenced the effectiveness of the auditing committee. However, the above study focused on private companies; hence the findings may not be relevant in the current case where the study targets state corporations. Further, the study failed to examine the audit expectation gap within the target firms.

### 2.3.5 Audit Expectation Gap

An environment that is keen on engaging in legal battles provides a critique for the auditor's roles. This dissatisfaction is a result of the expectation gap (Boyd, Boyd, & Boyd, 2001). Negative assessments have been caused by the fall of once giant corporations and the losses incurred by the shareholders (Masoud, 2017). The audit expectation gap emerged in the 1980s since this was when the profession received widespread criticism. Eden, Ovadia, and Zuckerman (2003) suggested that there is a disparity arising from investors who assume that financial reports are 100% accurate.

Datuk (2007) noted differences between the expectations of the public, the scope of auditing, and the perception of the auditor towards their own role in the oversight task. Lee and Ali (2008) posit that the audit expectation gap is associated with the more complicated features of the auditing function, such as the contradicting role of auditors, delays in responding to the ever-changing consumer demands, and the self-regulation of the auditing process. They indicate that the existence of the expectation gap harms the reputation of auditors all over the world.

Gay (2007) also surveyed the perceptions of the public about the responsibilities of the auditor when it involves the prevention, detection, and reporting of irregular engagements. These findings showed that users might have a reasonable expectation of auditors in respect of their duties in the area of prevention of fraud and the detection of illegal acts. However, they also found the existence of a deficient standard gap existing in relation to immaterial fraud. The study further found that certain characteristics among the respondents eliminate the degree and intensity of the expectation gap.

Schellunch and Gay (2006) considered auditors and other respondents as company secretaries, accountants, and shareholders. They investigated the implications of the expectation gap on forecasting of financial information centering on statement reliability, responsibilities of auditors and management and future prospects of the entity. The findings of the report revealed that auditors perceived forecasts to be more reliable, and they were more responsible and accountable than other respondents.

Obiamaka (2008) researched the elements that lead to the development of the audit expectation gap. The study involved four hundred (400) individuals who were either bankers, investors/ stockbrokers, auditors and accountants. The study shows that auditors and stakeholders have different opinions on the role of external auditors, and the reliability of financial reports. Factor analysis revealed that the audit expectation gap in Nigeria is as a result of a misunderstanding between the auditors and concerned stakeholders. Kamau (2004) researched Kenyan listed companies to determine the existence of the expectation gap and concluded that it is existent. The gap was mainly on the role of auditors in relation to detection, prevention, and reporting of fraud occurrences.

### 2.3.6 Regulatory Requirements Compliance

Treasury Circular 16/2005 provides that the role of audit committees is to review compliance with laws and regulations, review laws and regulations, set agenda for meetings, evaluate evaluation compliance of policies and procedures by the ministries, and enhance communication with the external auditors (ICPAK, 2017). Matendera (2013) indicated that audit committees are embedded in the public finance management Act, 2012. Both the national and the county governments are required to set up an audit committee whose composition will be prescribed through regulations. The primary mandate of the audit committees is to enhance integrity, independence, and effectiveness of audit functions (Gitare, 2013).

The audit committee provides oversight services by monitoring the financial reports of an organization (Getie-Mihret & Wondim, 2007). Locally and globally, audit committees have been used as a tool to mitigate fraud through monitoring the process of financial reporting and corporate governance within public and private institutions (Kamau, Kariuki, & Mutiso, 2014). Chang and Li (2008) investigated the relationship between audit committees and fraud reduction. It was concluded that firms whose audit committees were effective and had clear legal backing in their work were able to minimize their levels of fraud and fostered the quality of audit function.

One of the objectives of Audit committees in State Corporations is to ensure the integrity of financial reporting in the institutions (Rochmah Ika & Mohd Ghazali, 2012). The Audit Committees are also responsible for ensuring that the internal control systems are strong enough to safeguard the assets of the organizations. Audit Committees in State corporations have various attributes which are; Independence of members, tenure of members, size of AC, financial expertise of members, frequency of meetings, multiple directorships in the board (Brennan & Kirwan, 2015).

## 2.4 Empirical Literature

### 2.4.1 Audit Independence and Audit Expectation Gap

Stewart and Subramaniam (2010) conducted a study examining internal audit independence and objectivity: emerging research opportunities. The study adopted a literature review approach of empirical evidence across Europe to examine how the roles of the internal auditor affect the quality of the audit function and its objectivity. The findings of the study indicated that the audit independence was a key determinant of objectivity within the audit functions and stimulated better financial reporting within organizations. Ebimobowei (2010) conducted an evaluation of audit expectation Gap: Issues and challenges. The study was conducted across the Nigerian public sector. The study adopted the normative, descriptive approach in the analysis of data and concluded that the user's perception of the role of auditors led to the development of the gap. The researcher further pointed out that for better audit function, the independence of the auditors should be upheld in order to eliminate the gap completely.

Goddard and Schmidt (2018) examined Auditor-Client Relationships. The researcher analyzed the expectation gaps between members of the board of directors and auditors regarding attributes influencing clients' auditor choice decisions. The study adopted a survey research design targeting audit firm partners and senior managers. The study collected research data from a sample of 32-board members and 41 audit firm partners and senior partners. The research adopted both descriptive and inferential analysis. The results of the study indicate that auditor independence and audit quality had a positive effect on the expectation gap within the firm. The study did not find any significant interaction between audit fees, auditor relationship and the expectation gap. The research focused on audit firms in European countries, whereas the current research examined the audit expectation gap within state corporations in Kenya.

Ghebremichael (2018) studied the determinants of audit service quality perceptions of supervisory directors in Dutch Corporations. The study sought to examine how key quality attributes affect audit quality in the context of supervisors. The research adopted a survey research design with survey questionnaires being utilized in the data collection process. The study adopted factor analysis in examining how auditor competence, auditor independence affected the quality of audit services. The research findings indicated that there was a statistically significant effect of auditor independence on the supervisory directors' perception of overall audit reporting quality.  The research, however, failed to examine how the auditor's independence affected the expectation gap within state corporations, which was the aim of the current research.

Rehana (2010) examined the role of auditing education in Bangladesh. The study specifically sought to investigate how conflicting views on the role of auditing education enhance the narrowing of the audit expectation gap. The study adopted a descriptive approach and selected 300 students to participate in the study. Primary data were obtained through a structured survey questionnaire. The study was analyzed using a mix of descriptive and inferential statistics. The results of the study indicated that a clear review of the auditor's responsibilities, as well as the upholding audit independence, narrows the audit expectation gap. Blay and Geiger (2013) examined auditor fees and auditor independence. The researchers sought to review the impact of the auditor's independence on the quality of the audit function and the going concern decisions within American firms. The researchers noted that auditor independence is the cornerstone of the accounting profession and is key to enhancing the going concern reporting. The study focused on American firms, whereas the current study will factor audit committees within state corporations in Kenya.

Lee, Ali, and Gloeck (2010) studied the causes and remedies of the audit expectation gap in Malaysia. The study relied on a thematical analysis with findings presented in line with the research premises. The researchers noted that the audit expectation gap is a result of unreasonable expectations among beneficiaries as well as a lack of auditor independence and the 'low balling' of auditors by their clients. Litjens, van Buuren, and Vergoossen (2015) conducted a study on the effect of informing the public to reduce the audit expectation gap. The research conducted a survey of 302 participants from the Netherlands, consisting of 61 bankers, 118 preparers, and 123 auditors. The research utilized a mix of correlation and regression analysis in examining the association between research variables. The findings of the study indicated that lack of access to sensitive information by auditors and limited independence of the auditors by the management led to a widening of the audit expectation gap within a banking institution.

Agyei, Aye, and Owusu-Yeboah (2013) conducted an assessment of the audit expectation gap in Ghana. The researchers indicated that the significance of the expectation gap had created an interest among scholars to examine the problem in detail. The sample size for the study was 21 auditors and twenty stockbrokers within Ghana. The study utilized convenient and purposive sampling techniques to analyze the questionnaires, which were the primary sources of data. The study found that the audit expectation gap within Ghana existed particularly due to the concern on the auditor's responsibility in fraud and their independence in the investigation and prevention of fraud. The study indicated that regulations and standards are necessary to support the independence of the auditor and offer clear roles and responsibilities.

Yee, Sujan, James, and Leung (2017) conducted a study examining Perceptions of Singaporean internal audit customers regarding the role and effectiveness of the internal audit. The researcher adopted a descriptive research design with primary data being collected from structured questionnaires from a pool of public auditors. The study indicated that an internal audit was more effective when on the level of audit independence was higher, and the reporting policies were established. The study failed to consider other characteristics of the committee that enhance have an effect on the performance of the auditing committee.

Eyenubo, Mohammed, and Ali (2017) conducted a study on the audit committee's effectiveness of financial reporting quality in listed companies in the Nigeria Stock Exchange. The study adopted a descriptive research design and sampled firms listed at the Nigerian stock exchange. The results of the study showed that audit independence, the size, and the expertise of the members were key determinants of the reporting quality by auditors. The study, however, did not examine the audit expectation gap.

Nyaga, Kiragu, and Riro (2018) examined the influence of internal audit independence on internal audit effectiveness in the Kirinyaga county government, Kenya. The study utilized a descriptive research design with the study utilizing a census sampling of 46-employees working within the Directorate of Internal Audit of Kirinyaga County. Descriptive and regression analysis was done with the help of SPSS. The results of the regression analysis revealed that internal audit independence had a positive and significant effect on internal audit effectiveness. The researchers indicated that increased autonomy of the internal audit department, free access to audit evidence, determining the scope of the audit as well as not performing non-audit functions will foster the perception of their reports. The study focused on a directorate within a devolved unit of governance, whereas the current study sampled state corporations within the country.

### 2.4.2 Audit Committee Composition and Audit Expectation Gap

Al-Matari, Al-Swidi, Fadzil, and Al-Matari (2012) examined the effect of the board of directors, characteristics of the audit committee, and performance of companies listed in Saudi Arabia. The study sampled executives of listed firms in the Saudi Stock Exchange as well as heads of the internal audit department. The study adopted both descriptive and inferential statistics in the analysis of the collected data. The findings of the research showed that the audit committee size and availability of outside auditors in the audit committee positively narrowed the audit expectation gap within listed companies in Saudi Arabia.

Porter, Ó hÓgartaigh, and Baskerville (2012) conducted research on audit expectation-performance gap revisited: evidence from New Zealand and the United Kingdom. The study adopted a descriptive research approach and questionnaires were utilized in the study. The research sampled 1,610 participants in the UK and 1,555 in NZ from the auditor, auditee, and financial and non-financial audit beneficiaries interest groups. The results of the research showed that awareness of audit issues, as well as audit committee composition, was instrumental in structuring the audit expectation-performance gap.

Velte and Freidank (2015) examined the effect of rotating the internal and external auditors on the quality of financial reporting and external audit. The study was conducted across the European Commission. The study aimed to examine how to audit firm rotation enhances audit independence and mitigates the expectation gap. The study adopted a literature review of empirical studies conducted across the European Commission. The study showed that the rotation of audit committee members enhanced the quality of the audit report. However, in the long-term rotation of audit committee members led to decreased learning and knowledge effects which limited auditor independence.

Kantudu and Samaila (2015) studied the effects of the characteristics of the board, independent audit committee, and quality of financial reporting of oil marketing firms: Evidence from Nigeria. The study specifically examined the effect of monitoring on the quality of financial reporting of oil marketing firms in Nigeria. The researcher obtained data from audited annual reports and accounts of the sampled oil marketing companies over a twelve-year period, and then multiple regression was used to analyze the data using Stata version 12.0. The findings showed that having independent audit directors and enhancing the independence of the audit committee members enhanced the quality of financial reporting. The study, however, failed to examine how the audit committee characteristics influence the expectation gap within the firms.

Lary and Taylor (2012) studied the characteristics of the governing body on the effectiveness of audit committees in accomplishing their goals. The sampling frame consisted of 180 Australian-listed companies operating between 2004 and 2009. The study applied multiple regressions to validate the hypotheses and models. The findings of the study showed that the composition of audit committees with financially competent personnel as well as greater diligence among audit committees significantly lowered the audit expectation within listed Australian firms

Mgbame, Eragbhe, and Osazuwa (2012) examined how to audit partner tenure affects audit quality. The main objective of the study was to provide evidence on the existence of a relationship between the tenure of the auditor and their audit quality in

Nigeria. The study adopted the Binary Logit Model estimation technique to analyze the relationship between the tenure of an auditor and audit quality. The findings of the research revealed that the audit team size and the tenure of the audit team had an inverse related relationship to the audit quality within Nigerian firms.

Mokono and Nasieku (2018) studied the factors that affect the performance of internal auditors in Kenyan public universities. The study specifically examined the role of audit independence, the composition, technical competency, and working environment and how it affects the functions of the internal auditors. The research adopted a descriptive research design with the population of the study being drawn from the 31-chartered public universities in Kenya. The study applied a mix of descriptive and inferential statistics in the analysis of the research data. The findings of the research showed that the composition and capabilities of the audit team enhance the performance of the audit function within the public universities. The study focussed on the performance of the internal audit team and did not examine the expectation gap within public universities.

Kamau (2013) examined the determinants of audit expectation gap: Evidence from limited companies in Kenya. The study examined how the auditor's efforts, skills, independence, public knowledge and audit scope affected the expectation gap. The study targeted audit firms in Kenya as the unit of analysis. The study utilized a mix of primary and secondary data. The collected data was analyzed using multiple linear regression to examine the magnitude of the association. The results of the study indicated that audit teams composed of experienced members, members with financial knowledge and outside members affected the audit expectation gap. The study targeted audit firms, whereas the current research examined state corporations in Kenya.

### 2.4.3 Audit Committee Meetings and Audit Expectation Gap

Bou-Raad (2015) studied the relationship between internal audit experience and technical skills of the auditors and the performance of Malaysian firms (ROA). Primary data was collected using questionnaires, while secondary data was obtained from annual reports and incorporated reports from 60 listed on Malaysian firms. The study found that the relationship between the experience of internal audit quality and the performance of the firm is significant and positive. The study concluded that better qualifications and technical skills among audit committee members foster the effectiveness of the auditing function.

Khlif and Samaha (2016) examined the effect of the size of the committee on internal quality control of Egyptian companies. The specific aim of the study was to examine how the activities of the audit committee influenced the internal control quality. Further, the study examined the intervening effect of the external auditors on the association between activities of the audit committee that influenced the internal control quality. The study adopted a survey research design and sampled external auditors within the Big 4 audit firms in Egypt. The results of the study showed that audit committee activity had a positive effect on internal control quality. The results further showed that increased meetings between internal auditors and the external auditors positively affected the quality of the internal audit reports.

Chou and Buchdadi (2017) studied the impact of characteristics of the audit committee on the performance of Indonesian banks. The research relied on several variables including the independence of the board (IB), the annual board meeting (BM), average attendance of the board meeting, the annual board-executive meeting (BEM) and attendance, audit committee (AC), audit committee meeting (ACM) and the attendance percentage, risk committee (RC), risk committee meeting (RCM), and attendance percentage. The research utilized a two-stage least squares panel data regression and Tobin's Q as the proxy of firm performance. The researcher concluded that the attendance levels played a major role in determining the effectiveness of the oversight role of the committee. The research further pointed out that the frequency of meetings and the relevance of the agenda of the audit committee enhanced financial reporting. The study, however, failed to indicate how the audit committee meetings influence the expectation gap within banking institutions.

Soh and Martinov (2009) carried out a study to determine the effect of committee interaction on the internal audit function within firms listed in the Australian stock exchange. A qualitative approach using semi-structured interviews were employed to investigate the perception of 6 audit committee chairs and 6 chief internal audit executives representing a number of industries from the top 150 Australia Stock Exchange-listed companies and 1 large public sector entity. The results of the study suggested that there exists a strong relationship between the audit committee interactions and the internal audit function. The quality of individuals in key roles within each function, as well as personal attributes and values of members, were also perceived to be critical for the effectiveness of each mechanism and in ensuring a strong functional relationship between both.

Bananuka, Nkundabanyanga, Nalukenge, and Kaawaase (2018) examined internal audit function, audit committee effectiveness, and accountability in the Ugandan statutory corporations. The study adopted a cross-sectional research design with correlational analysis utilized in the study. Research data was collected across 52 statutory corporations in Uganda. The findings of the study indicated that the internal audit function significantly contributed to the accountability of statutory corporations. The research findings further indicated that the audit committee meetings enhanced the effectiveness of the audit committee duties. However, the study findings showed that audit committee effectiveness made significant contributions towards improving accountability, even without the presence of the internal audit function. The research, however, was conducted in Uganda state corporations and did not examine how the expectation gap can be fostered through audit committee characteristics, which are the focus of this study.

Waweru (2018) studied the characteristics of the audit committee in terms of the ethnic diversity of the board and the performance of Kenyan and Tanzanian firms. The study specifically sought to examine the effect of compliance with audit committee guidelines on earnings management of firms operating in areas with poor corruption management. Panel data models were utilized in the analysis. The studies showed that increased frequency of audit committee meetings coupled with the independence of audit committee members and board ethnic diversity enhanced the quality of financial reporting within state corporations. This further fostered the overall earnings management within Eastern Africa.

Mwangi (2018) examined the effect of audit committee characteristics on the quality of financial reporting among Non-Commercial State Corporations in Kenya. The study sought to specifically establish the effect of audit committee independence, diversity, financial competence and meetings on the quality of financial reporting. The research relied on a descriptive research design and adopted a census sampling of 72 state non-commercial corporations. The study further utilized descriptive and inferential analysis techniques. The findings of the research showed that audit committee meetings had a statistically significant relationship with the quality of financial reporting. The study, however, focused on financial reporting, whereas the current study scope will be contextually limited to the audit expectation gap.

### 2.4.4 Audit Committee Technical Skills and Audit Expectation Gap

Lenz, Sarens, and Hoos (2017) undertook a study to examine how relationships between chief audit executives and senior management affect the effectiveness of internal auditors. The study employed a case study design and collected data from secondary reviews and multiple study reviews. The findings of the research showed that the effectiveness of internal auditing depended on personal factors, intrapersonal factors, and organization structures. The research employed a case study research design that relied on qualitative data, whereas the current study was anchored on a descriptive research design that utilized both qualitative and quantitative data.

Abayadeera and Watty (2014) examined the expectation-performance gap in generic skills in accounting graduates: Evidence from Sri Lanka. The main objective of the study was to examine the generic skills that are important for the career success of accounting graduates that are vital in narrowing the audit expectation gap within their accounting profession. The study employed the Bui and Porter's (2010) expectation-performance gap framework that was modified to match with the context of the current study. The study collected data via a questionnaire survey and employed the non-parametric test, the Wilcoxon signed-rank test, and the Mann-Whitney test, using SPSS version 20. The results of the study showed that the adoption of generic skills, financial literacy, usage of accounting programs, and ethical guidelines helped in bridging the expectation-performance gap.

Ahmed (2016) examined the audit expectation gap in Ghana. The study sampled senior audit managers across 22 public secondary schools in Ghana. The study employed interview schedules and observation manual to examine the audit expectation gap within the public sector. The findings of the study indicated that auditors needed to be trained on their responsibilities that will enhance their reporting and usability of the audited statements. The study, however, was conducted across secondary schools, whereas the current study focused on state corporations.

Baharud-din, Shokiyah, and Ibrahim (2014) carried out a study to determine the factors that lead to effective internal auditing in the Malaysian public sector. The study sought to investigate the factors that contribute to the effectiveness of internal audit in the Malaysian public sector. The research further employed a cross-sectional survey and sampled internal auditors working in the Ministries in Putrajaya. The study utilized descriptive statistics, correlation, and regression analysis to analyze the data from the survey. The findings of the research showed that there was a positive significant relationship between auditor competency and objectivity enhanced the effectiveness of the internal audit.

