AUDIT COMMITTEE CHARACTERISTICS, CEO TENURE AND FRAUDULENT FINANCIAL REPORTING IN COMMERCIAL BANKS IN KENYA

BY

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS, DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER IN BUSINESS ADMINISTRATION DEGREE, FORENSIC ACCOUNTING AND AUDITING OPTION

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DECLARATION

Declaration by the Candidate

This research project is my original work and has not been presented for degree in any other institution or university.

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DEDICATION

This research project is dedicated to my Parents Mr. And Mrs. Nicholas Bett, my husband Mr. Mike Cherutich, my children: Joy, Asher, Abner and Avidan. I also dedicate it to my siblings: Emmanuel, Andrew, Sophie and Caleb.

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ABSTRACT

Fraudulent financial reporting is the most expensive forms of fraud among the three forms of fraud. There have been cases of fraudulent financial reporting among banks worldwide which has led to some of them being winded up. The audit committee therefore is responsible for overseeing the financial reporting process in any organization hence preventing the occurrence of financial statement fraud. The purpose of this research was to investigate the effect of Audit committee characteristics on fraudulent financial reporting in commercial banks in Kenya. The General objective of this study was to determine the moderating effect of CEO tenure on the relationship between Audit committee characteristics and fraudulent financial reporting. The research specific objectives were to; determine the effect of Audit committee size, Audit committee independence, Audit committee Financial expertise and audit committee gender diversity on fraudulent financial reporting in Commercial banks in Kenya and to determine the moderating effect of CEO tenure on the relationship between Audit committee size, Audit committee independence, Audit committee Financial expertise and audit committee gender diversity on fraudulent financial reporting in commercial banks in Kenya. The theories used in this study were the Agency theory and Fraud pentagon theory. The research design used was explanatory research design and the year of observation was 2018 to 2022. The target population of the study was all commercial banks in Kenya. Secondary data obtained from the audited financial reports of 39 banks over a period of 5 years were used in the study. The panel data was analyzed using both descriptive and inferential statistics. Descriptive statistical techniques specifically mean, standard deviation, median, minimum and maximum were used. Inferential statistics that is moderated regression analysis and correlation analysis were used to predict and explain the nature and significance of relationships between the independent and dependent variables. The control variables; Firm Size (β=-0.085, $p<0.05$) and Firm Age (β=-0.070, $p<0.05$) had a significant negative relationship on Fraudulent Financial Reporting. Audit committee characteristics were found to have a significant effect on Fraudulent Financial Reporting with its effects moderated by CEO Tenure. The results indicated that Audit committee size (β= -0.43, $p<0.05$), Audit Committee Independence (β= -0.236, $p<0.05$) and Audit Committee Gender Diversity (β= -0.42, $p<0.05$) had a negative and significant effect on fraudulent financial reporting. On the other hand Audit Committee Financial Expertise (β=0.043, $p<0.05$) had a positive and significant effect on fraudulent financial reporting. The moderating effect of CEO tenure on the relationship between Audit Committee Characteristics and Fraudulent financial reporting indicated that CEO tenure significantly moderates the relationship between Audit Committee Independence (β=0.002, $p<0.05$, Audit Committee Financial Expertise (β=-0.003, $p<0.05$) and Fraudulent Financial Reporting while the relationship between Audit Committee Size (β=0.002, $p>0.05$), Audit Committee Gender Diversity (β=-0.001, $p>0.05$) and Fraudulent Financial Reporting is not significantly moderated by CEO Tenure. The study findings inform the banking institutions to advocating for larger and diverse audit committees, enhancing independence, and prioritizing financial expertise and gender diversity in Audit committee recruitment. It also encourage robust CEO succession plans to ensure governance stability and reduced fraudulent financial reporting. Further research can be done on other Audit committee characteristics, For instance: Frequency of Audit committee meeting, Audit committee tenure and Audit committee competency.

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ABBREVIATIONS AND ACRONYMS

ACFE	Association of Chartered Forensic Examiners
BIS	Bank for International Settlement
BOD	Board of directors
CBK	Central Bank of Kenya
CFI	Corporate Finance Institute
CMA	Capital Markets Authority
DER	Debt earnings ratio
EBIT	Earnings before interest and tax
EFCC	Economic and Financial Crimes Commission
FFR	Fraudulent financial reporting
FTT	Fraud triangle theory
ICAEW	Institute of chartered accountants in England and Wales
ITA	International Trade Administration
MCCG	Malaysian Code of Corporate Governance
NACOSTI	National Commission for Science Technology and Innovation
NASDAQ	National Association of Securities Dealers Automated Quotations Stock Market
NSE	Nairobi Stock Exchange
NYSE	New York stock exchange
OECD	Organization for economic cooperation and development
SEC	Securities Exchange Commission

OPERATIONAL DEFINITION OF TERMS

Audit committee independence- this refers to an audit committee's capacity to decide impartially in the absence of outside influence from parties like shareholders or other board members. (Vafeas, 2005). It is measured by number of committee members who are independent over Audit commite size.

Audit committee financial expertise - This is the degree of expertise, experience, and understanding in finance and accounting that audit members have (Ararat et al., 2015). It is measured by number of committee members who have financial expertise over Audit commite size.

Audit committee gender diversity-it is the involvement of both male and female gender in the Board. It is measured by number of female audit committee members over Audit committee size.