Masoud (2017) studied an empirical study of audit expectation-performance gap: The case of Libya. The study was grounded on the Porter framework. The study utilized a questionnaire survey and sampled auditors, audit beneficiaries and auditees. The findings of the study indicated that the audit expectation gap was majorly occasioned by unreasonable expectations from the public. The findings also show that the audit expectation gap can be minimized by enhancing the auditor’s knowledge and outlining the auditor's responsibilities. The study, however, did not examine how audit committee characteristics impact the audit expectation gap in state corporations in Kenya. Baharud-din, Shokiyah, and Ibrahim (2014) carried out a study to examine the factors that improve the effectiveness of internal auditing in the public sector in Malaysia.

Alzeban and Sawan (2013) examined the role played by internal audit function in Saudi Arabian the public sector. The study focused on the effect of the character of the internal auditing committee on the effectiveness of the auditing profession. The study adopted archival and documentary analysis, supported by 29 semi-structured interviews among respondents within the Saudi Internal Audit Regulation. The researchers noted that auditors within Saudi Arabia who well-versed with International Standards for the Professional Practice of Internal Auditing fostered the audit function within the public sector.

Bhasin (2015) conducted an empirical investigation of the relevant skills of forensic accountants: the experience of a developing economy. The study focused on forensic accounting within the Indian public sector. The study utilized a questionnaire, which was conducted in three leading States of the national capital region (NCR) of India during 2011-12. The results of the study showed that forensic accounts services and skills were key to fostering the quality of the audit function within the NCR area.

Limisi, McFie, and Wang'ombe (2017) examined optimal measures for minimizing the tax audit expectation gap in Kenya. The research employed a literature-based study review that indicated the audit expectation gap within the country was largely influenced by the technical capabilities of auditors and the understanding of audit statements by the intended users. The study, however, concentrated only on tax audits hence did not consider other sectors in the public parastatals. Owino (2017) studied the Drivers of audit report lag by listed companies in Kenya. The study employed a descriptive research design examining the audit-specific factors, company-specific factors, and corporate governance practices. The study employed both descriptive and inferential statistics. Further, the research employed a two least square regression method. The findings of the analysis indicated that audit-specific characteristics (competence and financial literacy of auditors) influenced the audit report lag among listed companies. The study, however, focused only on listed companies, whereas the current research scope will examine state parastatals.

### 2.4.5 Regulation Requirements Compliance and Audit Expectation Gap

Köhler, Marten, Quick, and Ruhnke (2015) examined Audit regulation in Germany: improvements driven by internationalization. The researcher examined empirical evidence and noted that amendments in the legal monitoring of the audit duty had contributed to effectiveness in the audit function. The researchers further noted that setting up of supervisory bodies for the audit profession enhanced the competence of the auditors.

Beattie, Fearnley, and Hines (2013) studied the perceptions of factors affecting audit quality in the post-SOX UK regulatory environment. The researchers sought to review how changes post the SOX era have affected the ole for audit committees and independent inspection of audit firms. The findings of the study indicated that the International Standards on Auditing (ISAs) and standards-surveillance-compliance' regulatory system was less effective in enhancing audit quality pre the SOX era. The researchers further indicated that audit committee activities, risk of regulatory actions and audit firm ethics positively influenced the audit quality.

Minnis and Shroff (2017) conducted an investigation on why there is a need to regulate private firm disclosure and auditing. The study was conducted across the US and Canada. The paper discussed in detail the reasons for differential financial reporting regulation of private firms. Further, the study presented survey-based evidence of firms' and standard setters' views of regulation. The research employed an explanatory research design, with the sample population being drawn from the Top 40 auditing firms in both countries. The data collected from the survey questionnaires were analyzed using both descriptive and inferential statistics. The results of the study showed that a lack of clear reporting standards within private firms led to poor financial reports. However, with the enactment of legislation governing the audit function, there has been an improvement in the reporting standards and effectiveness within the audit teams. The study was conducted in industrialized nations with a more developed financial system making the findings unsuitable for use in this study scope.

Arena and Jeppesen (2016) conducted a study on practice variation in public sector internal auditing: an institutional analysis. The main aim of this study was to find out the effect of the involvement of agents across several institutional arrangements. The study adopted a case study methodology with empirical analysis being conducted through thematical techniques. The research was conducted within the EU. The study indicated the development of the internal auditing was facing increasing tensions due to the changing business environment, and there was a need for actors within the audit teams to link their professional system guidelines and the focal social systems to narrow the audit practice variations being witnessed. The study, however, failed to examine how specific audit committee characteristics can help bridge the expectation gap within the state corporations.

Adeyemi and Olamide (2012) studied the effect of ethical responsibility on Nigerian auditing professionals. Data for the study was obtained from auditing students, external auditors, industry and academic accountants. The study adopted a survey research design and data was collected through the use of questionnaires. The collected data was analyzed through means and level of significance tests. The findings of the research showed that ethical guidelines and abiding by high ethical standards enhanced the public perception of the quality of the audit profession. The study further indicated that legislation of rules to enhance the enforcement of high ethical standard are need to foster the growth of the profession. The research, however, failed to indicate how the regulation of the audit profession can narrow the expectation gap within the public sector.

Okibo and Kamau (2012) examined state-owned corporations to determine the effect of internal auditors' compliance with Quality Assurance Standards. The research sought to establish if the Internal Audit Department, as required by the Institute of Internal Auditors (IIA), continually carries out internal quality assessment and external assessment tests at least once in five years. The research carried out hypothesis testing using the data collected from 24 internal audit units to determine the level of compliance with quality assurance standards. The results of the study showed that most state-owned corporations in the country do not comply with quality assurance standards. The following characteristics of the department undermined compliance; lack of awareness about the required standards, age, experience and poor understanding of the quality assurance standards. The research, however, did not indicate how this lack of compliance with auditing standards influences the expectation gap within the public sector.

## 2.5 Critique of Empirical Literature

The research on audit committee characteristics has been at the center of numerous research papers focusing on the corporate governance practices within the current global business environment (Al-Shammari, 2010; Amare, 2016; Harrison & Ochieng, 2018). However, most of these studies have focused on the effectiveness of the internal audit teams to the detriment of a review of the expectation gap within the auditing profession. Furthermore, the analysis of the audit committee characteristics has been conducted with over-emphasis on the role of the audit committee independence (Bhasin, 2015); the audit committee tenure (Mgbame, Eragbhe, & Osazuwa, 2012) and the financial expertise of the audit committee members (Masoud, 2017). Despite these proxies showing relevance in the discourse on the audit expectation gap, their unilateral examination does not provide an accurate basis for linking audit committee characteristics and audit expectation gap within state corporations.

Further, the existing studies focused mostly on the quality of the financial reporting within the private sector; especially the financial institutions (Amare, 2016); which indicated that financial reporting within commercial banks in Ethiopia was affected by other factors that were beyond the independence of the internal auditor. Bou-Raad (2015) examined the audit quality and the firm performance in Malaysia and indicated that the audit committee composition and technical skills influenced the firm performance. However, his research objectives failed to examine if there is any association between the aspects of the audit committee and the quality of the financial reporting and the perception of the users on the quality of the report.

The empirical research examined also shows a lack of consensus among researchers on the audit committee characteristics. In line with ICPAK (2017) locally, the audit committee characteristics have been grouped into; the level of independence, the composition of the team, audit committee meetings, financial expertise (skills) and audit tenure. However, other researchers (Okafor & Otalor, 2013; Stewart & Munro, 2007) have indicated that the adoption of technology and audit committee charter should be part of the key features of the audit committee.

Further empirical evidence has shown that most researchers have dwelled on the personal attributes of the members as a key determinant of their effectiveness (Bhasin, 2015; Ebimobowei, 2010; Porter, Ó hÓgartaigh, & Baskerville, 2012); however, in reality, there are other external factors that are beyond the personal attributes of the audit committee members that may hamper their objectivity and decision making in the course of their audit duties. Furthermore, differences within varying sectors of the economy may present auditors with diversified scenarios; hence making conclusions based on personal attributes alone may lead to inaccuracies in interpretation of the audit committee characteristics and the expectation gap.

Furthermore, the studies that have been conducted on the auditing quality, audit committee characteristics have sought to examine their link to the financial performance of firms from a sample population. For instance, Waweru (2018) showed that audit committee characteristics (independence, financial expertise, size, composition) had a positive effect on earnings management. However, in the real business world, auditing committees enhance the quality of financial reporting. Therefore assessing the financial performance of a business entity solely based on the audit committee characteristics fails to take into consideration other internal business factors such as the risk and capital structuring practices that may impact the earnings of the firm. Thus the above researcher assertions should not be generalized as they are not entirely comprehensive.

From the examined literature, it is evident that corporate governance practices within the Kenyan public sector have faced tremendous challenges. Kirima (2016) argues that the quality of financial reporting within state corporations has been affected by lack of experience, knowledge on auditing standards and lack of professionalism. Mutua (2015) also notes that the lack of effective internal auditing has contributed to the poor management of public resources. This is largely contributed to by the lack of compliance with auditing standards and limited availability of material evidence needed for an effective audit. However, the above studies covered single state corporations; hence generalization of the results may be unreliable in the current study, which examined all the state corporations.

### 2.6 Research Gaps

Research studies on the role of the audit committee and the audit committee characteristics have been widely conducted in the developing world and regionally. Within the local setting, despite audit committees being created through a Treasury Circular in 2005, there is inconclusive empirical evidence examining their importance within the public sector. Further, despite numerous reforms being conducted in regard to the public financial management, there has been limited examination of the key role that the internal auditing function can play in enhancing financial management within the national and county governments. Thus, it would be of practical importance to policymakers and management teams to examine the effect of the audit committee characteristics on the audit expectation gap within state corporations in Kenya. Notably in the current political landscape where there is increasing agitation within the public domain for greater accountability in the management of public resources this research is of significant importance to audit committee members since it will provide a link between expectations of members of the public and perceptions of audit committee members on their roles and responsibilities.

In his study, Ebimobowei (2010) focused on the evaluation of the audit expectation gap within the Nigeria public sector. The researcher focused on the issues surrounding the audit expectation gap and the challenges therein. The current study will, however, focus on the causal link between the audit committee characteristics and the audit expectation gap. This helps the current study focussing on expanding the available empirical evidence. Rehana (2010) research focused on the audit expectation gap in Bangladesh. The research, however, sampled postgraduate accounting students within Bangladesh.

Lee, Ali, and Gloeck (2010) conducted 35 in-depth interviews to determine the causes of the audit expectation gap in Malaysia. The current study utilized a semi-structured questionnaire and did not utilize any in-depth interviews in the data collection process. Litjens, van Buuren, and Vergoossen (2015) sampled bankers in Dutch, while the current study will sample audit committee members within state corporations in Kenya. Agyei, Aye, and Owusu-Yeboah (2013) conducted an assessment of the audit expectation gap in Ghana. The study further adopted both convenient and purposive sampling techniques.

Mutua (2015) examined the relationship between internal audit and effective management in Embu water and sanitation company limited (EWASCO). The current study, however, incorporated a census study of all the 119 state corporations under the national government. Porter, Ó hÓgartaigh, and Baskerville (2012) examined the audit expectation-performance gap within New Zealand and the UK, while the current study only focused on the audit expectation gap within state corporations in Kenya. Velte and Freidank (2015) examined the link between in-and external rotation of the auditor and the quality of financial accounting and external audit.

Kantudu and Samaila (2015) studied the characteristics of the board, independent audit committee, and the quality of financial reporting in oil marketing firms. The study focus was on Nigerian firms. The regression analysis was conducted using Stat 12.0. The current research utilized both correlation and regression tests using SPSS 23. Lary and Taylor (2012) studied the effect of governance characteristics on the effectiveness of audit committees. Masoud (2017) studied an empirical study of the audit expectation-performance gap. The study focused on the knowledge and responsibilities of the auditors in bridging the audit expectation-performance gap. The current study focused on audit committee independence, technical skills, composition, meetings and the regulatory requirements.

Limisi, McFie, and Wang'ombe (2017) examined optimal measures for minimizing the tax audit expectation gap in Kenya. The study only focused on tax audits, while the current study examined all state corporations in Kenya. Khlif and Samaha (2016) examined the audit committee activity and internal control quality in Egypt. The study further adopted a survey research design. The current study focused on the link between audit committee characteristics and the audit expectation gap in Kenya using a descriptive research design. Chou and Buchdadi (2017) examined the effects of the characteristics of the board, the committee and attendance level on the performance of the auditing committee. The current study conceptualized audit committee characteristics into; independence, meetings, composition and technical skills and how they affect the audit expectation gap in state corporations.

**2.7 Summary**

The theories highlighted in this chapter have made it very clear that the agency theory supported the notion of independence within the audit committee as a critical tool for checking on corporate administration and governance of the auditing department. This can play a key role in ensuring that the expectation gap is mitigated in the public sector. On the other hand, the institutional theory explains the key role the environment interactions shape up the technical efficiency of the audit committee. Further, the theory highlights the need for the audit committees to achieve a mix in their personnel capacity to enhance their innovative capabilities. The role theory on the other holds that on account of their professional auditors are expected to be guided by ethical guidelines which bestow upon them levels of expectation that the public deems adequate in the performance of their audit function. The stakeholder theory indicates that the audit committee in the performance of the prescribed duties should not only consider the shareholder opinion but should ensure that all stakeholders are equally factored in the execution of their roles.

From previous research studies, it was revealed that the interrelationships between the audit committee and the expectation gap within the private and public sectors are key to enhancing the level of corporate governance in organizations. Additionally, the literature indicates that the majority of the studies were either done on corporate governance practices and risk management. In addition, the majority of the studies were done in developed economies hence leaving scarce literature in regard to the public sector. More so, very few studies sought to establish a connection between the audit committee characteristics and the audit expectation gap within the public sector. Generally, from the foregoing literature review, it is evident that no comprehensive study has been carried out to specifically explain the research problem. Hence this study sought to bridge the gap and find out if there is a relationship between the audit committee characteristics and the audit expectation gap within state corporations in Kenya.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter of the research describes the research design used in the study, the sampling design, sampling technique, sample size, data collection methods, research procedures, and the data analysis methods. The diagnostic tests that were conducted were then outlined, as well as the ethical considerations that were observed.

## 3.2 Research Philosophy

The research was guided by a positivist research philosophy. Research philosophy forms the basis for the study to base its predispositions on (Saunders, Lewis & Thornhill, 2015). It involves how certain phenomena are viewed in different parts of the world (Saunders, Lewis, & Thornhill, 2012), and it focuses on the theories that support the research strategy and the methods selected as part of the research model (Ihuah & Eaton, 2013). Saunders et al. (2012) assert that there are three main research philosophies; realism, interpretivism and positivism.

Realism holds that a reality that does not depend on the human mind exists. Thus, realism is the opposite of idealism, which argues that there are only the human mind and its contents. Realism is akin to positivism because it supposes a scientific methodology to the improvement of knowledge (Saunders, Lewis, & Thornhill, 2015). Eaton (2010) contends that realism can, however, provide a basis for justification and guidelines for conducting case research and formulation of the theory.

Interpretivism, on the other hand, holds that the researcher needs to understand the differences between humans' roles as social actors in an effort to emphasize the difference between conducting research among people and not objects (Saunders et al., 2012). According to Petty, Thomson, and Stew (2012), in interpretivism studies, prior reasoning strategies are used to explore, describe, understand, explain, change, and evaluate. Interpretivism researchers tend to have some sort of prior knowledge of the research background, but they assume that this cannot suffice in developing a fixed research design due to the complex, multiple and unpredictable nature of the perceived reality (Saunders, Lewis & Thornhill, 2015).

Positivists' model assumes that reality is fixed, directly measurable, and knowable and that there is just one truth, one external reality (Saunders, Lewis & Thornhill 2009). This paradigm generates hypotheses that can be tested; while at the same time providing material useful in the development of laws (Bryman & Bell, 2007). This approach stresses the essence of research projects to be conducted without bias without being influenced by the research subject. Positivism stresses on the need to use quantifiable observations statistical analysis (Saunders, Lewis & Thornhill 2009).

Positivism suggests that an individual's perceptions are directly influenced by external occurrences (Willig, 2013). Saunders et al. (2012) explain that in positivism, the only observable phenomenon can produce credible data. He further states that existing theories are useful when developing the hypothesis for research. A positivist researcher has to remain distant from the subject of the research and has to select a general sample to reduce bias (Creswell, 2013). Positivism fits this study since there is a direct correlation between audit committee characteristics and the audit expectation gap within state corporations. This philosophy was ideal for the study since the research question and hypotheses were clearly defined at the start of the research. Further, the validity and reliability of the external instruments were applied, research participants are passive, and variables are controlled. The study utilized a positivism research philosophy since it is objective and independent of the researcher's personal interests.

## 3.3 Research Design

A research design is the plan and structure of investigation and how it is used to answer research questions, showing the relationship between study variables (Cooper & Schindler, 2008). Trochim (2006) posits that design shows the relationships between all the components of the research project and the research questions. Creswell (2014), on the other hand, simply describes a research design as a "procedure of inquiry." Kothari (2004), describes a research design as the structure of the research and is composed of the data collection, measurement and analysis methods. It is a summary of the researcher's activities that enable him to answer research questions. The research will adopt a descriptive research design to examine the research problem.

This study employed a descriptive research design since the problem statement is well defined, and the variables are known. Descriptive research provides a descriptive analysis of a given sample in both qualitative and quantitative ways. It also presents both forms of data and presents a way for the researcher to present research questions. The above factors make it the best design to use by the researcher.

### 3.4 Population of the Study

The target population for the study was the 119 state corporations (SCAC, 2017). The unit of analysis was the state corporations in Kenya, with a unit of observation being the ranking officer of the audit committees in each parastatal. The population of the study was 119 state corporations in Kenya. Within every state corporation, there is an average of 3-5 audit committee members; the study targeted 1 audit committee member per state corporation. The unit of observation for the study was 119 audit committee members. The study further considered 119-users of audit reports within state corporations to examine the audit expectation gap within the firms.

### 3.5 Sampling Frame

Also referred to as a source list, a sampling frame includes the names of all items of a universe and it must be prepared if it is not available. The source list must be comprehensive, correct, reliable and appropriate, and it must be as representative of the population as possible (Kothari, 2004). Cooper and Schindler (2014) describe the sample frame as the list of elements from which the sample is actually drawn. It is composed of the complete and correct list of the population to be used in the study. The sampling frame for the study was drawn from all the 119 state corporations in Kenya.

### 3.5.1 Sampling Technique

Sampling is carried out to inform the researcher something about the characteristics of the population (Kothari, 2004). There are two main different sampling techniques, namely probability or representative sampling, and non-probability or judgmental sampling (Saunders et al., 2012; Kothari, 2004). For random sampling, the possibility of each item being selected from the population is equal. Therefore, through probability sampling, a researcher can answer the research hypotheses and also achieve research purposes that require statistical estimation of the characteristics of the population from the sample (Saunders et al., 2012). The current study conducted a census sampling of the entire population of the study. The sample respondents were 119 audit committee members and 119 audit committee report users; thus, 238 personnel members.

### 3.5.2 Sample Size

The study utilized a stratified random sampling technique to select the individual respondents. Stratified random sampling involves dividing the target population into homogenous strata and then conducting simple random sampling within the strata (Cooper & Schindler, 2014). Stratified random sampling is the process by which a sample is compelled to include elements from each of the segments (Cooper & Schindler, 2014).

According to Creswell (2014), in stratified sampling, specific attributes of individuals are represented in the sample. The 119 committee members were selected since they are part of the audit committees within state corporations while convenience random sampling was utilized in selecting 119-users of audit reports within state organizations who were assumed to have sufficient knowledge on the benefits of the reports hence were deemed adequate to assess the audit expectation gap. Hence the sample respondents for the study were 238 respondents.

### 3.6 Data Collection Instruments

Duits (2011) noted that data collection involves the technique of gathering data to achieve organizational goals. Questionnaires were used to gather primary data. The questionnaires and research instruments were developed from the literature review to ensure that they remain relevant to the research problem. The use of questionnaires was preferred since it allows the researcher to collect data from a wide geographical area at a relatively low cost. It is also free from unfairness and guarantees non - disclosure of the respondent's identity. Questionnaires have widely been used by various authors such as (Daft, 2004; Bordean, Borza, Rus, & Mitra, 2010).

According to Huck (2009), responses given in the questionnaires are in their own words of the respondents and respondents have ample time to give appropriate responses. Moreover, the questionnaire does not require the respondent to reveal their identity, thus affirming the ethical guidelines that the researchers observed. The study also utilized secondary data to collect public data on the audit committees and the expectation gap within Kenyan state corporations. The secondary data was collected from government reports, state corporation publications, as well as annual reports from state-owned commercial corporations.

### 3.7 Data Collection Procedures

The data collection procedures involved the various measures conducted before the main research, as well as the technique utilized in the data collection process (Kothari, 2004). Prior to undertaking the data collection, the researcher ensured that the research instrument was in line with the premises of the study. Further relevant ethical clearances were sought and permission obtained from relevant institutional bodies. The study adopted a drop and pick technique in the data collection process. This ensured there was convenience in the data collection process. This further ensured that respondents had sufficient time to fill in their responses.

### 3.8 Pilot Test

A pilot study is a groundwork survey carried out to test the weaknesses of the research's questionnaire that may exist and, as such, it replicates and rehearses for the main survey (Kothari, 2004). The study conducted a pilot study to test the reliability and validity of the questionnaire. The pilot tests will be conducted from select state parastatals within Nairobi County. The study utilized 10% of the target population for the pilot test, which translated to 24 respondents who were not involved in the main study. The selection of the firms was based on their performance, which can be supported through effective auditing and corporate governance mechanisms.

#### 3.8.1 Reliability of Research Instrument

According to Sullivan (2011), reliability seeks to confirm if a measurement instrument in a study gives the same consistent results each time it is used in the same setting with the same type of subjects and whether it produces dependable results. Sydorenko (2012), discusses three types of reliability. The test-retest reliability is yielded in cases where a test produces the same score for every respondent when they accomplish the test on another occurrence. Test-retest is the association between the test-scores of objects tested determined at two different instances. The test-retest reliability coefficient ought to be greater than 0.70 for study apparatuses that evaluate the abilities and individual characters of people. Parallel-test reliability, on the other hand, is determined by the association between two different versions of the same test. Finally, the internal consistency postulates the extent to which each item of the apparatus is calculating the same measure. The most widespread method of assessing internal consistency is through the Cronbach's $\alpha$ coefficient, which computes the relationship between average co-inconsistency between items and average discrepancy of items. Similarly, a Cronbach's $\alpha$ value greater than 0.70 is regarded as appropriate (Easton, 2010).

Cronbach's alpha coefficient was used to measure the internal consistency of the research instruments due to the presence of Likert type questions in the questionnaire. The internal consistency Cronbach's Alpha ($\alpha$) ranges from 0 to 1, and it is a reliability coefficient that reflects how well the measurement items positively correlate to one another. In line with Nunnally's (1978) recommendation, only constructs with a cut-off of 0.7 and greater were considered for further analysis in the study. To enhance the reliability of survey instruments used in this study, a pilot study was conducted within 10% of the study population, which was 13 respondents.

### 3.8.2 Validity of Research Instrument

Validity is the degree by which the test instruments measure the research questions. There are two methods of determining the validity of an instrument, namely convergent validity and discriminant validity (Alarcón & Sánchez, 2015; Zaiţ & Bertea, 2011). Convergent validity refers to the extent of confidence that a researcher has that an attribute is well measured by its indicators (Alarcón & Sánchez, 2015). According to Raykov (2011), the convergent validity coefficients are the correlations between measures of the same attribute that are obtained with different measurement techniques. Zaiţ and Bertea (2011) contend that according to discriminant validity, items are supposed to correlate higher among them than they correlate with other items from other constructs that are not supposed to correlate theoretically.

The study applied both measures through content and construct validity to ensure that the questionnaires answer all the research parameters. In the current study, content validity was tested through an examination of the research instrument with the input of the supervisor. Further, the research employed construct validity by reviewing the research instruments with senior management personnel at the Kenya National Audit Office (KENAO). Their input enhanced the content and structuring of the questionnaire.

## 3.9 Data Processing and Analysis

According to Arsham (2008), data analysis involves the systematic application of statistical and/or logical techniques to convert raw data into meaningful information that can be used to make administrative decisions. Kothari (2004) asserts that there are two main categories of analysis; causal and correlation analysis.

### 3.9.1 Model Specification

The study sought to examine the effect of audit committee characteristics on the audit expectation gap within state corporations in Kenya. The study adopted a regression analysis to enable the assessment of the causal link between the study variables. The research adopted an ordinary least square regression model as indicated below;

$$\mathbf{Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$$

Where: ***Y*** = Dependent Variable (Audit expectation gap)

Independent variables, which include:

$\mathbf{X_1}$ is Audit committee independence

$\mathbf{X_2}$ is Audit committee composition,

$\mathbf{X_3}$ is Audit committee meetings

$\mathbf{X_4}$ is Audit committee technical skills

$\boldsymbol{\alpha}$ = the constant

$\boldsymbol{\beta}_{1-4}$ = the regression coefficient or change included in Y by each X

$\epsilon$ = error term

The moderated multiple regression model was;

$$\mathbf{Y} = \alpha + \mathbf{bX + cZ + dX*Z + \varepsilon}$$

**Where;**

Y= Audit expectation Gaps within state corporations

**X**= Aggregate effect of audit committee characteristics on Audit expectation Gaps within state corporations

**Z**= Hypothesized moderation effect of Regulatory Requirements Compliance on audit committee characteristics and Audit expectation Gaps within state corporations

**dX*Z** = The composite effect of regulatory requirements, audit committee characteristics and Audit expectation Gaps within state corporations

ε = Error term

b,c,d = Coefficients of the predictor variables

### 3.9.2 Variable Operationalization

The study variables were operationalized as shown in table 3.1 below;

**Table 3.1: Operationalization of Variables**

| Variable | Type | Data | Measurement | Method of Analysis |
|---|---|---|---|---|
| Audit expectation gap | Dependent Variable | Deficient performance<br>Deficient standards<br>Unreasonable expectations | 5-point Likert Scale | Descriptive statistics |
| Audit Committees Independence | Independent Variable | Reporting Level<br>Outside Members<br>Conflict of Interest<br>Disclosure of Materials<br>Appointing Authority<br>Security of Tenure | 5-point Likert Scale | Descriptive statistics and inferential statistics |
| Audit committee's composition | Independent Variable | Number of members<br>Level of job group<br>Remuneration<br>Gender of respondents<br>Age of respondents | 5-point Likert Scale | Descriptive statistics and inferential statistics |
| Audit committee technical skills | Independent Variable | Work experience<br>Level of education<br>Accounting expertise<br>Professional standing<br>Professional membership | 5-point Likert Scale | Descriptive statistics and inferential statistics |
| Audit committees' meetings | Independent Variable | Frequency of meetings<br>Chairing of meetings<br>Involvement of directors<br>Quorum for meetings<br>The relevance of meeting agenda | 5-point Likert Scale | Descriptive statistics and inferential statistics |
| Regulatory Requirements Compliance | Moderating Variable | Review laws and regulations<br>Set agenda for meetings<br>Evaluate compliance with policies<br>Evaluate compliance to procedure<br>Communicate with external auditors | 5-point Likert Scale | Descriptive statistics and inferential statistics |

### 3.9.3 Diagnostic Tests

#### 3.9.3.1 Multicollinearity

Multicollinearity refers to a situation in which two or more explanatory variables in a multiple regression model are highly linearly related. According to Robert (1967), multicollinearity becomes a problem only when it increases the variance of the coefficient estimates, increasing their sensitivity to minor changes in the model, making the co-efficient estimates unstable hence unreliable. Pearson product-moment correlation coefficient is a measure of the linear correlation (dependence) between two variables X and Y, giving a value between +1 and −1 inclusive, where 1 is a total positive correlation, 0 is no correlation, and −1 is a total negative correlation. It measures the degree of linear dependence between variables. Multicollinearity problem exists when the Pearson correlation test is +0.8 or -0.8.

#### 3.9.3.2 Normality Tests

Normality tests enable the researcher to determine the modelling pattern of a normal distribution and to calculate the probability of a random variable governing the data set to be normally distributed **(***D'Agostino, 1986)*. The normality test was carried out to determine the shape of sample distribution and whether it was similar to that of a normal curve. Similar curves show that the data obtained is obtained from a normally distributed population. The research used both the Shapiro-Wilk and Kolmogorov-Smirnov tests.

#### 3.9.3.3 Heteroscedasticity

Heteroscedasticity is a violation of one of the requirements of ordinary least squares (OLS) in which the error variance IS not constant (Gujarati, 2007). The consequences of Heteroscedasticity are that the estimated coefficients are unbiased and inefficient. Heteroscedasticity occurs when error terms affect the individual independent variables and sometimes even the dependent variable. The implication of the results, therefore, is that the error term does not affect the independent variables and the dependent variable. Rather, the error terms are homoscedastic, implying that they do not affect the individual variables in the model (Kothari, 2011). The study utilized the Test-Glejser examination for heteroscedasticity.

#### 3.9.3.4 Autocorrelation Test

Check that the residuals of the models were not autocorrelated (Checks for the independence of error terms, which implies that observations are independent. The research adopted the Durbin Watson (DW) test. The study utilized the criteria where Scores between 1.5 and 2.5 indicate independent observations.

### 3.9.4 Descriptive Statistics

Descriptive analysis, as described by Zikmund, Babin, Carr and Griffin (2013) refer to the process where unrefined data is transformed into a manner that makes the data easily understandable and interpretable through rearrangement, ordering, and manipulation of data to produce descriptive facts. Descriptive statistics assist the researcher in making huge volumes of data simple in a practical manner whereby each descriptive statistic condenses plenty of data into an easier abridgment. There are two basic methods of presenting descriptive statistics, namely numerical and graphical approaches. The study combined both methods. Data were analyzed using descriptive and inferential techniques for the quantitative data, while thematic analysis was used for the qualitative data.  The data was analyzed using a mix of measures of central tendency.

### 3.9.5 Test of Hypothesis

The study adopted null hypotheses in the examination of the effect of audit committee characteristics on the audit expectation gap within state corporations in Kenya. The hypotheses of the study were conducted at a 5% significance level. As a rule of thumb, significance levels $<.05$ lead to the rejection of the null hypothesis. Hence this was the basis of the hypotheses testing in the research.

### 3.9.6 Findings and Presentation

In practice, it is recommended that one uses both numerical and graphical methods of presentation because they supplement each other (Jaggi, 2003). Descriptive analysis for this study comprised estimation of means, standard deviations and frequencies. This was presented in tables, figures and other bar graphs. Inferential analysis for this study comprised of correlation analysis, Analysis of Variance (ANOVA) and regression analysis. The research further adopted statistical tests such as ANOVA and independent t-tests at a 95% Confidence level. The statistical tests enabled the researcher to accept or reject the research hypothesis based on the statistical significance of the results.

# CHAPTER FOUR

# DATA ANALYSIS AND PRESENTATION

## 4.1 Introduction

This chapter of the study contains the data analysis and presentation of the results of the study. The research sought to examine the relationship between audit committee characteristics and the audit expectation gap within state corporations. The findings of the study were presented as per the research objectives. Further, the chapter contained the descriptive, inferential analysis, and hypothesis testing results.

## 4.2 General Information

### 4.2.1 Response Rate

The research conducted a pilot test with a sample of 24 respondents drawn from the sample respondents – 119 audit committee members and 119 users of the audit committee (10% of the sample population). The study was able to obtain all the responses from the 24 respondents involved in the pilot study. The main research study sampled 107 respondents (including 107 users of audit committee reports) less than the respondents considered in the pilot study.

The study was able to obtain 174 responses (87 members of audit committees and 87 users of audit reports) from representing an 84% response rate from each group of respondents. This was deemed adequate for the statistical analysis to be conducted in line with the criteria proposed by Mugenda and Mugenda (2003) that a response rate above 50% is adequate for statistical analysis. Kaplowitz, Hadlock, and Levine (2004) assert that any response rate of above 60% is reliable for statistical analysis, making the response received thus far appropriate for analysis.

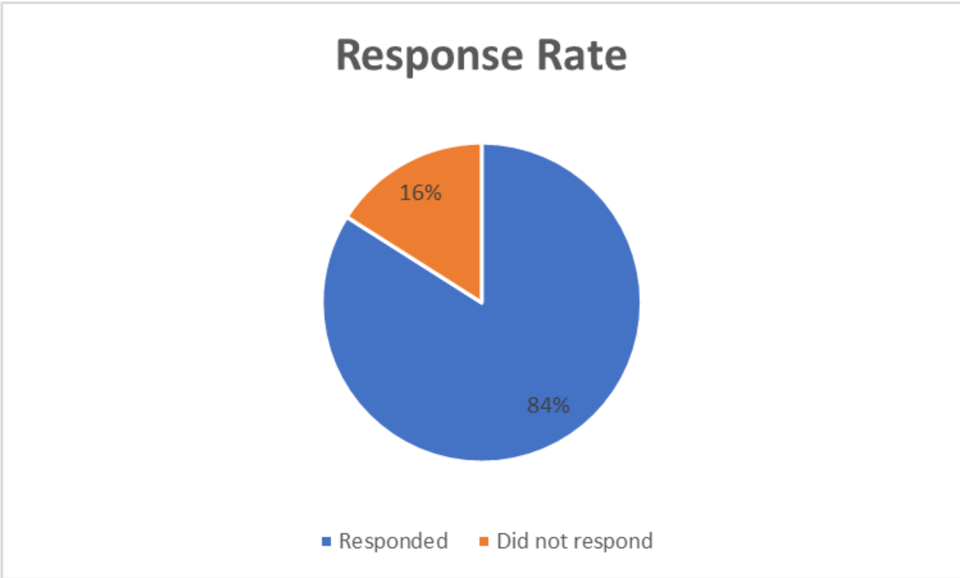


**Figure 4.1: Response Rate**

## 4.3 Pilot Test Results

### 4.3.1 Reliability Statistics

The pilot study was intended to facilitate the reliability tests of the research instruments. The Cronbach Alpha was explained using the below scale; **α ≥ 0.9** – Excellent; **0.9.>α ≥ 0.8** – Good; **0.8 >α≥ 0.7** – Acceptable; **0.7 >α≥ 0.6** – Questionable; **0.6.>α≥ 0.5** – Poor and **0.5 >α**– unacceptable.

**Table 4.1: Reliability Statistics for Audit Committee Members**

| **Audit Committee Characteristics and Audit Expectation Gap** | | | |
|---|---|---|---|
| **Variable** | **Cronbach's Alpha** | **Number of Items** | **Comment** |
| Audit Committee Independence | 0.770 | 6 | Accepted |
| Audit Committee Composition | 0.842 | 5 | Accepted |
| Audit Committee of Technical Skills | 0.735 | 5 | Accepted |
| Audit Committee Meetings | 0.865 | 5 | Accepted |
| Regulatory Requirements | 0.745 | 5 | Accepted |

From the results of the study, the metrics that were used to measure the Audit committee composition α = 0.842, Audit committee meetings α = 865, were good as indicated in Table 4.1 above. Findings also revealed that Audit committee independence α = 0.77, and Audit committee technical skills α = 0.735, and Regulatory Requirements Complianceα = 0.745 were acceptable to be utilized in solving the research problem. The above indicators were also chosen by (Mwangi, 2018) who utilized audit committee independence, audit committee meetings and, audit committee financial competence (technical skills), and audit committee diversity (composition). Njeru (2013) also conceptualized audit committee characteristics into; independence, meetings and technical skills. In general, the pilot study indicates that the study variables can be utilized in solving the research problem even in repeated studies hence were utilized in the current research.

**Table 4.2: Reliability Statistics for Users of Audit Reports**

| Audit Committee Characteristics and Audit Expectation Gap | | | |
|---|---|---|---|
| **Variable** | **Cronbach's Alpha** | **Number of Items** | **Comment** |
| Audit Expectation Gap | 0.796 | 6 | Accepted |

The research results above also indicated that the metrics that were used to measure Audit Expectation Gap α = 0.796 were acceptable to be utilized in solving the research problem. These results were in line with Kamau (2013), who also examined the audit expectation gap with limited companies based on the same constructs of the number of errors and fraud detected as well as the reasonable expectations of the users of the reports.

### 4.3.2 Validity Test Results

To ensure that the validity of the research instrument was maintained, the researcher incorporated the suggestions advanced by the supervisor. Further, the researcher sought an expert review of the research questionnaire with an official from the Kenya

National Audit Office. The study further ensured that construct validity was attained by ensuring that all the indicators were adopted in the research instrument.

### 4.4 Demographic Characteristics of State Corporations

The study further sought to examine the background of the research respondents. This information included how long they have been working in an audit committee, the role they play within the audit committee as well as the highest level of educational qualification. This data was sought to support the choice of the respondents to be involved in the research study.

#### 4.4.1 Length of Service in Audit Committee

The research sought to examine the length of time the respondents had served within an audit committee. The findings are shown in Figure 4.2 below;

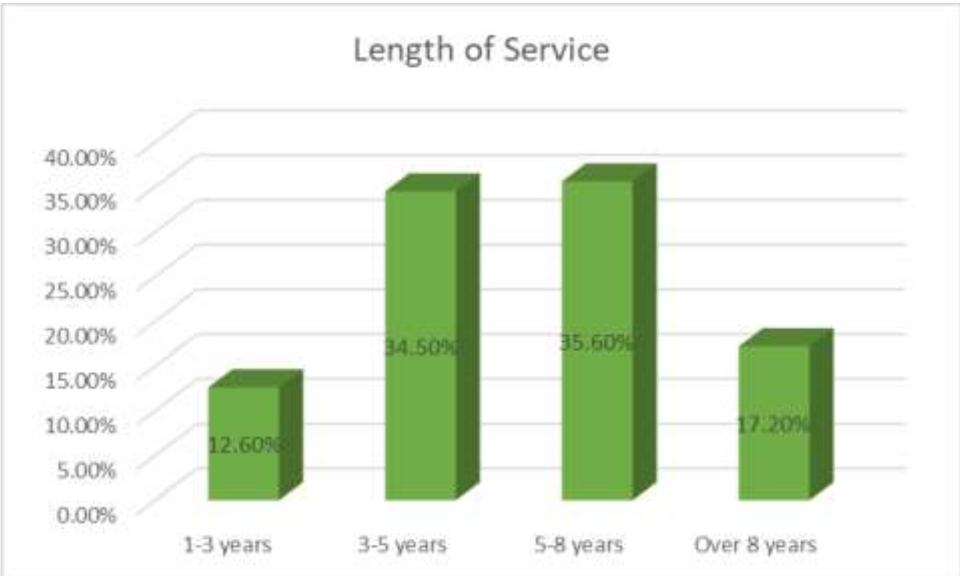


**Figure 4.2: Length of Service**

The above results show that the majority of the respondents had between 5-8 years of service 35.6%, while 34.5% had between 3-5 years, 17.2% had over 8 years' experience while only 12.6% had 1-3 years of experience. The above findings demonstrate that the respondents involved in the study had adequate knowledge of the research premises and thus could offer relevant knowledge to solve the research problem. This is consistent with Sarens, Abdolmohammadi, and Lenz (2012), who indicated that personnel with increased experience within the internal auditing profession were far more effective in their roles than inexperienced personnel.