Audit committee size- is determined by the total number of audit committee members sitting on each company‘s board (Anderson & al 2004).

Beneish M-Score model- refers to a mathematical model that uses eight ratios calculated from a company's financial accounts to produce a score that indicates the level of manipulation and helps identify whether a company has engaged in fraudulent financial reporting (Beneish 1999).

CEO tenure- The length of time a person holds the position of chief executive officer (CEO) is known as their tenure (Darouchi et al, 2021).

Fraudulent financial reporting - fraudulent financial reporting is intentional or reckless conduct, acts, or omissions that result in materially misleading financial statements. It is measured using the Beneish M-score model.

Firm size- Firm's Size is a size or scale that shows the size of a company. It can usually be seen from the company's total assets and total sales. (Niresh & Velnampy 2014).

Firm Age- is defined as the length of time during which the company was incorporated (Waluyo, 2014)

CHAPTER ONE

1.0 Introduction

This chapter presents the background to the study, statement of the problem, research objectives, and study hypotheses, significance of the study and scope of the study.

1.1 Background to the Study

Three common types of fraud are asset abuse, corruption, and financial report fraud. Ten percent of occupational frauds worldwide are related to financial statement fraud (ACFE, 2020). Although it is the least frequent of the three main categories of fraud, it is also the most expensive, with a median loss of US$954,000 in 2020 compared to the most frequent category, asset misappropriation, which occurs 86% of the time and has a median loss of US$100,000 (ACFE, 2020). Financial data that is used to inform economic decisions is compromised by financial statement fraud. Due to an inefficient use of resources, poor economic decisions cause financial loss for the stakeholders and can have detrimental effects on an economy (Pududu & De Villiers, 2016). Therefore, it causes businesses or organizations to suffer enormous financial losses.

According to Wells (2011), there are multiple factors that contribute to financial reporting fraud. One of the most important ones is the pressure on management to produce better results, which allows executives to manipulate financial records in order to conceal the true performance of the company and preserve their position, control, and income from wages, bonuses, and equity.

Financial statement manipulation is a tactic used by fraudsters to inflate components such as assets, sales, and profits while underreporting liabilities and losses. The frequency of this type of fraud has increased (Mehta & Bhavani, 2017).

Deutsche Bank AG was accused by the US Securities and Exchange Commission in 2015 of filing false financial reports at the height of the financial crisis, failing to disclose a material risk that could have resulted in losses estimated to be in the billions of dollars. It also accused three former executives of hiding the true state of the bank's loan portfolio during the height of the financial crisis and understating millions of dollars in losses at Bank of the Commonwealth, located in Norfolk, Virginia. (SEC, 2016).

According to Bank of Ghana (2018), Sovereign Bank Limited and Beige Bank Limited used suspicious and nonexistent capital to obtain their banking licenses under false pretenses. As a result, they are unable to access their reported capital for operations. Additionally, according to the Bank of Ghana, Royal Bank Limited inflated its capital in order to exceed the capital adequacy limits and avoided single obligor restrictions. (BOG, 2018).

In Nigeria, Cadbury Nig Plc was reported to have lost $15 million due to fraudulent bookkeeping practices by the management. Approximately one trillion naira was credited as having been lost through various means in the case of nine commercial banks in Nigeria that were fraudulent and represented financial crimes (EFCC Act 2004).

Due to allegations of financial statement falsification and embezzlement at NBK, the Board of the Capital Markets Authority (CMA) initiated administrative action against the NBK Board members and former Senior Managers who were employed by the Bank as of December 31, 2015. Premature recognition of the sale of assets totaling Ksh 800 million, inadequate provisioning of loan amounts, and incorrect recognition of interest income led to the misrepresentation of National Bank of Kenya's (NBK) financial statements, which in turn caused the overstatement of profit in the corresponding periods. The Bank had previously released unaudited financial statements showing profits of Ksh. 1.7 billion for the quarter ending June 30, 2015, and Ksh. 2.2 billion for the quarter ending September 30, 2015. However, in its audited financial statements for the period ending December 31, 2015, the Bank reported a loss of Ksh. 1.2 billion (CMA, 2021).

The audit, however, reveals the loan book was overstated by Sh3.245 billion in violation of CBK's regulations. Chase Bank's financial statement as of December 31, 2015, also reflected overdue interests on loans and advances at Sh5.6 billion.

Imperial Bank is another bank that failed due to widespread fraud. According to CBK, the bank lost Ksh34 billion as a result of unlawful transactions carried out by senior managers and administrators. On October 13, 2015, it entered receivership. The regulator emphasized fraudulent loans given by Imperial Bank and the false representation of its financial statements in a forensic audit report that the CBK ordered (CBK, 2015).

Research has indicated that the qualities of the audit committee have the biggest influence on lowering the degree of false financial reporting, which raises the accuracy of accounting data. The efficiency of the audit committee helps to increase the credibility of financial reporting by lowering fraudulent financial reporting. Magnanelli et al., 2017; Razali & Arshad, 2014).

The study's audit committee attributes are as follows: size, independence, financial expertise, gender diversity, and audit committee expertise.