### 4.4.2 Position Held within the Organization

The study further sought to establish the role held by the respondents within the audit committees. The results are presented in Figure 4.3 below;

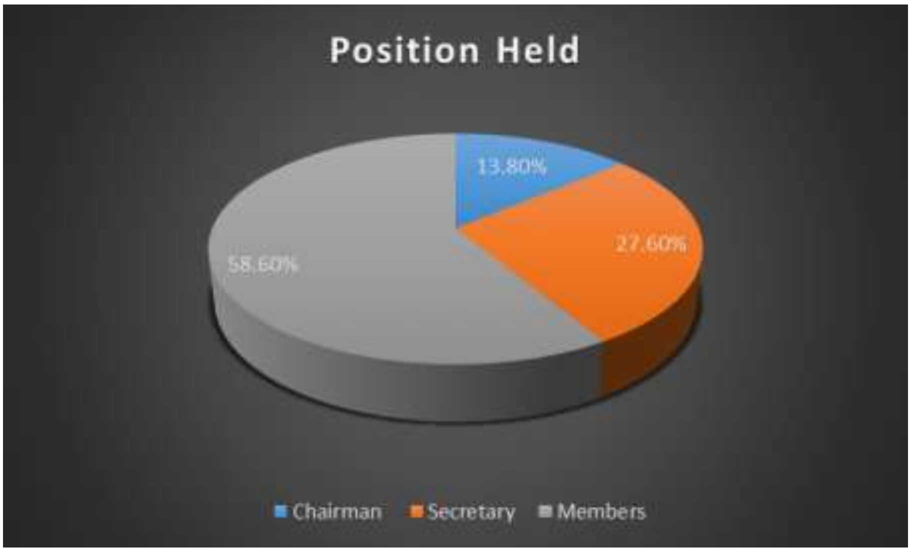


**Figure 4.3: Position Held**

The above results indicated that most respondents, 58.6% were members of the audit committee, findings also showed that 27.6% of the respondents were secretaries within the audit committee while only 13.8% of the respondents were the chairpersons of the committee. These results indicate that the respondents were well aware of the audit committee characteristics, as well as the operations of the audit committee. This enhanced the information given owing to their central role in the audit committee operations. Chou and Buchdadi (2017), in their study, indicated that the professional level held by the respondents determines the quality of the information obtained in the research.

## 4.5 Descriptive Statistics

This section sought to review how the respondents gave their responses to the questionnaires. This was presented using a mix of means, standard deviation, and coefficient of variation.

### 4.5.1 Audit Committee Independence

The first objective of the study sought to examine the effect that the independence of the audit committee had on the audit expectation gap within state corporations. The study utilized three main analysis techniques; coefficient of variation, the standard deviation and the mean. The results were presented in line with a 5-point Likert Scale; 0-1.00 strongly disagree, 4.00-5.00 strongly agree.

**Table 4.3: Audit Committee Independence**

| Code | | N | Mean | Std. Deviation | CoV |
|---|---|---|---|---|---|
| **4A** | The audit committee always endeavours to ensure the members enjoy security tenure | 87 | 4.4713 | 0.64410 | .14 |
| **4B** | The board always endeavours to be transparent in their recruitment of audit committee members | 87 | 4.1264 | 0.78953 | .19 |
| **4C** | The board always endeavours to ensure there is no conflict of interest among the audit committee members | 87 | 4.3908 | 0.67093 | .15 |
| **4D** | The audit committee is always committed to the disclosure of materials | 87 | 4.4828 | 0.79038 | .18 |
| **4E** | It is always a preference of the board to have an outside director within the audit team | 87 | 4.4138 | 0.84291 | .19 |
| **4F** | The audit committee always endeavours to adhere to the line of authority established in the committee | 87 | 4.3908 | 0.82626 | .19 |

The findings on table 4.3 above show that with regard to the audit committee, always endeavours to ensure the members enjoy security tenure, and most respondents agreed as shown by a mean of 4.473 with a standard deviation of 0.6441 and coefficient of variation of 0.14 indicated minimal variation in the respondents. These results conform with Lee, Ali, and Gloeck (2010) who indicated that strengthening of the auditors' independence through the assurance of job security ensured there were objectivity and quality undertaking of their audit function.

Concerning the board always endeavours to be transparent in their recruitment of audit committee members, the results showed a strong level of agreement, as shown by a mean of 4.1264. The and coefficient of variation of 0.19 indicated minimal variation in the responses obtained. These results are in agreement with Litjens, van Buuren, and Vergoossen (2015), who indicated that offering auditors' unrestricted to material evidence strengthened the quality of their report and entrenched their independence. Agyei, Aye, and Owusu-Yeboah (2013) also indicates that access to information and transparency in the roles and responsibilities of the auditors enhanced their audit duties.

The findings of the research also showed that in regard to the board always endeavours to ensure there is no conflict of interest among the audit committee members there was strong agreement as shown by a mean value of 4.3908 and variation of 0.67093; coupled with a coefficient of variation of .15 indicated minimal variations in the responses. The results are consistent with Yee, Sujan, James, and Leung (2017), who concluded that the effectiveness of the internal audit was pegged on the independence of the auditors from the organization directors. Eyenubo, Mohammed, and Ali (2017) also indicated that the independence of the auditors was key in enhancing the quality of the auditor's report.

Concerning the audit committee is always committed to the disclosure of materials, there was agreement among the respondent as indicated by the mean value of 4.4828, showing strong agreement. The results also indicated a standard deviation of 0.79308 and a coefficient of variation of 0.18 showing slight variations of the responses from the mean. These results are supported in the literature by Litjens, van Buuren, and

Vergoossen (2015), who posited that lack of access to sensitive information and lack of transparency from the management affected auditor's productivity levels, widening of the audit expectation gap.

In regard to it is always a preference of the board to have an outside director within the audit team, there was strong agreement among the respondents, as shown by a mean of 4.4138, the standard deviation of 0.84291 and a coefficient of variation of 0.19 indicating moderate variation in the responses. Bou-Raad (2015) also points out that the involvement of external auditors is key to enhancing the user perception of the quality of financial reporting. Mohammed (2017) also notes that external auditing strengthened the quality of the internal audit department through material sharing and collaboration in the review of internal controls.

In regard to the audit committee always endeavours to adhere to the line of authority established in the committee there was strong agreement among the respondents as shown by a mean value of 4.3908 and a deviation of 0.82626 as well as a coefficient of variation of 0.19 indicating the moderate variation of the responses from the mean. These results are consistent with Mutua (2015), who indicated that the independence of the auditors was key in determining the quality of the internal audit function. Arena and Jeppesen (2016) also concluded that in the public sector, there is a need to ensure that the appointing authority should not yield any power to direct or control the audit committee in order to foster the quality of their duties.

### 4.5.2 Audit Committee Composition

The second objective of the study sought to examine the effect of the audit committee composition on the audit expectation gap within state corporations. The study utilized three main analysis techniques; coefficient of variation, the standard deviation, and the mean. The results were presented in line with a 5-point Likert Scale; 0-1.00 strongly disagree, 4.00-5.00 strongly agree.

**Table 4.4: Audit Committee Composition**

| Code | | N | Mean | Std. Deviation | CoV |
|---|---|---|---|---|---|
| **5A** | The audit committee is always committed to meeting the statutorily required composition | 87 | 4.4023 | 0.79912 | 0.18 |
| **5B** | The audit committee rarely has one gender falling below the one-third of the total composition | 87 | 4.4598 | 0.81846 | 0.18 |
| **5C** | There is always a commitment to the regional balance in the audit committee members | 87 | 4.5862 | 0.70796 | 0.15 |
| **5D** | There is always a commitment to the age group balance in the audit committee members | 87 | 4.4023 | 0.86884 | 0.20 |
| **5E** | The audit committee has mixed experienced members which affect the performance of audit function | 87 | 4.3333 | 0.93593 | 0.22 |

The results of the study on Table 4.4 showed that with regard to the audit committee is always committed to meeting the statutorily required composition there was strong agreement among the respondents as shown by a mean of 4.4023, deviation of 0.79912 and a coefficient of variation of 0.18 indicating minimal variation in responses. The results are consistent with Velte and Freidank (2015), who indicated that in Ethiopia, legislation had been put in place to ensure there is no audit committee that can function without meeting the constitutionally mandated minimum of 5-members.

The results also showed strong agreement among respondents in regard to the audit committee rarely has one gender falling below one-third of the total composition, as shown by a mean of 4.4598, deviation of 0.81846 and a coefficient of variation of .18 indicating slight variation in the responses from the mean result. These results are supported by Bruynseels, Krishnamoorthy,and Wright (2015), who indicated that generally, audit committees with more female members are perceived to be more trustworthy in the public eye. This is due to the fact that there is a high perception in the public that women are more fair and trustworthy than male counterparts. Ndege

(2015) also indicated that meeting the average number of audit team enhances the performance of their duties.

The study findings also showed that respondents were in agreement that there is always a commitment to the regional balance in the audit committee members, as shown by a mean of 4.5862, a deviation of 0.70796 and a coefficient of variation of 0.15 indicating slight variations in the responses obtained. The findings are supported by Eragbhe and Osazuwa (2012), who indicated that the presence of long-serving members in the audit committee enhanced the public perception of the quality of their reporting.

The results of the research further showed that in regard to there is always a commitment to the age group balance in the audit committee members there was strong agreement among respondents as shown by a mean of 4.4023, a deviation of .86884 as well as coefficient of variation of .20 which indicated minimal variation in the responses. These results are in line with the observation drawn by ICPAK (2017), who indicated that in the current political environment enhancing regional representation within the audit committees will strengthen the perception of financial reporting. This will help in alleviating bias in the oversight role of the audit committee.

With regard to the audit committee has mixed experienced members, which affects the performance of audit function, there was strong agreement among the respondents, as shown by a mean of 4.3333 and a deviation of 0.93593. The results also indicated a coefficient of variation of 0.20, indicating minimal variations in the responses. Al-Matari, Al-Swidi, Fadzil, and Al-Matari (2012) are also of a similar view in their study where indicated that having audit committee members with different levels of experience creates a synergy which enhances the level of their financial reporting. Porter, Ó hÓgartaigh, and Baskerville (2012) also indicates that the audit committee composition was instrumental in structuring the audit expectation performance gap.

### 4.5.3 Audit Committee Meeting

The third objective of the study sought to examine the effect of the audit committee meetings on the audit expectation gap within state corporations. The study utilized three main analysis techniques; coefficient of variation, the standard deviation, and the mean. The results were presented in line with a 5-point Likert Scale; 0-1.00 strongly disagree, 4.00-5.00 strongly agree.

**Table 4.5: Audit Committee Meeting**

| Code | | N | Mean | Std. Deviation | CoV |
|---|---|---|---|---|---|
| **6A** | The audit committee meets between 4-6 times annually | 87 | 4.2759 | 0.91104 | 0.21 |
| **6B** | The audit committee always endeavours to meet the statutory frequencies of meetings | 87 | 4.4483 | 0.78886 | 0.18 |
| **6C** | The audit committee always endeavours to have a dictated agenda for every audit committee meeting | 87 | 4.3908 | 0.93207 | 0.21 |
| **6D** | The audit committee rarely set off meetings in the absence of the chairman | 87 | 4.5402 | 0.74404 | 0.16 |
| **6E** | The audit committee always endeavours to meet the standard quorum before meetings commence | 87 | 4.4483 | 0.87283 | 0.20 |

The findings of the study on Table 4.5 above sought to establish the effect of audit committee meetings on the audit expectation gap. The results of the study showed that in regard to the audit committee meets between 4-6 times annually, there was strong agreement among respondents, as shown by a mean of 4.2759, a deviation of 0.91104 and a coefficient of variation of 0.21 indicating minimal variation in the responses. These findings are consistent with Khalif and Samaha (2016), who indicated that increased audit committee activity enhanced the internal control quality. The researchers further showed that increased meetings between external and internal auditors enhanced the financial reporting function.

The results of the study also showed strong agreement among respondents that the audit committee always endeavours to meet the statutory frequencies of meetings, as indicated by the mean value of 4.4483 and a deviation of 0.7886. The findings also indicated a coefficient of variation of 0.18, which indicated slight variations of the study responses from the mean. The study results are supported by Chou and Buchdadi (2017), who pointed out that the frequency of meetings audit committee enhanced audit reporting.

The results also showed strong agreement among respondents that the audit committee always endeavours to have a dictated agenda for every audit committee meeting, as indicated by a mean of 4.3908, a deviation of 0.93207 and a coefficient of variation of 0.21 indicating slight dispersion in the responses obtained. Chou and Buchdadi (2017) also hold that the relevance of the agenda of the audit committee meetings enhanced financial reporting. Bananuka, Nkundabanyanga, Nalukenge, and Kaawaase (2018) were also of a similar view that the audit committee meetings enhanced the effectiveness and accountability of the auditors.

The results of the study also indicated that with regard to the audit committee rarely set off meetings in the absence of the chairman, and there was strong agreement among the respondents as indicated by a mean value of 4.5402 and a deviation of 0.74404. The results also indicated a coefficient of variation of 0.16, indicating a slight variation in the responses of the study from the mean value. Waweru (2018) audit committee meetings coupled with the independence of audit committee members and enhanced the quality of financial reporting. In regard to the audit committee always endeavours to meet the standard quorum before meetings commence, there was strong agreement among the respondents as shown by a mean of 4.4483, a deviation of 0.87283, and a coefficient of variation of 0.20 indicating minimal variation in responses. Mwangi (2018) also indicated that meetings held by the audit committees were key to enhancing the quality of their financial reporting.

### 4.5.4 Audit Committee Technical Skills

The fourth objective of the study sought to examine the effect of the audit committee's technical skills on the audit expectation gap within state corporations. The study utilized three main analysis techniques; coefficient of variation, the standard deviation and the mean. The results were presented in line with a 5-point Likert Scale; 0-1.00 strongly disagree, 4.00-5.00 strongly agree.

**Table 4.6: Audit Committee of Technical Skills**

| Code | | N | Mean | Std. Deviation | CoV |
|---|---|---|---|---|---|
| **7A** | A proportion of audit committee members have adequate experience within the committee. | 87 | 4.4943 | 0.77570 | 0.17 |
| **7B** | A proportion of audit committee members have undertaken financial training | 87 | 4.2644 | 0.86884 | 0.20 |
| **7C** | A proportion of audit committee members are experts in accounting practice | 87 | 4.3218 | 0.78495 | 0.18 |
| **7D** | A proportion of audit committee members have a professional standing within the auditing body | 87 | 4.4713 | 0.77518 | 0.17 |

The findings on table 4.6 showed that in regard to the proportion of audit committee members have adequate experience within the committee, and there was strong agreement as indicated by a mean of 4.4943 and a deviation of .7757. The results also indicated a coefficient of variation of .17, indicating slight variations in the responses from the mean result. These results are in line with the observation made by Lenz, Sarens, and Hoos (2017) that auditors' personal factors such as work experience and knowledge enhanced the effectiveness of the internal audit.

The results also showed strong agreement among the respondents in regard to a proportion of audit committee members who had undertaken financial training as indicated by a mean of 4.2644 and a deviation of .86884. The results also indicated a coefficient of variation of .20, indicating slight variations in the responses from the mean result. The above results are in agreement with Abayadeera and Watty (2014), who concluded that the generic skills held by an auditor strengthen the performance of their function. Further, the examination of Bui and Porter's (2010) framework also showed that financial literacy and knowledge of accounting programs had a positive effect on the expectation gap.

The findings of the study also showed strong agreement among respondents in regard to a proportion of audit committee members are experts in accounting practice, as shown by a mean of 4.3218 and a deviation of 0.78495. The results also indicated a coefficient of variation of 0.18, showing minimal variation in the responses. Baharud-din, Shokiyah, and Ibrahim (2014) also indicated that increased competency of the auditor on financial management had a positive effect on the quality of the reporting. Bhasin (2015) also indicated that auditors with forensic accounting expertise fostered the quality of the audit function.

In regard to a proportion of audit committee members have a professional standing within the auditing body, there was strong agreement among respondents as shown by a mean of 4.4713 and a deviation of 0.77518. The results also indicated a coefficient of variation of 0.17, indicating slight variations in the responses from the mean result. These results are supported by Limisi, McFie, and Wang’ombe (2017), who concluded that technical expertise within the accounting field enhanced the capabilities of the auditor.

The research further sought to examine the highest level of education attained by the respondents. This is presented in Figure 4.4 below;

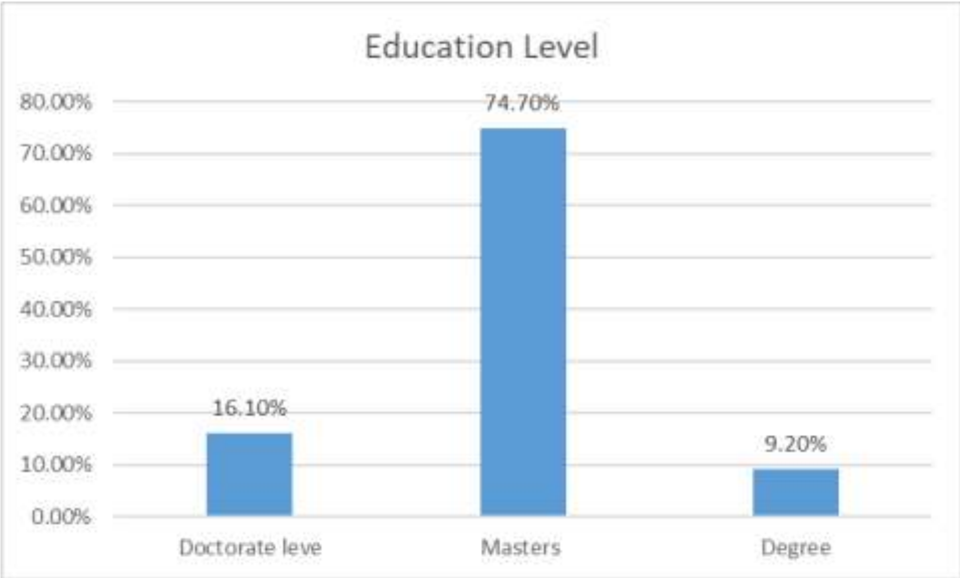


**Figure 4.4: Education Level of Respondents**

The findings of the research show that most respondents 74.7% had attained a Master's level certification; 16.1% of the respondents had Doctorate level education, while only 9.2% of the respondents were Degree holders. This indicates that the level of academic prowess within the audit committees is high. This is an indicator of a high degree of professional standing and knowledge of the responsibilities of the members. Okibo and Kamau (2012) indicated that academic attainment among internal auditors was associated with understandings of the auditing standards and fostered compliance with policies and procedures. The results are consistent with Owino (2017), who indicated that audit committee members should possess unique capabilities that will foster their competence and financial literacy.

### 4.5.5 Regulatory Requirements Compliance

The fifth objective of the study was to determine the moderating effect of Regulatory Requirements Compliance on the relationship between characteristics of the audit committee and the audit expectation gap within state corporations. The study utilized three main analysis techniques; coefficient of variation, the standard deviation, and the mean. The results were presented in line with a 5-point Likert Scale; 0-1.00 strongly disagree, 4.00-5.00 strongly agree.