The total number of audit committee members seated on each company's board determines the size of the audit committee. The size and makeup of the audit committee are critical factors to consider when assessing a company's performance and the veracity of its financial statements. The number of members on the Audit Committee decided this. The Audit Committee's knowledge base will grow more diverse as it gets bigger, which will improve the effectiveness of their work. Hsu & Petchsakulwong (2010) found an intriguing correlation in their research between the size of the Audit Committee and the caliber of financial reporting.

Hassan and Bello (2013) state that when there are insufficient directors serving on an audit committee, the caliber of financial reporting the committee produces deteriorates. This is as a result of fewer eyes on the books due to a smaller committee. It's probable that a smaller committee will make it more challenging for the directors to effectively perform their duties. However, having an excessively large committee can result in problems with coordination and procedural issues, which is another factor that contributes to bad management.

An independent audit committee member is defined by Section 301 and the listing rules of the NYSE and NASDAQ as someone who is not associated with the organization and who does not accept any form of payment other than director fees. Previous studies have demonstrated that an audit committee's effectiveness is influenced by specific member characteristics and that companies that commit financial statement fraud are less likely to have an audit committee or to have an audit committee that is predominately made up of non-independent directors (Al-hadrami, 2020). Additionally, the caliber of the financial reports that the company produces is impacted by its independence from the Audit Committee, as per Anderson et al.

(2003). Prior studies suggest a strong correlation between an increase in the number of independent audit committees and an improvement in financial reporting quality. Some contend that, because it would have a more impartial viewpoint, an entirely independent Audit Committee would be better able to protect the interests of shareholders and fulfill its duties.

Numerous research studies have examined the connection between fraudulent financial reporting and gender diversity. Watson & McNaughton (2007) claim that women are less likely to take significant risks and prefer to minimize losses. This suggests that gender diversity on corporate committees and boards could aid in reducing the likelihood of taking on too much risk. Gender differences in risk aversion may be good news from the perspective of corporate governance, as female representation, for example, may help to better perceive potential biases in strategy formulation and risk assessments, even though willingness to bear risk is a managerial necessity for creating shareholder value. Therefore, one could argue that having a gender diverse audit committee and board of directors would improve oversight and monitoring. The integrity of the financial reporting process may also be impacted by women's conservatism and risk aversion. Krishnan and Parsons (2008) offer empirical evidence in support of this view, demonstrating a positive correlation between gender diversity in managerial positions and earnings quality.

Someone with experience, knowledge, and aptitude in finance and accounting is referred to as a financial expert (Ararat et al., 2015). Abbott et al. (2004) discovered a statistically significant inverse correlation between the incidence of financial statement fraud and the presence of a financial expert on the board. This suggests that having a financial expert on the board enhances quality control and increases firm value. It makes sense that adding more professionals with knowledge of finance, accounting, and auditing could enhance a company's internal control framework as a whole. Previous studies have demonstrated that strong governance boards with accounting expertise have increased oversight by the Audit Committee and strengthened conservatism (Krishnan & Visvanathan 2008).

In this study, CEO tenure serves as a moderator. Although they answer to the Board of Directors (BOD), the CEO is an organization's top operational decision-maker. According to Ifeoma (2022), the length of time a CEO serves in that position as CEO is the key indicator of their tenure. On the other hand, tenure durations differ significantly between firms. Francis et al. (2008) posit that there is a positive correlation between the tenure of a CEO and the quality of financial reporting they produce. This is because the CEO's reputation grows with tenure and motivates them to continue producing high-quality financial reports. As a result, tenure broadens the CEO's experience and knowledge of accounting procedures and the majority of areas that are underreported, improving their capacity to identify and stop any abnormal behavior.

1.2 Statement of the Problem

The banking industry stands out from other economic sectors because it is essential to the economy's ability to maintain its financial stability and supply of financial resources. Large, globally recognized banks that are systemically important are included in this industry. According to the BIS (2014), the failure of one or more of these banks could set off a global financial crisis. As a result, these banks are required to prepare their financial statements in compliance with IFRS and free from any fraudulent financial reporting that could deceive their users.

One of the most costly types of fraud is the production of false financial statements, according to a 2012 report published by the Association of Certified Fraud Examiners (ACFE). It causes enormous losses, and deprivation has a negative impact on profitability, return to shareholders, and growth prospects. In some situations, these factors even jeopardize the organizations' ability to survive. (Chenguel, 2020).

It has been extremely concerning that a number of financial institutions in Kenya, including Chase Bank and Dubai Bank, have failed. Due to allegations of financial statement falsification and embezzlement at NBK, the Board of the Capital Markets Authority (CMA) initiated administrative action against the former Senior Managers and NBK Board members who were employed by the Bank as of December 31, 2015. An audit carried out on December 31, 2015, revealed that Chase Bank Ltd. had overstated its loan book, in violation of CBK regulations (Business Daily, 2021).

Corporate governance flaws are the primary cause of fraudulent financial reporting (Ndofor et al., 2015). According to Razali and Arshad (2014), the efficiency of the corporate governance structure lowers the possibility of fraudulent financial reporting and helps to boost the credibility of financial reporting. The audit committee is one of the corporate governance tools that is crucial for stopping false financial reporting. Studies have indicated that audit committees can lessen the likelihood of fraudulent activities by minimizing discrepancies between non-financial and financial metrics (Brazel 2018). Fraud risks will decrease if audit quality rises, so the audit committee will raise audit quality by making sure proper financial reporting is done.

Due to inadequate capital, liquidity, and management, 465 banks were closed in the US between 2008 and 2012 (Isik & Folkinshteyn, 2017). The primary issue facing banking institutions is ineffective corporate governance and financial reporting, which has a negative impact on profitability. The banking industry has been plagued by problems despite the many attempts to streamline it, as numerous banks have been liquidated or placed under receivership. Weak internal controls, along with inadequate governance and management practices, are linked to this kind of collapse (Gathaiya, 2017). An audit committee can be put in place to increase the value of financial reporting, claim Chedid and Chaya (2020).

Regarding the size of the audit committee, it is plausible that a smaller committee will pose greater challenges for the directors in terms of efficiently discharging their duties. However, an excessively large committee may result in problems with coordination and procedural issues.

On the concept of audit committee independence, there have also been conflicting findings. Raghunandan et al. (2001) discovered that audit committees can only function more effectively if they are made up entirely of independent directors and have at least one member with a background in finance or accounting. However, Abbot et al. (2000) pointed out that effectiveness of an audit committee is unlikely to result from its independence unless the committee is also actively involved.

There were conflicting outcomes regarding the impact of audit committee experience on the caliber of financial reporting. According to earlier research, audit committee experience can lower financial statement fraud and increase earnings conservatism (Krishnan & Visvanathan, 2008). However, Xie et al. (2003) discover that there is no connection between the present discretionary accruals and the proportion of external legal and financial members on an audit committee.

Regarding gender diversity, prior research yields contradictory findings. Female board members enhance corporate governance but have a negative impact on business performance, according to Adams and Ferreira (2009). According to (Terjesen et al., 2009), having more women on the board fosters better stakeholder communication and increases accountability. Stated differently, it raises non-financial metrics like gender representation, customer satisfaction, and corporate social responsibility.

Thus, this study uses CEO tenure as a moderator to examine the impact of audit committee characteristics on fraudulent financial reporting in Kenyan commercial banks. This study is necessary because the evidence supporting this topic is conflicting and lacks clarity. Size, independence, financial expertise, and gender diversity of the audit committee are among the favorable effects of the audit committee characteristics this study looks at.

1.3 Objectives of the Study

This study endeavored to achieve the following objectives:

1.3.1 General Objective of the Study

The general aim of this study was to establish the moderating effect of CEO tenure on the relationship between Audit committee characteristics and Fraudulent Financial Reporting in commercial banks in Kenya.

1.3.2 Specific Objectives of the Study

1. To assess the effect of audit committee size on Fraudulent Financial reporting in commercial banks in Kenya
2. To determine the effect of audit committee independence on fraudulent financial reporting in commercial banks in Kenya
3. To establish the effect of audit committee Financial Expertise on fraudulent financial reporting in commercial banks in Kenya

4. To determine the effect of audit committee Gender diversity on fraudulent financial Reporting in commercial banks in Kenya

5a. To determine the moderating effect of CEO tenure on the relationship between audit committee size and fraudulent financial reporting in commercial banks in Kenya.

5b. To assess the moderating effect of CEO tenure on the relationship between audit committee independence and fraudulent financial reporting in commercial banks in Kenya

5c. To establish the moderating effect of CEO tenure on the relationship between audit committee Financial Expertise and fraudulent financial reporting in commercial banks in Kenya

5d. To determine the moderating effect of CEO tenure on the relationship between audit committee Gender diversity and fraudulent financial reporting in commercial banks in Kenya

1.4 Research Hypothesis

Based on the stated specific objectives, the following null hypotheses were derived and tested

$H0_1$: Audit committee size has no significant effect on Fraudulent Financial reporting in commercial banks in Kenya

$H0_2$: Audit committee independence has no significant effect on Fraudulent Financial reporting in commercial banks in Kenya

$H0_3$: Audit committee financial expertise has no significant effect on Fraudulent Financial reporting in commercial banks in Kenya

$H0_4$: Audit committee Gender diversity has no significant effect on Fraudulent Financial reporting in commercial banks in Kenya

$H0_{5a}$: CEO tenure has no significant effect on the relationship between audit committee size and fraudulent financial reporting in commercial banks in Kenya.

$H0_{5b}$: CEO tenure has no significant effect on the relationship between audit committee independence and fraudulent financial reporting in commercial banks in Kenya

$H0_{5c}$: CEO Tenure has no significant effect on the relationship between audit committee financial expertise and fraudulent financial reporting in commercial banks in Kenya

$H0_{5d}$: CEO tenure has no significant effect on the relationship between audit committee gender diversity and fraudulent financial reporting in commercial banks in Kenya.

1.5 Significance of the Study

The findings of this study provide valuable empirical evidence to the management and practitioners the banking sector in Kenya and others in the region to know the effects and critical components to combat financial statement fraud in the banking sector.

The policy makers and the regulatory authorities may also use the findings of this study to implement policies on important corporate governance components that are to be implemented by the sector players to prevent financial statement fraud.

Researchers and academicians will benefit from the findings of this study. The study provides more knowledge on the role of Audit committee characteristics in combating fraudulent financial reporting. This study may also be used as a basis for further research by researchers interested in field of study or related disciplines.