**Table 4.7 Regulatory Requirement**

| Code | | N | Mean | Std. Deviation | CoV |
|---|---|---|---|---|---|
| **8A** | The audit committee always has complied with regulations governing our duties | 87 | 4.4023 | 0.84165 | 0.19 |
| **8B** | Our audit committee continuously reviews compliance to policies | 87 | 4.3793 | 0.79594 | 0.18 |
| **8C** | The audit committee constantly reviews compliance with procedures | 87 | 4.3563 | 0.86235 | 0.20 |
| **8D** | Our audit committee regularly communicates with external auditors | 87 | 4.2874 | 0.83399 | 0.19 |
| **8E** | The audit committees always adhere to our legal mandate in setting the agenda of meetings | 87 | 4.4023 | 0.86884 | 0.20 |

The results of the research in table 4.7 showed that in regard to the audit committee always has complied with regulations governing our duties, and there was strong agreement as shown by a mean of 4.4023 and a deviation of 0.84165. The findings also indicated a coefficient of variation of .19indicating slight variations in the responses from the mean result. This is in line with the Treasury Circular 16/2005 that indicated that among other duties, the audit committee should constantly review laws and regulations governing their legal mandate.

The findings also showed strong agreement in regard to our audit committee continuously reviews compliance to policies as indicated by a mean of 4.3793 and a deviation of 0.79594. The research results also indicated a coefficient of variation of .18, indicating slight variations in the responses from the mean result. The above results are in line with Arena and Jeppesen (2016), who indicated that internal auditors should ensure that they regularly review the procedures and policies to ensure they are in line with auditing standards.

The results also showed strong respondents agreed that the audit committee constantly reviews compliance to procedures as indicated by a mean of 4.3563, a deviation of 0.86235 and a coefficient of determination of 0.20, indicating minimal variation in the responses. These results are inconsistent with Okibo and Kamau (2012), who indicated that lack of knowledge on auditing standards among internal auditors contributed to low compliance levels within state corporations.

In regard to our audit committee regularly communicates with external auditors, there was strong agreement among the respondents, as shown by a mean of 4.2874, a standard deviation of 0.83399 and a coefficient of variation of 0.19 indicating minimal variation in the responses obtained. Lastly, the study results also indicated that there was strong agreement among respondents that the audit committees always adhere to our legal mandate in setting agenda of meetings, as shown by a mean of 4.4023 and a deviation of 0.86884. The research results also indicated a coefficient of variation of 0.20, indicating slight variations in the responses from the mean result. The above results are consistent with Matendera (2013), who indicated that the audit committee had been embedded in the PFM Act of 2012 to ensure there is legality in the operation of their duties.

### 4.5.6 Audit Expectation Gap

The study sought to examine the audit expectation gap within state corporations in Kenya. The study utilized two main analysis techniques; the standard deviation and the mean. The results were presented in table 4.8 below in line with a 5-point Likert Scale; 0-1.00 strongly disagree, 4.00-5.00 strongly agree.

**Table 4.8: Audit Expectation Gap**

| Code | | N | Mean | Std. Deviation | CoV |
|---|---|---|---|---|---|
| **9A** | The audit reports often uncover all material errors | 87 | 4.4356 | 0.75915 | 0.17 |
| **9B** | The audit reports often unearth all material frauds | 87 | 3.8956 | 0.39403 | 0.10 |
| **9C** | The audit report often meets the expectation of the audit report user group | 87 | 4.3455 | 0.78640 | 0.18 |
| **9D** | There are often deficient application standards gaps within audits | 87 | 4.3655 | 0.75915 | 0.17 |
| **9E** | There are often disparities in the audit reports | 87 | 3.8961 | 0.79472 | 0.20 |
| **9F** | I can vouch for the dependability of the audit report | 87 | 4.6551 | 0.67082 | 0.14 |

With regard to the audit reports often uncover all material errors, there was agreement among respondents as shown by a mean of 4.4356, a deviation of 0.75915 and a coefficient of variation of 0.17 indicating slight variation in the responses. This is consistent with Masoud (2017), who indicated that one of the key measures of the expectation gap is the level of expectation-performance gap.

With regard to the audit reports often unearths all material frauds, there was agreement as shown by a mean of 3.8956, a deviation of 0.39403 and a coefficient of variation of 0.10 indicating very low variation in the responses. Ernst and Young (2012) pointed out that there has been tremendous growth in corporate governance practices, which has translated into effective auditing functions in many developing nations.

Concerning the audit report often meets the expectation of the audit report user group, there was agreement among the respondents as shown by a mean of 4.3455, deviation of 0.7864 and coefficient of variation of 0.18, indicating slight variations in the responses. The study results are consistent with Waruhiu (2015), who indicated there is growing knowledge within the public of the role played by auditors in supporting prudential public resource utilization.

Concerning there are often deficient application standards gaps within audits, there was strong agreement among the respondents, as shown by a mean of 4.3655 and a deviation of 0.75915. The research results also indicated a coefficient of variation of 0.17, indicating slight variations in the responses from the mean result. The findings are consistent with Gitare (2013), who examined the Big four auditing firms and concluded that there are still standards gaps as far as the audit committee role is concerned within the Kenyan sector.

In regard to there are often disparities in the audit reports, there was agreement among the respondents, as shown by a mean of 3.8961 and a deviation of 0.79472. The research results also indicated a coefficient of variation of 0.20, indicating slight variations in the responses from the mean result. In regard to i can vouch for the dependability of the audit report, there was strong agreement among the respondents, as shown by a mean of 4.6551 and a deviation of 0.67082. The research results also indicated a coefficient of variation of .14, indicating very low variations in the responses from the mean result. The above results are consistent with Limisi, McFie, and Wang'ombe (2017), who examined the expectation gap in tax auditing in Kenya and noted that there was growing recognition of the role of the auditors and the expectations that the public had.

### 4.6 Results of Diagnostic Tests

In statistics, linear regression is utilized when the intent of the research is to predict the value of a variable based on the value of another variable. In conducting this statistical test, it is prudent to ensure the data being utilized is able to pass the basic assumptions of linear regression. In the current study, linear assumptions were tested using the normality test, the collinearity test, and autocorrelation.

#### 4.6.1 Normality Tests

In testing for normality, the researcher intended to assess whether there was normality in the distribution. In cases of data sets that have less than 2000 elements, the Shapiro-Wilk test is adopted; otherwise, the Kolmogorov-Smirnov test is applied.

**Table 4.9: Normality Tests**

| | **Kolmogorov-Smirnov[a]** | | | **Shapiro-Wilk** | | |
|---|---|---|---|---|---|---|
| | Statistic | df | Sig. | Statistic | df | Sig. |
| AC Independence | 0.296 | 87 | 0.110 | 0.856 | 87 | 0.176 |
| AC Composition | 0.295 | 87 | 0.111 | 0.884 | 87 | 0.289 |
| AC Meeting | 0.258 | 87 | 0.200* | 0.908 | 87 | 0.426 |
| AC Technical Skills | 0.125 | 87 | 0.200* | 0.985 | 87 | 0.974 |
| Regulatory Requirements Compliance | 0.285 | 87 | 0.140 | 0.879 | 87 | 0.264 |
| Expectations Gap | 0.276 | 87 | 0.110 | 0.885 | 87 | 0.256 |

*. This is a lower bound of the true significance.
a. Lilliefors Significance Correction

For the current research, the Shapiro-Wilk test was adopted. The test states that for normally distributed data, the sig. the value should be 0.05 or greater. From the results in Table 4.9 above, the significance value for all the predictor variables was above 0.05; hence the research concludes that the data were normally distributed.

### 4.6.2 Multicollinearity Tests

Multicollinearity occurs when two or more predictors in the model are correlated and provide redundant information about the response. Multicollinearity was carried out through the VIF and Tolerance value statistics to determine the possibility of interdependence between different variables. The following are the results

**Table 4.10: Multicollinearity Test**

| | | **Collinearity Statistics** | |
|---|---|---|---|
| **Model** | | **Tolerance** | **VIF** |
| 1 | (Constant) | | |
| | Audit Committee Independence | 0.361 | 2.769 |
| | Audit committee Composition | 0.638 | 1.568 |
| | Audit Committee Meeting | 0.406 | 2.465 |
| | Audit committee technical skills | 0.831 | 1.204 |
| | Regulatory Requirements Compliance | 0.602 | 1.436 |

a. Dependent Variable: Audit expectation gap

Table 4.10 shows that VIF values are all less than 10, meaning that there was no multicollinearity. The Tolerance value checks on the degree of Collinearity, where a tolerance value lower than 0.1 shows that the variable could be considered as a linear combination of other independent *variables*. All the tolerance values for the study were above 0.1, hence no collinearity problems. The VIF factors were as follows; Audit committee Independence, VIF value of 2.769, Audit committee Composition, VIF value of 1.568, Audit committee Meeting, VIF value of 2.465, Audit committee Technical Skills, VIF value of 1.204 and Regulatory Requirements Compliance VIF value of 1.436. This showed that the threat of multicollinearity was insignificant, making it possible to use a linear regression model in the study.

### 4.6.3 Autocorrelation

Serial correlation refers to a situation where the error terms are correlated with each other, i.e., the disturbance term of one observation is influenced by the disturbance term relating to another observation (Gujarati, 2003). The result is that the OLS estimators determined in the presence of autocorrelation normally provide smaller standard errors than what is appropriately leading to misleading results of hypothesis testing. The study will employ the Durbin-Watson statistic to test for autocorrelation.

**Table 4.11: Autocorrelation Tests**

| Std. Error of the Estimate | Durbin-Watson |
|---|---|
| 1.34061 | 1.829 |

a. Predictors: (Constant), Audit committee technical skills, Audit committee Composition, Audit committee meeting, Audit committee Independence

b. Dependent Variable: Audit expectation gap

The study utilized the Durbin-Watson statistic to measure for autocorrelation. The results indicated no autocorrelation, as shown in Table 4.11. As a rule of thumb, Durbin-Watson Scores between 1.5 and 2.5 indicate independent observations.

### 4.6.4 Heteroscedasticity Tests

Heteroscedasticity is the systematic change in the spread of the residuals over the range of the measured values. Heteroscedasticity is a problem because, in linear regression, it is assumed that all the residuals are drawn from a population that has a constant variance. The research utilized the Test Glejser to test for Heteroscedasticity problem in the study. As a rule of thumb if the *Sig.>.05* then there is no heteroscedasticity

**Table 4.12: Heteroscedasticity Tests**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | .544 | 1.547 | | 0.351 | 0.727 |
| | Audit committee Independence | .050 | .070 | 0.188 | 0.713 | 0.480 |
| | Audit committee Composition | -.006 | .033 | -0.037 | -0.187 | 0.852 |
| | Audit committee Meeting | -.073 | .063 | -0.288 | -1.160 | 0.253 |
| | Audit committee technical skills | .061 | .058 | 0.182 | 1.049 | 0.301 |

a. Dependent Variable: AbsUt

From the resulting test, the output coefficients significance value obtained are Audit committee Independence *Sig = 0.480,* Audit committee composition *Sig = 0.852,* Audit committee meetings *Sig = 253,* and Audit committee technical skills, *Sig =0.301*, which are all greater than *Sig = .05* hence the study concludes that there is no heteroscedasticity problem.

### 4.7 Correlation Test Results

The research further undertook correlation tests to determine the level of association between the independent and dependent variables of the study. The following section presents the results of the correlation analysis. According to Cooper and Schindler (2014), correlation analysis is done to determine the extent to which the variations in one variable can be attributed to the changes in another.

### 4.7.1 Audit Committee Characteristics and Audit Expectation Gap

**Table 4.13: Correlation Results of Audit Committee Characteristics and Audit Expectation Gap**

| | | **Audit expectation gap** |
|---|---|---|
| Audit Committee Independence | Pearson Correlation | 0.608 |
| | Sig. (2-tailed) | 0.000 |
| | N | 87 |
| Audit Committee Composition | Pearson Correlation | 0.637 |
| | Sig. (2-tailed) | 0.000 |
| | N | 87 |
| Audit Committee Meeting | Pearson Correlation | 0.851 |
| | Sig. (2-tailed) | 0.000 |
| | N | 87 |
| Audit committee technical skills | Pearson Correlation | 0.280 |
| | Sig. (2-tailed) | 0.069 |
| | N | 87 |
| Regulatory Requirement Compliance | Pearson Correlation | 0.773 |
| | Sig. (2-tailed) | 0.000 |
| | N | 87 |

**. Correlation is significant at the 0.01 level (1-tailed).

The result of the correlation test on table 4.13 above indicated that the relationship between audit committee independence on the audit expectation gap is positive and significant (*r=.608, p=.000*). This implies that audit committee independence can narrow the audit expectation gap; this further indicates that audit committee independence can help bridge the gap between public expectations and the actual performance of the auditors. The audit committee's independence within state corporations in Kenya can be achieved through the involvement of outside auditors, having transparency within the audit team, ensuring there is no conflict of interest within the committee as well as having to appoint authority within the committee.

Cohen, Gaynor, Krishnamoorthy, and Wright (2011) examined the effect of the actions of the CEO on the independence of the audit committee. The researcher noted that the undue influence of the CEO might dampen the performance of their duties. The researchers indicated there is a need for regulation to cushion the auditors. AlNajjar (2011) examined the determinants of audit committee independence and activity: evidence from the UK. The researcher concluded that the availability of outside directors helped to strengthen the independence of the audit committee. The study findings also showed that inside ownership and large board size were also positively related to an increase in audit committee independence.

The results indicated there is a positive and significant effect of audit committee composition on the audit expectation gap ($r=.637, p=.000$). This indicated that audit composition was a key factor in determining the audit expectation gap. The audit committee composition within state corporations can be achieved through ensuring there is gender parity in the committee, meeting the bare minimum requirements of the audit committee composition, having regional representation as well as ensuring there a well-diversified team of experts within the audit committee.

Carcello, Neal, Palmrose, and Scholz (2011) carried out a study on the effects of CEO involvement in selecting board members. The researchers indicated that the involvement of the CEO in the appointment of audit committee members waters down their independence as well as limit the effectiveness of their function. Sun, Liu, and Lan (2011) examined if female directorship on independent audit committees constrains earnings management. The findings of the study indicated that there was no association between the proportion of female directors on the audit committee; however, the researchers indicated that the size of the audit committee positively enhanced audit committee independence.

Krishnan, Wen, and Zhao (2011) studied the effect of legal expertise on the functions of the audit committees and the quality of financial reporting in state corporations. The results of the study indicated that the composition of members of the audit committee with a mix of legal and accounting expertise enhanced the quality of the audit function. Johl, Subramaniam, and Zain (2012) examined the effect of CEO ethnicity on audit fees: some Malaysian evidence. The results of the study indicated that the audit committee should be majorly composed of independent members, and the majority of the member should not be of the same ethnical background as the CEO in order to enhance their performance and limit biases.

The third objective of the study was to examine the effect of audit committee technical skills on the audit expectation gap. The findings of the research showed that there is a positive nonsignificant effect of audit committee technical skills on the audit expectation gap within state corporations in Kenya ($r= .28, p=.069$). The level of audit committee technical skills can be explained in terms of the level of the accounting profession, their professional standings, the committee members’ level of financial literacy, the level of work experience as well as the professional membership within the accounting profession.

Badolato, Donelson, and Ege (2014) studied the audit committee's financial expertise and earnings management: The role of status on state corporations. The researchers indicated that the status of audit committees is lower due to increased financial expertise and independence of the board. The findings of the study further indicated that expertise and the status of members of the audit committee positively influenced the outcome of financial reports. Trautman (2012) examined who qualifies as an audit committee financial expert under SEC regulations and NYSE Rules. The review of the handbook reviewed that individuals with a background in finance and with good standing in the accounting profession qualify to be an audit committee financial expert.

Abernathy, Beyer, Masli, and Stefaniak (2014) conducted a research on the association between characteristics of audit committee accounting experts, audit committee chairs, and financial reporting timeliness. The results of the analysis show that accounting expertise gained from public accounting experience is associated with timelier financial reporting; however, accounting expertise gained from chief financial officer-CFO experience is not. The results further indicate that audit committee chairs (ACCs) with accounting expertise from public accounting experience are significantly associated with timelier financial reporting.

The fourth objective was to establish the effect of the audit committee meeting and audit expectation gap. The results of the study showed there is a strong and positive effect of audit committee meetings on the audit expectation gap within state corporations (*r=.851, p=.000*). The audit committee meetings can be achieved through; holding frequent meetings, having relevant agenda for the meetings, meeting the required quorum, having the chair available to chair the meetings as well as meeting the required number of annual meetings as per the laid down legal requirements.

Yin, Gao, Li, and Lv (2012) investigated Chinese companies to determine the factors that determine the frequency of audit committee meetings in state corporations. The study findings indicated that the relationship between the size of the firm and the frequency of meetings was positive and that the association between the number of independent directors on the board and the number of audit committee meetings is negative. Greco (2011) examined the factors that determine the frequency of the board and committee meetings. The findings of the research showed that insider ownership had negative effects on the frequency of committee meetings, while the proportion of independent directors on the board positively impacted the frequency of audit committee meetings.

Emeh and Appah (2013) studied the influence of the audit committee on the time reliability of financial reports from Nigerian firms. The results of the study showed that the audit committee should be given the mandate to set meetings independently, as suggested by the audit committee charter. Sultana (2015) examined audit committee characteristics and accounting conservatism. The study found out that the frequency of audit committee meetings was positively related to accounting conservatism. The study also indicated that it is necessary for regulators and involved shareholders to pay more attention to the frequency meetings of the audit committee when evaluating the committee's value.

The fifth objective of the study sought to examine the effect of the moderating variable. The findings of the research presented in Table 4.7 above indicate that there is a positive and significant effect of the Regulatory Requirements Compliance on the audit expectation gap within state corporations (*r=.773, p=.000*). The Regulatory Requirements Compliances stipulated in the Treasury Circular 16/2005 include but not limited to review of laws and regulations governing audit committee duties, conduct reviews on compliance to policies, evaluate compliance to procedures, regularly communicate with external auditors, and adhere to the legal mandate in setting the agenda for meetings.

In their study, Bruynseels and Cardinaels (2013) examine whether the audit committee is a management watchdog or personal friend of the CEO in the US?. The results indicate that under the Sarbanes-Oxley Act, the audit committee members are expected to uphold their independence from the CEO and ensure that there are no social networks that might raise going-concern issues. Rupley, Almer, and Philbrick (2011) examined audit committee effectiveness: Perceptions of public company audit committee members post-SOX in the USA?. The results of the study indicate that audit committee members are expected to be continuously aware of any changes in financial law and maintain compliance with all statutory requirements to ensure effective internal audit function.

## 4.8 Regression Analysis Results

The main aim of this research was to examine the effect of audit committee characteristics on the audit expectation gap within Kenyan state corporations. To this end, a regression analysis was required in order to measure the nature and magnitude of the effect of predictor variables on the dependent variable. Cooper and Schindler (2014) indicate that regression modelling is a statistical technique of determining the relationship between two or more variables. On the other hand, in cases of a simple regression model, there is one independent and one dependent variable. Mugenda and Mugenda (2003) define the Analysis of Variance (ANOVA) as a test of the difference among different data groups for homogeneity. The current study employed the ordinary least squares regression analysis.

### 4.8.1 Effect of Audit Committee Independence on Audit Expectation Gap

The first research hypothesis indicated;

**$HO_1$** There is no significant relationship between audit committee's independence the audit expectation gap within state corporations in Kenya

**Table 4.14: Model Summary for Audit Committee Independence and Audit Expectation Gap**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.608[a] | 0.369 | 0.354 | 2.59594 |

a. Predictors: (Constant), Audit Committee Independence

The regression results represented in table 4.14 indicate that the audit committee independence explains 36.9% ($R^2$ = .369) variations in the audit expectation gap. The remaining 63.1% variations are explained by other factors not considered in the model.

**Table 4.15: ANOVA for Audit Committee Independence and Audit Expectation Gap**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 161.891 | 1 | 161.891 | 24.023 | 0.000[b] |
| | Residual | 276.295 | 86 | 6.739 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit Committee Independence

The ANOVA results showed an F value of 24.023, which is greater than F- (critical f; 1.162), with a significance value of 0.000, which is less than 0.05; hence the null hypothesis of the study is rejected. Thus, the study concludes that there is a significant relationship between the audit committee's independence the audit expectation gap within state corporations in Kenya.