1.6 Scope of the Study

This study focuses only on the following audit committee characteristics namely: audit committee size, audit committee independence, audit committee financial expertise and audit committee Gender diversity. The above provided sufficient findings to support this study. The period of study was between 2018 and 2022 which provided sufficient data as it covered all aspects of the economy. Explanatory research design was used since the study looked at the cause-and-effect relationship between chosen audit committee characteristics and fraudulent financial reporting of all commercial banks in Kenya. Secondary data was obtained from financial statements and reports published by all Commercial banks in their websites were analyzed.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a review of relevant literature to this study. It discusses the various concepts related to the study and the theories of the study as well as the conceptual framework.

2.1 Concept of Fraudulent Financial Reporting

The definition of fraudulent financial reporting is defined as fraud involving financial reports (Mp & Irwandi, 2016). Fraudulent financial reporting is defined by the Association of Certified Fraud Examiners (ACFE, 2018) as a purposeful misreporting of a company's economic condition by omitting or manipulating financial information or disclosing financial information in order to prevent decision-makers from using financial statements.

According to Apriliana and Agustina (2017), a company may engage in fraudulent financial reporting as a means of meeting the expectations of its shareholders by presenting them with satisfactory financial reports. One sort of fraud that can have serious consequences, including diminished investor confidence, harm to one's reputation, possible fines, and legal action, is fraudulent financial reporting (Ernst and Young, 2009). Despite being the least frequent type of fraud, financial reporting fraud causes the largest median loss for businesses when it does happen. Fraud involving financial reporting is frequently concealed by estimates and other judgmental balances. Criminals are skilled at defending their positions and are able to present intricate and comprehensive proof to do so (ICAEW, 2020).

Numerous researchers have examined fraudulent financial reporting that stems from the characteristics of the audit committee. For example, an independent audit committee has no appreciable positive influence on fraudulent financial reporting, according to a study by Sijabat & Tamba (2021) on Empirical Study of the Effect of the Audit Committee Characteristics on Fraudulent Financial Reporting. However, there is a strong negative correlation between fraudulent financial reporting and the audit committee's tenure, frequency of meetings, and financial expertise.

2.2 Concept of Audit Committee Characteristics

According to Hamdan & Mushtaha (2011), audit committees are in charge of keeping an eye on the board of directors' choices regarding the appointment and dismissal of external auditors as well as advising the board on these issues. It is the audit committee's duty to make sure the company has enough external auditors in order to guarantee that it has proper accounting standards, sufficient internal controls, and external auditors who can stop fraud and encourage timely and high-quality financial statements by carrying out these duties (Jabak, 2022). Establishing an audit committee may enhance the quality of financial reports, based on previous research findings.

The effectiveness of the audit committee should be examined in relation to the caliber of financial reports as well as its own attributes. It should also be demonstrated to what degree these attributes are connected, either directly or indirectly, to the caliber of the financial reporting process (Amrah & Obaid 2019). In a 2007 study, Saleh et al. attempted to assess the function of various audit committee attributes, such as member independence, committee size, meeting frequency, and members' experience and expertise in monitoring management behavior. Among the study's most significant conclusions are the following: firms with audit committee members who stand out for their experience, financial acumen, professionalism, and regular meetings have lower earnings management practices than other companies; and total independence among audit committee members lowers earnings management practices in Malaysian companies.

The following attributes of the audit committee will be examined: audit committee size. The independence, financial expertise, and gender diversity of the audit committee.

2.3 Concept of Audit Committee Size

The total number of audit committee members seated on each company's board determines the size of the audit committee. The amount may vary depending on the organization. According to Anderson et al. (2004), a large team may make its members more susceptible to peer pressure and more likely to accept the opinions of others without challenging them. In this instance, it is unlikely that the audit committee members will raise concerns about the possible inaccuracies in the internal review process' accounting reports, which could increase the likelihood that they will be asked to testify later.

On the other hand, a small team will promote better communication and information sharing within the company, helping management spot possible problems in financial reporting and lower the likelihood of restating the minimum size requirements. A sizable committee could experience the issue of free riders, according to earlier research, the audit committee's effectiveness was based on the total number of members. (Xie and others, 2003).

2.3.1 Concept of Audit Committee Independence

Since the audit committee plays a crucial role in an organization, the corporate governance code requires public companies to set up independent audit committees to support organizations in strengthening the financial statements' independence and integrity (Uche, 2021). Huang and Thiruvadi (2010) state that in order for the board's audit committee to effectively improve the quality of financial statements, it must have a minimum of three members, the majority of whom should come from the group of independent non-executive directors. The audit committee's ability to effectively carry out its responsibilities may be adversely affected by an inadequate membership (Vafeas, 2005). It is anticipated that an independent audit committee will be able to oversee the management team with effectiveness in addition to offering objective evaluation and judgment.

2.3.2 Concept of Audit Committee Financial Expertise

The degree of financial and accounting knowledge, experience, and skills that members of the audit committee possess is known as their audit committee financial expertise (Ararat et al., 2015). In terms of corporate governance, the audit committee needs to have at least one member who specializes in finance, according to Ghafran & O'Sullivan (2017). The audit committee members need to be knowledgeable about accounting, auditing, and internal control system procedures as well as possess the skills required to handle a variety of fraud risks (Lawrence et al. 2004).

Competent audit committee members would demonstrate the superiority of the oversight in comparison to generating high-quality accounting data (Sultana, 2015). To ensure that the financial report complies with legal and regulatory requirements, it is crucial for companies to include a certified auditor with financial expertise in the audit committee. Additionally, in order to increase the audit committee's effectiveness, the executive or non-executive directors must possess a solid understanding of the financial industry (SEC, 2002).

2.3.3 Concept of Audit committee Gender Diversity

Committee for audits Gender diversity refers to the presence of women on an organization's audit committee. Sultana et al. (2020) assert that gender diversity is acknowledged as a crucial element of sound corporate governance. According to Garcia-Sanchez et al. (2017), the caliber of financial reporting is impacted by the conservatism, risk aversion, and moral behavior of female directors. Women are recognized to foster more participative decision-making, collaborate more, and exhibit greater ethical responsibility (Amin et al. 2020). Therefore, one could argue that having a gender diverse audit committee and board of directors would improve oversight and monitoring. The integrity of the financial reporting process may also be impacted by women's conservatism and risk aversion.

2.4 Concept of CEO Tenure

Although they answer to the Board of Directors (BOD), the CEO is an organization's top operational decision-maker. The duration of a CEO's tenure as a CEO is determined by the number of years they hold that position. On the other hand, tenure durations differ significantly between firms. According to Francis et al. (2008), there is a positive correlation between the tenure of a CEO and the quality of their financial reporting. This is because the CEO's reputation grows with time, and this reputation encourages them to continue providing high-quality financial reporting. As a result, tenure broadens the CEO's experience and knowledge of accounting procedures and the majority of areas that are underreported, improving their capacity to identify and stop any abnormal behavior.

According to Zhang's (2009) findings, CEOs with a longer tenure tend to report financial data more aggressively than CEOs with a shorter tenure. CEOs overstated their reported accounting earnings at the start of their tenure compared to the end, according to research by Ali and Zhang (2015). Additionally, it is claimed that in order for new executives to gain recognition and job security quickly, they must demonstrate their performance to stakeholders at the beginning of their tenure.

2.5 Theoretical Review

Theories relating to this study are reviewed. The theories are as follows:

2.5.1 The Agency Theory

The economic theory outlined by Alchian & Demsetz (1972) and expanded upon by Jensen & Meckling (1976) is the foundation of agency theory. It is described as the dynamic between agents, like company executives and managers, and principals, like shareholders. This theory states that the agents are employed by the shareholders, who are the company's owners or principals, to carry out tasks on their behalf. To put it simply, a principal is a person who primarily depends on an agent to carry out particular financial decisions and transactions that may have unpredictable results. Conflicts and disagreements of all kinds may arise because the principal depends so much on the agent to choose wisely. Agency theory examines these kinds of relationships in order to resolve disputes between the parties.

According to Clarke & Branson (2012), directors or managers, acting as the shareholders' agents, are given authority by principals to manage the company. In order to prevent the agency problem and foster mutual trust and cooperation between the principals and the agents, the leaders must devise a workable leadership structure. According to agency theory, good governance is supposed to lower agency costs (Arslan & Alqatan, 2020). According to Ashiru (2017), agency theory describes the dynamic in which a principle assigns tasks to an agent. According to him, the fundamental issue with corporate governance is seen by the principal agent model as self-serving managerial behavior in a general principal-agent relationship.

He goes on to say that appropriate agency relationships at different levels—between shareholders and boards of directors, between boards and senior management, and between senior and subordinate levels of management, for example—keep this separation connected and regulated. He comes to the conclusion that there is always an inherent risk of conflicts within a company when there is a principal-agent relationship because the agents' financial incentives are frequently different from the principals'.

The theory looks at issues with conflicts of interest that can arise between various company actors, particularly when ownership and management are kept apart. A circumstance that might occur and allow them to take advantage of information asymmetry for their own benefit (Dey, 2008). Therefore, we contend that when a company has a high incidence of agency problems, weak corporate governance in this case, the audit committee's characteristics and apparent conflicts among its key stakeholders, some actors will engage in fraudulent behavior in order to take advantage of information asymmetry and benefit personally from it. Therefore, high agency problems and unresolved conflicts of interest in a company are the root cause of the fraud issue in an organization (Marashdeh, 2014).

Because it describes the relationship between the agent and the principal, which can be impacted by conflicts of interest, which could ultimately result in the agent filing false financial reports, this theory is appropriate for the study. By making the required disclosures in a more transparent and credible manner, audit committee characteristics are likely to lessen the likelihood of financial statement fraud (Kaituko et al., 2023). The Agency theory also explains the moderator, which is CEO tenure, by describing how the CEO tenure can impact fraudulent financial reporting.

2.5.2 The Fraud Pentagon theory

As an extension of pre-existing fraud theories, such as the Fraud triangle theory and the Fraud diamond theory, Crowe Horwath (2011) developed the Fraud Pentagon Theory. With the addition of an element of arrogance to the previously identified indicators of pressure, opportunity, rationalization, and capability, this development ultimately completes the fraud theory into five indicator elements, forming Crowe's Fraud Pentagon theory (Horwath, 2011).

Regarding pressure, as long as management is subject to constructive internal pressure from the company, such as receiving bonuses and incentives for good performance (Thamlin & Reskino, 2023) or the leverage ratio has the potential to generate external pressure. Businesses with high leverage ratios are considered to be highly credit-risky and heavily indebted. Creditors are less willing to lend money to businesses that pose a higher credit risk. Thus, this is one of the issues that the business is now concerned about and that could contribute to the rise of false financial reporting (Puspitha & Yatha, 2018).