**Table 4.16: Regression Coefficients for Audit Committee Independence and Audit Expectation Gap**

| | | B | Std. Error | Beta | T | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 10.070 | 3.326 | | 3.028 | 0.004 |
| | Audit committee Independence | 0.733 | .149 | 0.608 | 4.901 | 0.000 |

a. Dependent Variable: Audit expectation gap

The results in table 4.16 indicate a constant $\alpha = 10.07$ is significantly different from 0 since the p-value $0.004<0.05$. The beta value *(β) =0 .733* and is significantly different from 0 since the p-value $0.000<0.05$. This indicates that there is a statistically significant positive effect of audit committee independence on the audit expectation gap. A unit change in audit committee independence will result in a 0.733-unit change in the audit expectation gap within state corporations in Kenya.

Chee, Phua, and Yau (2016) concluded that the audit committee's independence had a significant positive effect on the audit quality within state corporations. The researchers further indicated that the presence of outside directors within the board strengthened the independence of the audit committee team. Kibiya, Che-Ahmad, and Amran (2016) conducted an examination of the audit committee's independence in Nigeria state corporations and indicated that limiting conflict of interest, having appointing authority and presence of outside directors enhanced the audit committee independence. The researchers further indicated that there was a positive association between the audit committee's independence and the quality of financial reporting within state corporations.

Krishnamoorthy and Maletta (2016) examined the contingent effects of board independence and audit committee effectiveness on internal audit reliance: a pre-SOX perspective. The research findings indicated that large board size and presence of outside directors enhanced the audit committee's independence, which was a key determinant of audit committee effectiveness in their function. Adhikary and Mitra

(2016) studied the determinants of audit committee independence and concluded that large boards, non-executive directors, firms with higher leverage have a positive effect on the audit committee's independence. The study further found a negative association between the size of the audit committee, the presence of experts in the committee and the audit committee's independence.

### 4.8.2 Effect of Audit Committee Composition and Audit Expectation Gap

The second hypotheses of the research were;

**$HO_2$** There is no significant association between of audit committee's composition in mitigating audit expectation gap within state corporations in Kenya

**Table 4.17: Model Summary for Audit Committee Composition and Audit Expectation Gap**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.637[a] | 0.406 | 0.391 | 2.52019 |

a. Predictors: (Constant), Audit committee Composition

The regression results represented in table 4.17 indicate that the audit committee composition explains 40.6% ($R^2 = 0.406$) variations in the audit expectation gap. The remaining 50.4% variations are explained by other factors not considered in the model.

**Table 4.18: ANOVA for Audit Composition and Audit Expectation Gap**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 177.779 | 1 | 177.779 | 27.991 | 0.000[b] |
| | Residual | 260.407 | 86 | 6.351 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit committee Composition

The ANOVA results showed an F value of 27.291, which is greater than F- (**critical f; 1.162**), with a significance value of 0.000<0.05; hence the null hypothesis of the study is rejected. Thus, the study concludes that there is a significant relationship between the audit committee's composition and the audit expectation gap within state corporations in Kenya.

**Table 4.19: Regression Coefficients for Audit Committee Composition and Audit Expectation Gap**

| | | B | Std. Error | Beta | T | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 9.370 | 3.215 | | 2.915 | .006 |
| | Audit committee Composition | .483 | .091 | .637 | 5.291 | .000 |

a. Dependent Variable: Audit expectation gap

The results in table 4.19 indicate a constant $\alpha = 9.37$ is not significantly different from 0 since the p-value 0.006>0.05. The beta value *(β) = 0.483* and is significantly different from 0 since the p-value 0.000<0.05. This indicates that there is a statistically significant positive effect of audit committee composition on the audit expectation gap. A unit change in audit committee composition will result in a .483-unit change in the audit expectation gap within state corporations in Kenya.

Gal-Or, Hoitash, and Hoitash (2015) concluded that the size of the audit committee and gender mix had a positive effect on the effectiveness of the audit committee. The study further indicated that staggered boards improved the audit committee's diligence, structure, and quality of financial reporting. Gal-Or, Hoitash, and Hoitash (2016) examined audit committee elections and indicated that the size of the audit committee and the presence of accounting experts in the committee enhances their effectiveness.

Kim, Segal, Segal, and Zang (2016) indicated that larger, more independent, and more competent audit committees are better able to detect misstatements or deter opportunistic reporting by management, thus fostering financial reporting within the auditing department. Al-Mamun, Yasser, Rahman, Wickramasinghe, and Nathan (2014) indicated that the audit committees that had met the minimum required the number of members with at least one member possessing financial or accounting knowledge were more effective.

### 4.8.3 Effect of Audit Committee Meeting on Audit Expectation Gap

The third hypothesis of the study was;

**$HO_3$** There is no significant association between of audit committee's meeting in mitigating audit expectation within state corporations in Kenya

**Table 4.20: Model Summary of Audit Committee Meeting on Audit Expectation Gap**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .851[a] | 0.725 | 0.718 | 1.71537 |

a. Predictors: (Constant), Audit Committee Meeting

The regression results represented in table 4.20 indicate that the audit committee meeting explains 72.5% ($R^2$ = *00.725*) variations in the audit expectation gap. The remaining 27.5% variations are explained by other factors not considered in the model.

**Table 4.21: ANOVA for Audit Committee Meeting and Audit Expectation Gap**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 317.544 | 1 | 317.544 | 107.917 | 0.000[b] |
| | Residual | 120.642 | 86 | 2.942 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit Committee Meeting

The ANOVA results showed an F value of 107.917, which was greater than the F-(**critical f; 1.162**) with a significance value of 0.000<0.05; hence the null hypothesis of the study is rejected. Thus, the study concludes that there is a significant relationship between audit committees meeting and the audit expectation gap within state corporations in Kenya.

**Table 4.22: Regression Coefficient for Audit Committee Meeting and Audit Expectation Gap**

| | | B | Std. Error | Beta | T | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 0.488 | 2.494 | | 0.196 | 0.846 |
| | Audit committee Meeting | 0.979 | 0.094 | 0.851 | 10.388 | 0.000 |

a. Dependent Variable: Audit expectation gap

The results in table 4.22 indicate a constant $\alpha$ = 0.488 is not significantly different from 0 since the p-value 0.846>0.05. The beta value *(β) =0 .979* and is significantly different from 0 since the p-value 0.000<0.05. This indicates that there is a statistically significant positive effect of audit committee meetings on the audit expectation gap. A unit change in audit committee meetings will result in a .979-unit change in the audit expectation gap within state corporations in Kenya.

Hidayah, Sukirman, and Mahmud (2018) examined the determinants of audit committee meeting frequency in Indonesia state corporations. The results of the study indicate that there is no significant relationship between the audit committee expertise and the presence of women on the committee with the audit committee meeting frequency. The study, however, indicates that legislation guiding the audit committee function has a positive effect on the committee meeting frequency. Othman, Ishak, Arif, and Aris (2014) concluded that audit committee meeting frequency has an inconsistent influence on the voluntary ethics disclosure. The study measures the audit committee meetings in terms of the number of annual meetings and the relevance of the audit committee meeting agenda. Martinov-Bennie, Soh, and Tweedie (2015) indicated that an increased audit committee enhanced their active role in organizational governance and promoting better firm performance.

### 4.8.4 Effect of Audit Committee Technical Skills and Audit Expectation Gap

The fourth hypothesis of the study was;

**$HO_4$** There is no significant association between of audit committee's technical skills in mitigating audit expectation within state corporations in Kenya

**Table 4.23: Model Summary for Audit Committee Technical Skills and Audit Expectation Gap**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.280[a] | 0.079 | 0.056 | 3.13813 |

a. Predictors: (Constant), Audit committee technical skills

The regression results represented in table 4.23 indicate that the audit committee technical skills explain 7.9% ($R^2$ = .079) variations in the audit expectation gap. The remaining 92.1% variations are explained by other factors not considered in the model.

**Table 4.24: ANOVA for Audit Committee Technical Skills and Audit Expectation Gap**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 34.423 | 1 | 34.423 | 3.495 | .069[b] |
| | Residual | 403.763 | 86 | 9.848 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit committee technical skills

The ANOVA results showed an F value of 3.495, which is greater than F- (**critical f; 1.162**) with a significance value of 0.069>0.05; hence the null hypothesis of the study is accepted. Thus, the study concludes that there is no significant relationship between audit committees' technical skills and the audit expectation gap within state corporations in Kenya.

**Table 4.25: Regression Coefficients for Audit Committee Technical Skills and Audit Expectation Gap**

| | | B | Std. Error | Beta | T | Sig |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 15.506 | 5.770 | | 2.688 | 0.010 |
| | Audit committee technical skills | 0.423 | 0.226 | 0.280 | 1.870 | 0.069 |

a. Dependent Variable: Audit expectation gap

The results in table 4.25 indicate a constant α = .15.506 is significantly different from 0 since the p-value 0.01<0.05. The beta value *(β) =0 .423* and is not significantly different from 0 since the p-value 0.069>0.05. This indicates that there is a statistically nonsignificant positive effect of audit committee technical skills on the audit expectation gap. A unit change in audit committee meetings will result in a .423-unit change in the audit expectation gap within state corporations in Kenya.

Cohen, Ding, Lesage, and Stolowy (2017) examined media bias and the persistence of the expectation gap. The review indicated that the lack of financial and accounting expertise within audit committees was a key determinant of the persisting expectation gap. Eyenubo, Mohammed, and Ali (2017) concluded that the level of financial expertise and knowledge on the best accounting practices and standards was a determinant of audit committee effectiveness within listed firms in Nigeria.

Bruynseels, Krishnamoorthy, and Wright (2015) examined the association between audit committee chair characteristics and the financial reporting process. The results of the study indicated that the financial expertise and professional competence of the audit committee chair had a positive effect on the financial reporting process.

### 4.9 Multivariate Regression Results

The multivariate regression analysis was conducted with a view of examining the overall effect of all the independent variables (audit committee characteristics) on the dependent variable (audit expectation gap). The aim of the model is to specifically examine the joint effect of audit committee independence, audit committee composition, audit committee meeting, and audit committee technical skills on the audit expectation gap.

**Table 4.26: Overall Regression Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.919[a] | 0844 | 0.828 | 1.34061 |

a. Predictors: (Constant), Audit committee technical skills, Audit committee Composition, Audit committee Meeting, Audit Committee Independence

The regression results represented in table 4.26 indicate that the audit committee characteristics explain 84.4% ($R^2$ = 0.844) variations in the audit expectation gap. The remaining 15.6% variations are explained by other factors not considered in the model. Bananuka, Nkundabanyanga, Nalukenge, and Kaawaase (2018) also indicate that there is a positive association between audit committee characteristics and the quality of the internal audit function. These results are consistent with Mwangi (2018), who indicated there is a positive effect between audit committee characteristics and the quality of the financial reporting. Masoud (2017) also indicates that the audit expectation gap can be explained by audit committee characteristics.

**Table 4.27: ANOVA for Audit Committee Characteristics and Audit Expectation Gap**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 369.891 | 4 | 92.473 | 51.453 | 0.000[b] |
| | Residual | 68.295 | 83 | 1.797 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit committee technical skills, Audit committee Composition, Audit committee Meeting, Audit Committee Independence

The above results of the ANOVA model indicate that jointly audit committee independence, audit committee composition, audit committee meeting, and audit committee technical skills are significant predictor variables of the audit expectation gap within state corporations. This is indicated by the F-statistic = 51.453> F-(**critical f; 1.162**) p = 0.000<0.05. This indicates that the overall model was statistically significant.

**Table 4.28: Multivariate Regression Coefficients**

| **Model** | | **Unstandardized Coefficients** B | Std. Error | **Standardized Coefficients** Beta | **T** | **Sig.** |
|---|---|---|---|---|---|---|
| 1 | (Constant) | -1.529 | 2.844 | | -0.538 | 0.594 |
| | Audit committee Independence | -0.367 | 0.128 | -0.304 | -2.854 | 0.007 |
| | Audit committee Composition | 0.319 | 0.061 | 0.420 | 5.242 | 0.000 |
| | Audit committee Meeting | 1.059 | 0.116 | 0.921 | 9.163 | 0.000 |
| | Audit committee technical skills | -.124 | 0.106 | -0.082 | -1.167 | 0.250 |

a. Dependent Variable: Audit expectation gap

**Reduced Research Model:**

The multivariate equation;

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon} \text{ – becomes:}$$

Audit Expectation Gap = -1.529 + -0.367 (*Audit Committee Independence)* + 0.319 (*Audit Committee Composition)* + 1.059 (*Audit Committee Meeting)* + -.124 (*Audit Technical Skills)*

The above multivariate regression model indicates that a unit change in audit committee independence will result in a -0.367 change in the audit expectation gap. The findings further indicate that a unit change in audit committee composition will result in a .319 change in audit expectation gap. The study equation also shows that a unit change in audit committee meeting will result in a 1.059 change in audit expectation gap. Further, the results show that a unit change in audit committee technical skills will result in a -0.124 change in the audit expectation gap. Eyenubo, Mohammed, and Ali (2017) are also of the view that audit committee characteristics have a positive influence on the quality of the internal audit. Salehi (2016) concluded that audit committee effectiveness has a positive effect on the bridging of the audit expectation gap.

## 4.10 Tests for Moderation Effect of Regulation Requirements

The fifth hypothesis of the study was;

**$HO_5$** There is no significant moderating effect of Regulatory Requirements Compliance on the association between audit committee characteristics and audit expectation gap within state corporations in Kenya

Before undertaking a composite examination on the effect of Regulatory Requirements Compliance on the association between audit committee characteristics and audit expectation gap within state corporations in Kenya, the study examined the moderating effect of Regulatory Requirements Compliance on the effect of each independent variable on the dependent variable.

### 4.10.1 Moderating Effect of Regulatory Requirement Compliance on the relationship between Audit Committee Independence and Audit Expectation Gap

The study conducted a regression analysis to determine the moderating effect of regulatory effect on the relationship between audit committee independence and audit expectation gap within state corporations in Kenya. The equation for the interaction of the variables was;

$\mathbf{Y = \beta_o + \beta_1}$ (Audit Committee Independence * Regulatory Requirement) $\mathbf{+ \beta_2}$ (Audit Committee Independence) $\mathbf{+ \varepsilon}$

**Table 4.29: Model Summary for Regulatory Requirement and Audit Committee Independence**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| Without Moderator | 0.608[a] | 0.369 | 0.354 | 2.59594 |
| With Moderator | 0.773[b] | 0.598 | 0.578 | 2.09871 |

a. Predictors: (Constant), Audit Committee Independence
b. Predictors: (Constant), Audit committee Independence, Regulatory Requirement

In line with the table 4.29 results, the regression model summary indicates that audit committee independence without the moderating variable explains 36.9% ($R^2$= 0.369) variations in the audit expectation gap. With the moderating variable, factored in effect improves to 59.8% ($R^2$= .598). This implies that the Regulatory Requirements Compliance has a positive effect on the relationship between audit committee independence and audit expectation gap within state corporations. Bruynseels, Krishnamoorthy, and Wright (2015) conclude that the independence of the audit committee chair has a positive effect on the financial reporting process.

**Table 4.30: ANOVA results for Regulatory Requirement and Audit Committee Independence**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| Without moderator | Regression | 161.891 | 1 | 161.891 | 24.023 | 0.000[b] |
| | Residual | 276.295 | 86 | 6.739 | | |
| | Total | 438.186 | 87 | | | |
| With Moderator | Regression | 262.002 | 2 | 131.001 | 29.742 | 0.000[c] |
| | Residual | 176.184 | 85 | 4.405 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit Committee Independence
c. Predictors: (Constant), Audit committee Independence, Regulatory Requirement

The results of the ANOVA summary sought to examine the statistical significance of the moderating effect of Regulatory Requirements Compliance on the relationship between audit committee independence and the audit expectation gap. The F-statistics without the moderator variable was 24.023>***F-critical=1.162*** and significant, as indicated by the p-value = .000<.05. The F-statistic with the moderator variable was 29.472, which is greater than the f-critical value. The significance of the model was p=.000<.05. This shows that the coefficients in the model were not equal to zero, and the model was fit.

**Table 4.31: Regression Coefficient for Regulatory Requirement and Audit Committee Independence**

| | | B | Std. Error | Beta | T | Sig |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 10.070 | 3.326 | | 3.028 | 0.004 |
| | Audit committee Independence | 0.733 | 0.149 | 0.608 | 4.901 | 0.000 |
| 2 | (Constant) | 4.749 | 2.911 | | 1.631 | 0.111 |
| | Audit committee Independence | 0.035 | 0.190 | 0.029 | .183 | 0.856 |
| | Regulatory Requirement | 0.950 | 0.199 | 0.751 | 4.767 | 0.000 |

a. Dependent Variable: Audit expectation gap

The findings of the study on table 4.31 showed the regression coefficients results for the moderating effect of a regulatory requirement on the relationship between audit committee independence and audit expectation gap within state corporations. The coefficient of the interaction was 0.950, with a p-value of 0.000<0.05. With the above significance in the coefficient of audit committee independence*regulatory requirement, this implied that regulatory requirement significantly moderated the relationship between audit committee independence and the audit expectation gap in state corporations. Abernathy, Beyer, Masli and Stefaniak (2014) also conclude that the audit committee's independence enhances the quality of the financial reporting. Adeyemi and Uadiale (2011) indicate that limiting the conflict of interest between the audit committee members and the users of the audit report has a significant positive effect on the audit expectation gap.

### 4.10.2 Moderating Effect of Regulatory Requirement Compliance on Audit Committee Composition and Audit Expectation Gap

The study conducted a regression analysis to determine the moderating effect of regulatory effect on the relationship between audit committee independence and audit expectation gap within state corporations in Kenya. The equation for the interaction of the variables was;

**$Y = \beta_o + \beta_1$ (**Audit Committee Composition * Regulatory Requirement**) + $\beta_2$ (**Audit Committee Composition**) + $\varepsilon$**

**Table 4.32: Model Summary for Regulatory Requirement and Audit Committee Composition**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| Without moderator | 0.637[a] | 0.406 | 0.391 | 2.52019 |
| With moderator | 0.856[b] | 0.733 | 0.720 | 1.71017 |

a. Predictors: (Constant), Audit committee Composition
b. Predictors: (Constant), Audit committee Composition, Regulatory Requirement

**Source:** Researcher (2019)

The results shown above indicate that the audit committee composition without the moderating variable explains 40.6% ($R^2$= 0.406) variations in the audit expectation gap. With the moderating variable, factored in effect improves to 73.3% ($R^2$= 0.733). This implies that the Regulatory Requirements Compliance had a positive effect on the relationship between audit committee composition and audit expectation gap within state corporations. The results resonate with Kantudu and Samaila (2015) conclude that the independence of the committee can be attained by ensuring that the audit committee is composed of senior members who have experience in the auditing profession. This will enhance the effectiveness of the committee.

**Table 4.33: ANOVA results for Regulatory Requirement and Audit Committee Composition**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 177.779 | 1 | 177.779 | 27.991 | 0.000[b] |
| | Residual | 260.407 | 86 | 6.351 | | |
| | Total | 438.186 | 87 | | | |
| 2 | Regression | 321.199 | 2 | 160.600 | 54.912 | 0.000[c] |
| | Residual | 116.987 | 85 | 2.925 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit committee Composition
c. Predictors: (Constant), Audit committee Composition, Regulatory Requirement

The research findings above present the ANOVA on the statistical significance of the moderating effect of Regulatory Requirements Compliance on the relationship between audit committee composition and the audit expectation gap. The F-statistics without the moderator variable was 27.991>***F-critical=1.162*** and significant, as indicated by the p-value = 0.000<0.05. The F-statistic with the moderator variable was 54.912, which is greater than the f-critical value. The significance of the model was p=0.000<0.05. This shows that the coefficients in the model were not equal to zero, and the model was fit.