Additionally, some opportunities arise and turn into gaps that are not under the principal's supervision, which management can take advantage of in carrying out its plans in order to properly assess its performance and reap the greatest possible benefit for its own prosperity and welfare. The existence of rationalization can then be used as a justification by management, acting as an agent within the company, to support their actions on the grounds of their contributions to the operation of the business and their service, even though they involve fraud.

Because the owners and shareholders of the company are ignorant, management can also frequently use its capabilities and competencies which include a deeper understanding of the nuances of business operations to manipulate financial reporting. In addition to their arrogance, management's confidence in their ability to act freely without fear of interference from the principal, the company's owner, stems from their role and power in managing a business that has a significant impact, as trusted by the shareholders. This includes their willingness to engage in fraudulent financial reporting.

2.6 Empirical Review

Previous studies relating to this study is reviewed in this part

2.6.1 The Effect of Audit Committee Size on Fraudulent Financial Reporting

The size of the audit committee has a big impact on how well every successful company performs. They are in charge of the financial statement's credibility and transparency in the context of financial information.

According to earlier research, the audit committee's effectiveness was based on the total number of members. These factors were examined in earlier research projects by Xie et al. (2003). The findings demonstrated that a firm's internal control system and financial reporting are more likely to be overseen by an audit committee with a larger membership and more resources, which leads to higher performance (Anderson et al., 2004).

According to Shankaraiah and Amiri (2017), there is a connection between the size of the audit committee and financial reporting procedures. Given that the size of the audit committee has a substantial impact on the quality of financial reporting, it can be concluded that companies can enhance the quality of their financial reporting by controlling its size. Mardessi's (2022) empirical results show a statistically significant relationship between real earnings management and corporate governance mechanisms, primarily audit committee size. The size of the audit committee negatively impacted real earnings management (REM) and financial reporting quality (FRQ) Hasan, Kassim, and Hamid (2020). Mardessi (2022) Empirical results show a statistically significant relationship between real earnings management and corporate governance mechanisms, primarily audit committee size.

2.6.2 The Effect of Audit Committee Independence on Fraudulent Financial Reporting

In order to oversee and act as a check and balance on a company's financial reporting system, the audit committee is essential. The audit committee oversees and conducts an independent assessment of an organization's internal controls, independent auditors, and financial reporting procedures. According to (Huang & Thiruvadi, 2010); Mohiduddin & Karbhari, 2010), an audit committee must have a minimum of three members, the majority of whom must be appointed from a group of independent non-executive directors, in order to strengthen its effectiveness in improving the quality of financial reporting.

An independent audit committee can efficiently oversee management and offer objective evaluation and guidance. An audit committee's independence is essential to the work of auditors because, in the event of a disagreement with management, they would have the backing of the committee rather than being at the mercy of management alone, which could influence an investor's choice (Al-hadrami, 2020). Lack of directors may affect the committee's effectiveness since fewer directors can effectively carry out their responsibilities (Vafeas, 2005).The influence of management over the caliber of financial reporting would grow if members of the audit committee lack independence (Ali & Meah, 2020). As a result, investors might not believe the financial data that a business with a biased audit committee provides. As a result, it is anticipated that the investor's choice will be positively impacted by an independent audit committee. According to Kibiya, Che-Ahmad, and Amran (2016), the independence of the audit committee was important, suggesting that AC monitoring systems have an impact on the caliber of financial reporting of listed non-financial companies in Nigeria.Hasan, Kassim, and Hamid (2020) discovered in another study that Audit Committee Independence improved Real Earning Management (REM) and Financial Reporting Quality (FRQ). The findings of Makhlouf (2022) indicate that the audit committee's independence has a negative impact on impression management, suggesting that this attribute helps to prevent financial reporting manipulation and reduce impression management practices.

2.6.3 The Effect of Audit committee financial expertise on fraudulent financial reporting

Agrawal and Chadha (2005) describe a director with financial expertise as someone who possesses experience in financial management or is a certified public accountant (CPA) or chartered financial analyst (CFA). Members of the audit committee with experience in accounting and finance are thought to be better able to spot financial irregularities (Persons, 2005). Researchers, regulators, and experts in corporate governance have emphasized the significance of financial knowledge among audit committee members in carrying out their main duty of supervising the financial reporting procedure and enhancing the caliber of financial reports in businesses.