**Table 4.34: Regression Coefficient for Regulatory Requirement and Audit Expectation Gap**

| | | B | Std. Error | Beta | T | Sig |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 9.370 | 3.215 | | 2.915 | .006 |
| | Audit committee Composition | 0.483 | 0.091 | 0.637 | 5.291 | 0.000 |
| 2 | (Constant) | -1.431 | 2.672 | | -0.536 | 0.595 |
| | Audit committee Composition | 0.303 | 0.067 | 0.399 | 4.505 | 0.000 |
| | Regulatory Requirement | 0.784 | 0.112 | 0.620 | 7.003 | 0.000 |

a. Dependent Variable: Audit expectation gap

The results of the research on table 4.34 showed the regression coefficients results for the moderating effect of a regulatory requirement on the relationship between audit committee composition and audit expectation gap within state corporations. The coefficient of the interaction was .784 with a p-value of *.000<.05.* With the above significance in the coefficient of audit committee composition*regulatory requirement, this implied that regulatory requirement significantly moderated the relationship between audit committee composition and the audit expectation gap in state corporations. Matendera (2013) indicates that adhering to the stipulations of the PFM Act of 2012 and the Treasury Circular 16/2005 will help in entrenching the optimal composition of the audit committees within the public sector. This will enhance the quality of audit reporting (Rupley, Almer, & Philbrick, 2011).

### 4.10.3 Moderating Effect of Regulatory Requirement Compliance on Audit Committee Meeting and Audit Expectation Gap

The study conducted a regression analysis to determine the moderating effect of regulatory effect on the relationship between audit committee meetings and audit expectation gap within state corporations in Kenya. The equation for the interaction of the variables was;

$\mathbf{Y = \beta_o + \beta_1}$ (Audit Committee Meeting * Regulatory Requirement) + $\boldsymbol{\beta_2}$ (Audit Committee Meeting) + $\boldsymbol{\varepsilon}$

**Table 4.35: Model Summary for Regulatory Requirement and Audit Committee Meeting**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| Without Moderator | 0.851[a] | 0.725 | 0.718 | 1.71537 |
| With Moderator | 0.869[b] | 0.756 | 0.743 | 1.63590 |

a. Predictors: (Constant), Audit Committee Meeting
b. Predictors: (Constant), Audit Committee Meeting, Regulatory Requirement

The findings of the research above indicate that the audit committee meeting without the moderating variable explains 72.5% ($R^2$= 0.725) variations in the audit expectation gap. With the moderating variable, factored in effect improves to 75.6% ($R^2$= .756). This implies that the Regulatory Requirements Compliance has a positive effect on the relationship between audit committee meetings and the audit expectation gap within state corporations.

**Table 4.36: ANOVA results for Audit Committee Meetings and Audit Expectation Gap**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 317.544 | 1 | 317.544 | 107.917 | 0.000[b] |
| | Residual | 120.642 | 86 | 2.942 | | |
| | Total | 438.186 | 87 | | | |
| 2 | Regression | 331.140 | 2 | 165.570 | 61.869 | 0.000[c] |
| | Residual | 107.046 | 85 | 2.676 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Audit Committee Meeting
c. Predictors: (Constant), Audit Committee Meeting, Regulatory Requirement

The research findings above present the ANOVA on the statistical significance of the moderating effect of Regulatory Requirements Compliance on the relationship between audit committee meetings and the audit expectation gap. The F-statistics without the moderator variable was 107.917>***F-critical=1.162*** and significant, as indicated by the p-value = .000<.05. The F-statistic with the moderator variable was 61.869, which is greater than the f-critical value. The significance of the model was p=.000<.05. This shows that the coefficients in the model were not equal to zero, and the model was fit.

**Table 4.37: Regression Coefficient for Regulatory Requirement and Audit Committee Meeting**

| | | B | Std. Error | Beta | T | Sig |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 0.488 | 2.494 | | 0.196 | 0.846 |
| | Audit committee Meeting | 0.979 | 0.094 | 0.851 | 10.388 | 0.000 |
| 2 | (Constant) | -0.526 | 2.421 | | -0.217 | 0.829 |
| | Audit committee Meeting | 1.708 | 0.336 | 1.485 | 5.088 | 0.000 |
| | Regulatory Requirement | -0.832 | 0.369 | -0.658 | -2.254 | 0.030 |

a. Dependent Variable: Audit expectation gap

The results of the research above showed the regression coefficients results for the moderating effect of a regulatory requirement on the relationship between audit committee meeting and audit expectation gap within state corporations. The coefficient of the interaction was -8.32, with a p-value of 0.030<0.05. With the above significance in the coefficient of audit committee meetings*regulatory requirement, this implied that regulatory requirement significantly moderated the relationship between audit committee meetings and the audit expectation gap in state corporations. Contessotto and Moroney (2014) concluded that audit committee members should ensure that they conduct frequent meetings that are sufficient to meet their annual obligations to the firm. In their study, Kassem and Higson (2016) indicated that constant communication between the audit committee and the external auditors would lead to better audit quality.

### 4.10.4 Moderating Effect of Regulatory Requirement Compliance on Audit Committee Technical Skills and Audit Expectation Gap

The study conducted a regression analysis to determine the moderating effect of regulatory effect on the relationship between audit committee technical skills and audit expectation gap within state corporations in Kenya. The equation for the interaction of the variables was;

**Y = $\beta_o$+ $\beta_1$ (**Audit Committee Technical Skills * Regulatory Requirement**) + $\beta_2$ (**Audit Committee Technical Skills**) + ε**

**Table 4.38: Model Summary for Regulatory Requirement and Audit Committee of Technical Skills**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| Without Moderator | 0.280[a] | 0.079 | 0.056 | 3.13813 |
| With Moderator | 0.774[b] | 0.599 | 0.579 | 2.09626 |

a. Predictors: (Constant), Audit committee technical skills
b. Predictors: (Constant), Audit committee technical skills, Regulatory Requirement

The findings of the research in table 4.38 indicate that that audit committee technical skills without the moderating variable explain 7.9% ($R^2$= .0.79) variations in the audit expectation gap. With the moderating variable factored in effect improves 59.9% ($R^2$= .599). This implies that the Regulatory Requirements Compliance has a positive effect on the relationship between audit committee technical skills and the audit expectation gap within state corporations. Abernathy, Beyer, Masli and Stefaniak (2014) concluded that accounting experts within the audit committee foster the financial reporting process and quality of the audit reports.

**Table 4.39: ANOVA results for Regulatory Requirement Audit Committee Technical Skills**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 34.423 | 1 | 34.423 | 3.495 | 0.069[b] |
| | Residual | 403.763 | 86 | 9.848 | | |
| | Total | 438.186 | 87 | | | |
| 2 | Regression | 262.413 | 2 | 131.207 | 29.858 | 0.000[c] |
| | Residual | 175.773 | 85 | 4.394 | | |
| | Total | 438.186 | 87 | | | |

a. Dependent Variable: Audit expectation gap

b. Predictors: (Constant), Audit committee technical skills

c. Predictors: (Constant), Audit committee technical skills, Regulatory Requirement

The results of the research in Table 4.39 presented the ANOVA on the statistical significance of the moderating effect of Regulatory Requirements Compliance on the relationship between audit committee technical skills and the audit expectation gap. The F-statistics without the moderator variable was 3.495>***F-critical=1.162*** and insignificant as indicated by the p-value = 0.069>0.05. The F-statistic with the moderator variable was 29.858, which is greater than the f-critical value. The significance of the model was p=0.000<0.05. This shows that the coefficients in the model were not equal to zero, and the model was fit.

**Table 4.40: Regression Coefficients for Audit Committee Technical Skills and Audit Expectation Gap**

| | | B | Std. Error | Beta | T | Sig |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 15.506 | 5.770 | | 2.688 | 0.010 |
| | Audit committee technical skills | 0.423 | 0.226 | 0.280 | 1.870 | 0.069 |
| 2 | (Constant) | 5.963 | 4.075 | | 1.463 | 0.151 |
| | Audit committee technical skills | -0.059 | 0.165 | -0.039 | -0.356 | 0.723 |
| | Regulatory Requirement | 0.998 | 0.139 | 0.789 | 7.203 | 0.000 |

a. Dependent Variable: Audit expectation gap

The results of the research in Table 4.40 showed the regression coefficients results for the moderating effect of a regulatory requirement on the relationship between audit committee technical skills and audit expectation gap within state corporations. The coefficient of the interaction was .998, with a p-value of .000<.05. With the above significance in the coefficient of audit committee technical skills*regulatory requirement, this implied that regulatory requirement significantly moderated the relationship between audit committee technical skills and the audit expectation gap in state corporations. Soliman and Ragab (2014), in their study on Audit committee effectiveness, audit quality, concluded that financial expertise and accounting knowledge among the audit committee members enhanced the audit quality within the firm.

### 4.10.5 Moderated Multiple Regression Model

The research further applied a generalized regression model to examine the joint effect of audit committee characteristics, regulatory requirements, and the audit expectation gap. The results of the regression test are presented below;

**Table 4.41: Overall Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.920[a] | 0.845 | 0.825 | 1.35274 |

a. Predictors: (Constant), Regulatory Requirement, Audit committee Composition, Audit committee technical skills, Audit committee Independence, Audit Committee Meeting

The research findings in Table 4.41 above examined the joint effect of audit committee characteristics, the Regulatory Requirements Compliance on the audit expectation gap within state corporations. The results indicate that jointly all the study variables explained 84.5% ($R^2$=.825) of the variations in the audit expectation gap within state corporations. Adhikary and Mitra (2016) concluded that audit committee independence enhanced the quality of the internal audit function. Al-Mamun, Yasser, Rahman, Wickramasinghe, and Nathan (2014), in their study, concluded that audit committee characteristics enhanced the financial reporting process, which contributed to positive economic value for public firms. Chou and Buchdadi (2017) concluded that audit committee size, the composition and the meeting frequency had a positive effect on the performance of the audit function.

**Table 4.42: Overall ANOVA Summary**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 370.479 | 5 | 74.096 | 40.492 | 0.000[b] |
| | Residual | 67.707 | 37 | 1.830 | | |
| | **Total** | **438.186** | **42** | | | |

a. Dependent Variable: Audit expectation gap
b. Predictors: (Constant), Regulatory Requirement, Audit committee Composition, Audit committee technical skills, Audit committee Independence, Audit Committee Meeting

The findings of the ANOVA model above sought to examine the statistical significance of the model in determining the joint effect of the study variables (audit committee characteristics*regulatory requirement) on the audit expectation gap within state corporations in Kenya. The results indicated that the f-statistic = 40.492>***F-critical=1.162***, p-value = .000<.05. This indicates that the model was statistically significant and fit.

**Table 4.43: Overall Regression Coefficients**

| | B | Std. Error | Beta | T | Sig |
|---|---|---|---|---|---|
| (Constant) | -1.727 | 2.891 | | 0.597 | 0.554 |
| Audit committee Independence | -0.327 | 0.148 | -0.271 | -2.213 | 0.033 |
| Audit committee Composition | 0.303 | 0.067 | 0.400 | 4.510 | 0.000 |
| Audit committee Meeting | 1.216 | 0.301 | 1.058 | 4.044 | 0.000 |
| Audit committee technical skills | -0.119 | 0.107 | -0.079 | -1.111 | 0.274 |
| Regulatory Requirement | -0.201 | 0.355 | -0.159 | -0.567 | 0.574 |

a. Dependent Variable: Audit expectation gap

The findings of the research presented in Table 4.43 gave an overview of the regression coefficients for the joint effect of audit committee characteristics and the Regulatory Requirements Compliance on the audit expectation gap within state corporations in Kenya. The study findings indicate that with the moderating variable factored in the model, audit committee independence had a significant negative effect on the audit expectation gap ($\beta = -0.327$, $p = 0.033<0.05$). This indicates that in the moderated regression model, Regulatory Requirements Compliance significantly moderated the relationship between audit committee independence and audit expectation gap. These results are inconsistent with Harrison and Ochieng (2018), who concluded that there is a statistically significant effect of the audit committee's independence on the quality of the financial reports.

The results of the study further showed that with the moderating variable factored in the model, audit committee composition had a significant positive effect on the audit expectation gap ($\beta = 0.303$, $p = 0.000<0.05$). This indicates that in the moderated regression model, Regulatory Requirements Compliance significantly moderated the relationship between audit committee composition and audit expectation gap. These results are consistent with Kantudu and Samaila (2015), who indicated that audit committees should ensure that there is independence among the members of the committee. Emeh and Appah (2013) further indicate that audit committees with financial experts and accounting professionals have higher quality in their financial reporting.

The findings of the research further showed that with the moderating variable factored in the model, audit committee meetings had a significant positive effect on the audit expectation gap ($\beta = 1.216$, $p = 0.000<0.05$). This indicates that in the moderated regression model, Regulatory Requirements Compliance significantly moderated the relationship between audit committee meetings and the audit expectation gap. The above results are consistent with Hidayah, Sukirman, and Mahmud (2018), who indicated that the frequency of the audit committee meetings had a positive effect on the quality of the internal audit. Chou and Buchdadib (2017) concluded that the audit committee meeting attendance level enhances the quality of the auditing duties in the committee.

The results of the study further showed that with the moderating variable factored in the model audit committee, and technical skills had an insignificant negative effect on the audit expectation gap ($\beta = -0.119$, $p = 0.274>0.05$). This indicates that in the moderated regression model, Regulatory Requirements Compliance does not significantly moderate the relationship between audit committee technical skills and audit expectation gap. The study concludes that Regulatory Requirements Compliance significantly moderated the relationship between audit committee independence, audit committee composition, audit committee meetings and the audit expectation gap. Bananuka, Nkundabanyanga, Nalukenge, and Kaawaase (2018) indicated that an effective audit committee, as measured by their level of independence, meeting frequency, financial expertise and size, have a positive effect on accountability within the public sector.

## 4.11 Hypotheses Testing

### 4.11.1 Hypothesis One: Audit Committee Independence and Audit Expectation Gap

**$HO_1$** There is no significant relationship between audit committee's independence the audit expectation within state corporations in Kenya

The ANOVA results showed an F value of 24.023>*F-critical=1.162* with a significance value of .000, which is less than .05; hence the null hypothesis of the study is rejected. Thus, the study concludes that there is a significant relationship between the audit committee's independence the audit expectation within state corporations in Kenya.

The beta value ($\beta$) = .733 and was significantly different from 0 since the p-value 0.000<0.05. This indicated that there is a statistically significant positive effect of audit committee independence on the audit expectation gap. A unit change in audit committee independence will result in a .733-unit change in the audit expectation gap within state corporations in Kenya. This confirms that there is a significant positive linear relationship between audit committee independence and the audit expectation gap within state corporations. The research thus rejected the null hypothesis that there is no significant relationship between audit committee independence and the audit expectation gap.

### 4.11.2 Hypotheses Two: Audit Committee Composition and Audit Expectation Gap

**$HO_2$** There is no significant association between of audit committee's composition in mitigating audit expectation within state corporations in Kenya

The null hypothesis was there is no significant relationship between the audit committee's composition and the audit expectation within state corporations in Kenya. The ANOVA results showed an F value of 27.291>*F-critical=1.162* with a significance value of 0.000<0.05; hence the null hypothesis of the study is rejected. Thus, the study concludes that there is a significant relationship between the audit committee's composition and the audit expectation within state corporations in Kenya.

The beta value (β) = 0.483 and was significantly different from 0 since the p-value 0.000<0.05. This indicates that there is a statistically significant positive effect of audit committee composition on the audit expectation gap. A unit change in audit committee composition will result in a .483-unit change in the audit expectation gap within state corporations in Kenya. The study thus rejected the null hypothesis that there is no significant relationship between the audit committee's composition and the audit expectation within state corporations.

### 4.11.3 Hypotheses Three: Audit Committee Meetings and Audit Expectation Gap

**$HO_3$** There is no significant association between of audit committee's meeting in mitigating audit expectation within state corporations in Kenya

The ANOVA results showed an F value of 107.917>*F-critical=1.162* with a significance value of .000<.05; hence the null hypothesis of the study is rejected. Thus, the study concludes that there is a significant relationship between audit committees meeting and the audit expectation within state corporations in Kenya.

The beta value (β) = 0.979 and is significantly different from 0 since the p-value $0.000<0.05$. This indicates that there is a statistically significant positive effect of audit committee meetings on the audit expectation gap. A unit change in audit committee meetings will result in a .979-unit change in the audit expectation gap within state corporations in Kenya. This confirms that an increase in the audit committee meetings will have a positive effect on the audit expectation gap. The study concludes that the null hypothesis that there is no significant association between of audit committee's meeting in mitigating audit expectations within state corporations stands rejected.

### 4.11.4 Hypotheses Four: Audit Committee Technical Skills and Audit Expectation Gap

**$HO_4$** There is no significant association between of audit committee's technical skills in mitigating audit expectation within state corporations in Kenya

The null hypothesis was there is no significant relationship between audit committees' technical skills and the audit expectation within state corporations in Kenya. The ANOVA results showed an F value of 3.495>*F-critical=1.162* with a significance value of .069>.05; hence the null hypothesis of the study is accepted. Thus, the study concludes that there is no significant relationship between audit committees' technical skills and the audit expectation within state corporations in Kenya.

The beta value (β) = .423 and is not significantly different from 0 since the p-value .069>.05. This indicates that there is a statistically nonsignificant positive effect of audit committee technical skills on the audit expectation gap. A unit change in audit committee meetings will result in a .423-unit change in the audit expectation gap within state corporations in Kenya. The study thus indicates there is a positive nonsignificant effect of audit committee technical skills on the audit expectation gap. Thus, the null hypothesis of the research, there is no significant relationship between audit committee technical skills and the audit expectation within state corporations is accepted.

### 4.11.5 Hypothesis Five: Moderating Effect of Regulatory Requirements Compliance on Audit Expectation Gap

**$HO_5$** There is no significant moderating effect of Regulatory Requirements Compliance on the association between audit committee characteristics and audit expectation gap within state corporations in Kenya

The results of the interaction between the audit committee characteristics and the moderator variable (regulatory requirements) indicated that there were significant effects since the p-value <.05. The coefficient of audit committee independence, audit committee meetings, and audit committee composition were all significant since the p-value was less .05. This implied that the regulatory requirement had significantly moderated the relationship between audit committee independence, audit committee composition, audit committee meetings and the audit expectation gap within state corporations. The above findings indicated that the null hypothesis that there is no statistically significant moderating effect of Regulatory Requirements Compliance on the relationship between audit committee independence, audit committee composition, audit committee meetings and the audit expectation gap is rejected. The study concludes that there is a statistically significant moderating effect of Regulatory Requirements Compliance on the three constructs.

The findings further showed that the coefficient of the interaction between audit committee technical skills and the audit expectation gap was insignificant since the p-value 0.274>0.05. This implies that the regulatory requirement does not significantly moderate the relationship between the audit committee's technical skills and the audit expectation gap. Thus, the study concluded that the null hypothesis that there is no significant moderating effect of Regulatory Requirements Compliance on the relationship between audit committee technical skills and the audit expectation gap was accepted.

# CHAPTER FIVE

# SUMMARY, CONCLUSION, AND RECOMMENDATIONS

## 5.1 Introduction

The fifth chapter of the study presented a summary of the study. The chapter further outlined the conclusions and recommendations of the study. These were presented in line with the research objectives. Finally, the chapter made suggestions for future research work.

## 5.2 Summary

The public financial management in Kenya has faced numerous challenges, which led to the development of new legislation meant to curb wastage of public funds and enhance the corporate governance within the public sector. Audit committees were one of the key institutions tasked with initializing public financial management reforms and provide independent and reliable financial reporting on the operation of state entities and offer advice to different boards of the state corporations. The current research sought to examine the effect of the audit committee characteristics on the audit expectation gap within state corporations, specifically examining the effect of the audit committee independence, audit committee composition, audit committee meetings, and audit committee technical skills on the audit expectation gap within state corporations in Kenya.

The research was guided by the agency theory, the stewardship theory, and the stakeholder theory and adopted a positivist research philosophy. The study further applied descriptive research design. The target population for the study was all the 119 state corporations and 1-audit committee members in each state corporation. The study further conveniently sampled 119-users of audit committee reports within the state corporations. Questionnaires were then used, and data were collected through the drop and pick method. The research further conducted a pilot test, with 10% of the sample population. The collected research data was sorted and coded into SPSS

23 for both descriptive and inferential statistics. The study further employed statistical tests such as F-test and Beta test at a 95% confidence interval.

### 5.2.1 Audit Committee Independence and Audit Expectation Gap

The first objective of the study was to examine how audit committee independence relates to the audit expectation gap within state corporations. The results of the correlation tests indicated there was a positive and significant association between the audit committee independence and the audit expectation gap. The results of the research implied that an increase in audit independence would result in a narrowing of the audit expectation gap.

The research further indicated that the audit committee's independence could be achieved through the involvement of outside auditors, having transparency within the audit team, ensuring there is no conflict of interest within the committee as well as having to appoint authority within the committee. The regression results of the study indicated that significant variations in the audit expectation gap could be explained by the audit committee's independence. The results indicated that a unit change in audit committee composition would result in a .733-unit change in the audit expectation gap within state corporations in Kenya. These findings led to the conclusion that the null hypothesis that there is no significant relationship between audit committee independence and audit expectation gap is rejected.

### 5.2.2 Audit Committee Composition and Audit Expectation Gap

The second research objective sought to establish the effect of the audit committee composition on the audit expectation gap. The results of the study showed that the majority of the respondents were in agreement that the audit committees are well composed in terms of the age difference, the level of experience, the minimum required number by law, the presence of external auditors and the regional representation. The correlation analysis of the results indicated that there is a positive and significant effect of audit committee composition on the audit expectation gap. This implied that an increase in the audit committee composition would lead to a positive change in the audit expectation gap.

The study further carried out a regression analysis to estimate the magnitude of the effect of audit committee composition on the audit expectation gap. The results of the analysis indicated that the audit committee composition has a positive effect on the audit expectation gap. A unit change in audit committee composition will result in a .483-unit change in the audit expectation gap within state corporations in Kenya. This implied that changes in indicators such as age, experience, regional representation would result in a positive change in the expectation gap. These findings led to the conclusion that there is no significant relationship between audit committee composition and the audit expectation gap is rejected.

### 5.2.3 Audit Committee Meetings and Audit Expectation Gap

The third objective of the study sought to determine the effect of audit committee meetings on the audit expectation gap. The results of the correlation analysis indicated that there was a positive association between the audit committee meetings and the audit expectation gap. The results showed that an increase in the frequency of meetings, the relevance of the meeting agenda, and availability of the chair during meetings, having an adequate quorum for meetings and attaining the number of prescribed annual meetings would result in a positive change in the audit expectation gap.

The research further employed regression testing to ascertain the nature of the relationship between audit committee meetings and the audit expectation gap. The findings of the regression test indicated that there was a positive and significant linear relationship between auditing committee meetings and the audit expectation gap. The results indicated that a unit change in audit committee meeting would result in a 0.979-unit change in the audit expectation gap within state corporations in Kenya. These findings led to the conclusion that there is no significant relationship between audit committee meetings and the audit expectation gap is rejected.

### 5.2.4 Audit Committee Technical Skills and Audit Expectation Gap

The study further sought to establish the association between audit committee technical skills and the audit committee expectation gap. The correlation tests of the study indicated there was a strong positive effect of the audit committee's technical skills on the audit expectation gap within state corporations. The results implied that an increase in the competence of the audit committee members, their financial expertise, knowledge of the accounting profession, a professional standing with the field would result in a positive change in the audit expectation gap.

The research further conducted a regression analysis to estimate the linear relationship between the audit committee technical skills and the audit expectation gap within state corporations. The results of the study indicated that there is a positive and significant linear relationship between audit committee technical skills and the audit expectation gap. A unit change in audit committee meetings will result in a 0.423-unit change in the audit expectation gap within state corporations in Kenya.

### 5.2.5 Moderating Effect of Regulatory Requirements Compliance

The fifth objective of the study sought to examine the moderating effect of the relationship between audit committee characteristics and the audit expectation gap within Kenyan state corporations. The study concludes that regulatory requirements compliance significantly moderated the relationship between audit committee independence, audit committee composition, audit committee meetings and the audit expectation gap. The study findings also indicated that the coefficient of audit committee technical skill requirements and the audit expectation gap was insignificant (>0.05), the results of the research implied that regulatory requirement did not moderate the relationship between audit committee technical skills and the audit expectation gap.

## 5.3 Conclusion

### 5.3.1 Audit Committee Independence

The study concluded that upholding the independence of the audit committee is integral in promoting effectiveness and elaborate feedback within the audit function in organizations. More so, the independence of the audit committee ensures the internal auditors are able to control the audit function as well as foster impartiality in the audit reporting process. Finally, the study concludes that audit independence should be upheld in order to promote the quality of the audit statements within state entities. The study further concludes that non-executive members should be included in the audit committees to foster impartiality and enhance audit effectiveness. Further, the study concludes that audit committee members should desist from social ties with the executive in order to maintain independence.

### 5.3.2 Audit Committee Composition

The study results have indicated that the composition of the audit committee is a key determinant of the audit expectation gap. The study recommends that state corporations should ensure people being appointed to the audit committees have the right mix of competencies that will enhance the audit function. The study further concludes that the audit committees should be composed of outside members, which will reduce board/management influence, thus enhancing the quality of the audit reports. The study further concludes that regional representation should be enhanced within the audit committees; this will help in limiting conflicts of interests based on the CEO/Executive members’ ethnicity. The study further concludes that the audit committee should strengthen their communication with external auditors as this will enhance the quality of their financial reporting.

### 5.3.3 Audit Committee Meeting

From the findings of the research, it is evident that regular meetings can enhance the effectiveness of the audit function. Hence the study concludes that members of the audit committees should ensure they hold regular meetings with both internal and external auditors in order to enhance the quality of the audit reports. Further audit committee members should ensure that planning for meetings is not influenced nor dictated by the management in order to foster impartiality. The audit committee should also ensure routine meeting reports are generated to enhance the effectiveness of their responsibilities in the audit function.

### 5.3.4 Audit Committee Technical Skills

The study concludes that audit committees should be constituted of members with requisite knowledge on financial management, public sector auditing, and other professional competencies that will enhance the quality and reliability of the audit statements. Further, the audit committee should ensure its members have adequate leadership training and meet the integrity standards as enshrined in Chapter VI of the Kenyan constitution. The study further concludes that audit committee members should have professional standing within a specific sector. This will promote the user's perceptions of the quality of the audit committee reporting.

### 5.3.5 Regulatory Requirements Compliance

The study indicates that compliance with the drafted regulations on the composition, responsibilities and authority of the audit committee within state corporations is essential for improving their functions. The study concludes that enhancing the communication with external auditors and ensuring there is proper separation of duties between the management and the internal audit team ensures there is effective reporting. The study further concludes that regular review of the legal charter is essential to ensuring the audit committees have met all the requisite regulatory requirements in the exercise of their mandate.

## 5.4 Recommendations

The study recommends that policymakers within the national government, the county governments, and constitutional bodies such as the Office of the Auditor-General should review the guidelines and policies guiding the audit committees. Further legislation should be brought forward that will empower the audit committees through aspects such as their independence, their composition, their meetings and the required technical skills of audit committee members.

### 5.4.1 Audit Independence

The study recommends that state corporations should ensure that audit committee independence from the board and management is upheld to ensure that there is no undue influence in the discharging of the audit functions. Further, the audit committees should be allowed to plan their own activities and guidelines in order to ensure impartiality in the reporting process and foster the quality of the audited statements. The study further recommends that audit committee members should conduct professional interactions with the management to prevent intimidation.

### 5.4.2 Audit Committee Composition

In regard to the composition of the audit committee. The study recommends that gender inclusion should be upheld within the public sector and more so within audit committees. Further, in constituting audit committees, there is a need for stakeholders to ensure individual competencies such as technical skills, leadership qualities and integrity are available to help mitigate the expectation gap. More so, there should be an appropriate skill mix within the audit committee, which should be regularly assessed to ensure conformity to the best standards of practice. Further, in constituting the audit committee, there should be minimal inclusion of board members within the committee in order to enhance impartiality in audit reporting. Further, the study recommends that regional representation and gender equality should be upheld in constituting the audit committees.

### 5.4.3 Audit Committee Meetings

The audit committees should also strive to have regular meetings over the laid down minimum of 3 meetings annually. The study recommends that audit committees should at least more than once a year, held separate meetings with internal and external auditors in order to promote the effectiveness of the audit report. The research further recommends that audit committees should make monthly reports on the state of the corporation and discuss with the management regularly in order to promote better attainment of committee roles. The study further recommends that the National Treasury should come up with an elaborate structure that will guide in establishment, composition, succession planning and setting up of audit committees across the public sector.

### 5.4.4 Audit Committee of Technical Skills

The study further recommends that the financial expertise of audit committee members should be assessed in order to promote quality audit reporting. Further, there should be guidelines from the inspectorate of state corporations and the supporting act on the minimum qualifications into audit committees. This will ensure there is professionalism within the audit committee's role and responsibilities in the committee. Further, the study recommends that audit committees should plan for annual workshops where they will interact with accounting and finance experts on the emerging practices and best standards guiding the role of the audit committees.

### 5.4.5 Regulatory Requirements Compliance

The study further recommends that the audit committee should conduct regular review and evaluation of the committee compliance to policies and procedures guiding the operation of the committee duties. The study further concludes that the audit committee should constantly review emerging financial reporting standards to examine their effect on the quality of the internal auditing function.

## 5.5 Areas for Further Research

The study proposes further research to be undertaken on the effect of the audit committee characteristics on the performance of listed firms in Kenya. Further, the study proposes an examination of the corporate governance practices within state corporations.

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# APPENDICES

## Appendix I: Introduction Letter

**NATIONAL COMMISSION FORSCIENCE,**
**TECHNOLOGY ANDINNOVATION**

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Ref. No. **NACOSTI/P/17/91515/18579**

Date: **7th September, 2017**

Michael Mutugi Gacheru
Jomo Kenyatta University of
Agriculture and Technology
P.O. Box 62000-00200
**NAIROBI.**

**RE: RESEARCH AUTHORIZATION**

following your application for authority to carry out research on ***"Relationship between audit committee characteristics and the audit expectation gap within state corporations in Kenya"*** I am pleased to inform you that you have been authorized to undertake research in **selected Counties** for the period ending **5th September, 2018.**

You are advised to report to **the Chief Executive Officers of selected State Corporations, the County Commissioners and the County Directors of Education of the selected Counties** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

Kalerwa.

**GODFREY P. KALERWA MSc., MBA, MKIM**
**FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The Chief Executive Officers
Selected State Corporations.

**Appendix II: Questionnaire**

**PART A: GENERAL INFORMATION**

1. **What is the proportion of audit committee members with the following level of experience?**

   1-3 years ( )

   3-5 years ( )

   5-8 years ( )

   Over 8 years ( )

2. **What role do you play within the audit committee?**

   Chairman ( )

   Secretary ( )

   Member ( )

3. **Kindly indicate your highest level of education attained.**

   Doctorate ( )

   Masters ( )

   Degree ( )

   College Dip ( )

**PART B: AUDIT COMMITTEE CHARACTERISTICS**

With respect to the audit committee characteristics rate the extent to which you agree with the below statements using any of the following ratings:

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly Agree

6.

| | Statement | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **4.** | **Audit Committee Independence** | | | | | |
| **4A** | The audit committee always endeavours to ensure the members enjoy security tenure | | | | | |
| **4B** | The board always endeavours to be transparent in their recruitment of audit committee members | | | | | |
| **4C** | The board always endeavours to ensure there is no conflict of interest among the audit committee members | | | | | |
| **4D** | The audit committee is always committed to the disclosure of materials | | | | | |
| **4E** | It is always a preference of the board to have an outside director within the audit team | | | | | |
| **4F** | The audit committee always endeavours to adhere to the line of authority established in the committee | | | | | |

| | Statement | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **5** | **Audit Committee Composition** | | | | | |
| **5A** | The committee members rarely fall outside the required statutory composition | | | | | |
| **5B** | The audit committee is always committed to meeting the statutory required composition | | | | | |
| **5C** | The audit committee rarely has one gender falling below the one-third of the total composition | | | | | |
| **5D** | There is always a commitment to the regional balance in the audit committee members | | | | | |
| **5E** | There is always a commitment to the age group balance in the audit committee members | | | | | |
| **5F** | The audit committee has mixed experienced members which affect the performance of audit function | | | | | |

| | Statement | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **6** | **Audit Committee Meetings** | | | | | |
| **6A** | The audit committee meets between 4-6 times annually | | | | | |
| **6B** | The audit committee always endeavours to meet the statutory frequencies of meetings | | | | | |
| **6C** | The audit committee always endeavours to have a dictated agenda for every audit committee meeting | | | | | |
| **6D** | The audit committee rarely set off meetings in the absence of the chairman | | | | | |
| **6E** | The audit committee always endeavours to meet the standard quorum before meetings commence | | | | | |

| | Statement | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **7** | **Audit Committee Technical Skills** | | | | | |
| **7A** | A proportion of audit committee members have adequate experience within the committee. | | | | | |
| **7B** | A proportion of audit committee members have undertaken financial training | | | | | |
| **7C** | A proportion of audit committee members are experts in accounting practice | | | | | |
| **7D** | A proportion of audit committee members have a professional standing within the auditing body | | | | | |

**7E. How many members of the audit committee hold the following academic qualifications?**

Doctor ( )

Masters ( )

Graduate Degree ( )

Diploma ( )

Others ……………………

| 8. | Regulatory Requirements Compliance | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| **8A** | The audit committee always has complied with regulations governing our duties | | | | | |
| **8B** | Our audit committee continuously reviews compliance to policies | | | | | |
| **8C** | The audit committee constantly reviews compliance with procedures | | | | | |
| **8D** | Our audit committee regularly communicates with external auditors | | | | | |
| **8E** | The audit committees always adhere to our legal mandate in setting the agenda of meetings | | | | | |

**Section C: <u>For Users of Audit Committee Reports</u>**

1. **Kindly indicate your level of agreement with the following aspects on the audit expectation gap within the public sector?**

   Use a scale of 1-5; *1 = Strongly Disagree; 2= Disagree; 3= Neutral; 4=Agree; 5= Strongly Agree*

| 9. | **Audit Expectation Gap** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|---|
| **9A** | The audit reports often uncover all material errors | | | | | |
| **9B** | The audit reports often unearth all material frauds | | | | | |
| **9C** | The audit report often meet the expectation of the audit report user group | | | | | |
| **9D** | There is often deficient application standards gaps within audits | | | | | |
| **9E** | There are often disparities in the audit reports | | | | | |
| **9F** | I can vouch for the dependability of the audit report | | | | | |

**Appendix III: List of Parastatals**

1. Agricultural Finance Corporation
2. Consolidated Bank
3. Deposit Protection Fund Board
4. Industrial and Commercial Development Corporation
5. Industrial Development Bank
6. Kenya Industrial Estates
7. Kenya National Assurance Co.
8. Kenya Post Office Savings Bank
9. Kenya Re-Insurance Corporation
10. Kenya Revenue Authority
11. Kenya Roads Board
12. Kenya Tourist Development Corporation
13. National Bank of Kenya
14. National Social Security Fund
15. Agro-Chemicals and Food Company
16. Chemelil Sugar Company
17. East African Portland Cement Company
18. Gilgil Telecommunications Industries
19. Jomo Kenyatta Foundation
20. Kenya Airports Authority
21. Kenya Broadcasting Corporation
22. Kenya Electricity Generating Company
23. Kenya Literature Bureau
24. Kenya Ordnance Factories Corporation
25. Kenya Pipeline Company
26. Kenya Ports Authority
27. Kenya Power and Lighting Company
28. Kenya Railways Corporation
29. Kenya Safari Lodges and Hotels
30. Kenya Seed Company Limited

31. Kenya Wine Agencies
32. Kenyatta International Conference Center
33. National Cereals and Produce Board
34. National Housing Corporation
35. National Oil Corporation of Kenya
36. National Water Conservation and Pipeline Corporation
37. Numerical Machining Complex
38. Nzoia Sugar Company
39. Postal Corporation of Kenya
40. Pyrethrum Board of Kenya
41. School Equipment Production Unit
42. South Nyanza Sugar Company
43. Telkom Kenya Limited
44. The University of Nairobi Enterprises and Services Limited
45. New Kenya Co-operative Creameries Ltd
46. Kenya Electricity Transmission Company
47. Coffee Research Foundation
48. Kenya Agricultural Research Institute
49. Kenya Forestry Research Institute
50. Kenya Industrial Research and Development Institute
51. Kenya Institute of Administration
52. Kenya Institute of Public Policy Research and Analysis
53. Kenya Marine and Fisheries Research Institute
54. Kenya Medical Research Institute
55. Kenya Sugar Research Foundation
56. National Museums of Kenya
57. Tea Research Foundation
58. Kenya Institute of Education
59. Kenya Education Staff Institute
60. Agricultural Development Corporation
61. Bomas of Kenya
62. Central Water Services Board

63. Coast Water Services Board
64. Higher Education Loans Board
65. Kenya Accountants and Secretaries National Examination Board
66. Kenya Ferry Services
67. Kenya National Library Services
68. Kenya Tourist Board
69. Kenya Wildlife Service
70. Kenyatta National Hospital
71. Lake Victoria North Water Services Board
72. Local Authorities Provident Fund
73. Moi Teaching and Referral Hospital
74. Nairobi Water Services Board
75. National Aids Control Council
76. National Council for Law Reporting
77. National Sports Stadia Management Board
78. Northern Water Services Board
79. Rift Valley Water Services Board
80. Water Resources Management Authority
81. Water Services Trust Fund
82. Lake Victoria South Water Services Board
83. National Authority for the Campaign Against Alcohol and Drug Abuse
84. Athi Water Services Board
85. Kenya National Examination Council
86. Coast Development Authority
87. Ewaso Ng'iro North Development Authority
88. Ewaso Ng'iro South Development Authority
89. Kerio Valley Development Authority
90. Lake Basin Development Authority
91. Tana and Athi Rivers Development
92. Unclaimed Financial Assets Authority
93. Capital Markets Authority
94. Catering and Tourism Development Levy Trustee

95. Coffee Board of Kenya
96. Commission for University Education
97. Communication authority
98. Council for Legal Education
99. Energy Regulatory Commission
100. Horticultural Crops Development Authority
101. Kenya Civil Aviation Authority
102. Kenya Bureau of Standards
103. Kenya Industrial Property Institute
104. Kenya Plant Health Inspectorate Services
105. Maritime Authority
106. National Environment Management Authority
107. National Irrigation Board
108. Tea Board of Kenya
109. Water Services Regulatory Board
110. Transport Licensing Board
111. Export Processing Zones Authority
112. Kenya Bureau of Standards
113. Egerton University
114. Jomo Kenyatta University of Agriculture and Technology
115. Kenyatta University
116. Western University College of Science and Technology
117. Maseno University
118. Moi University
119. University of Nairobi