According to Masunaga et al. (2013), an increase in financial reporting transparency and a decrease in inaccurate financial reporting are linked to the financial knowledge of the audit committee. In comparison to their non-fraud counterparts, Farber (2005) discovered that the board of directors of fraud firms has fewer independent non-executive directors (NEDs) and audit committee members with financial expertise. Consequently, the audit committee's financial knowledge has a big impact on an organization's fraudulent financial reporting. According to Kamarudin, Ismail, and Alwi (2014), there is a negative correlation between corporate fraud and the audit committee members' expertise. This implies that members of audit committees are better equipped to stop false financial reporting when they have a solid understanding of finance. Financial reporting quality (FRQ) Real Earning Management (REM) was significantly impacted negatively by the Audit Committee Financial Accounting Expert, according to Hasan, Kassim, and Hamid (2020). According to Safari Gerayli, Rezaei, and Abdollahi (2021), the financial expertise of the audit committee considerably raises the FRQ of the firms. Stated differently, an audit committee's FRQ may rise in response to increased financial expertise. The study's conclusions held up well to different FRQ measures, year-by-year analysis of the research hypotheses, and endogeneity issues. The proportion of financial experts on the audit committee is positively correlated with the de facto adoption of IFRS, according to Oussii and Klibi's (2020) findings. Furthermore, the correlation between the financial proficiency of audit committee members and the voluntary adoption of IFRS is stronger in cases where the company is audited by a minimum of one BIG 4 audit firm. According to Baatwah, Salleh, and Ahmad (2015), timely audit reports are linked to CEO tenure and CEOs with financial expertise. Additional testing validated this outcome as well. Furthermore, there is evidence to support the suggestion that the timeliness of audit reports is influenced by the interaction between the tenure of the CEO and financial expertise.

2.6.4 The effect of Audit committee Gender Diversity on fraudulent financial reporting

The Journal of Accounting and Public Policy (2022) reports that women are becoming more and more significant in today's economy, labor market, and society. Working women typically carry twice as much responsibility for managing the home and the workplace as do men.

The presence of women in senior leadership roles is frequently thought to improve board independence, monitoring, advisory ability, and resource allocation; as a result, financial statement fraud may occur less frequently. Recently, it has also been thought that having a diverse mix of genders on committees and boards of directors contributes to their effectiveness (Aldamen et al., 2018).

The presence of experienced members with diverse perspectives and gender diversity in the composition of audit committees can aid the committee in addressing a variety of accounting issues, which in turn reduces the likelihood of financial misstatements and fraud (Gul et al., 2011). According to Kamarudin, Ismail, and Alwi's (2014) research, there is no correlation between gender and corporate fraud. According to Luh (2024), higher external audit quality is guaranteed when women lead (as in, as

CEOs and board gender diversity); this is because higher audit fees are paid. It's interesting to note that it was discovered that having more women on the audit committee improves the integrity of internal audit procedures and controls, which results in better financial reporting and, consequently, lower audit fees. The study conducted by Alkebsee, Tian, Usman, Siddique, and Alhebry (2021) indicates that having female directors on the audit committee enhances internal monitoring and communication, thereby lowering perceived audit risk and minimizing the need for external auditor assurances. The findings also imply that when a company is riskier and more complex, female directors should demand superior audits and additional assurance from external auditors.

2.7 The Moderating Role of CEO Tenure on the Relationship between Audit Committee Characteristics and Fraudulent Financial Reporting

CEO tenure and financial reporting quality are positively correlated because the CEO's reputation grows with time and motivates them to continue providing high-quality financial reports. Accordingly, tenure broadens the CEO's experience and knowledge of accounting procedures and the majority of misreported areas, which strengthens the CEO's capacity to identify and stop any irregular behavior (Francis et al., 2008).

Previous research has looked at CEOs who report fraudulent financial information both in their first and last year of office. According to these studies, new CEOs linked to non-routine executive changes inflate their companies' first-year losses and expenses, credit the previous CEOs for them, and then claim credit for the higher reported earnings that follow (Ali & Zhang, 2015).

Previous research has also predicted that CEOs will inflate their earnings in their last year of service to increase their pay in that year; however, there is currently conflicting empirical evidence supporting this prediction (Kalyta, 2009). According to Ngo and Nguyen (2022), CEOs with experience in finance and accounting are more likely to intervene in earnings management, which has a negative impact on FRQ. This behavior makes sense because CEOs are skilled at manipulating earnings management in addition to having a solid understanding of finance and accounting regulations. Furthermore, in emerging economies, CEOs' awareness and management skills are still limited, and there are lax legal penalties. As a result, when they do have power, CEOs quickly work to establish a reputation that will increase their own authority and income. According to Salehi, Lari Dasht Bayaz, & Naemi (2018), there is no significant correlation found between the CEO's financial expertise and the other two timely audit report indices, and only a negative and significant relationship between the CEO and the natural logarithm of audit report lag. Furthermore, there was no discernible correlation between the CEO tenure and the other three timely audit report indices. According to Hussain, Nie, Tian, & Ashraf's (2024) research, the adoption of GRI reporting standards is negatively correlated with CEO tenure. Additionally, this study discovers that the correlation is weaker for female CEOs and CEOs with international experience. Moreover, this study concludes that the correlation between the experience of foreign CEOs and female CEOs is not statistically significant. This study also reveals that state-owned businesses in China have a stronger correlation between CEO tenure and GRI adoption.

2.8 The Review of Control Variables

The control variables under review are:

2.8.1 Firm size

One of the typical firm characteristics used to evaluate the financial reports of a company is its size. Firm size can be determined in a number of ways, including by total assets (Niresh & Velnampy, 2014). The total sales are another way to gauge the size of the company (Yang et al., 2018). Larger businesses have more effective internal controls than smaller ones (Wuryani, 2012). Bigger businesses will have more protocols, organizational techniques, and precise guidelines to manage the business. Better internal control makes it more difficult to commit fraud. Improved internal control leads to the disclosed financial statements being accurate (Rezaei & Shabani, 2015). According to Soyemi and Olawale (2019), firm size has a positive, significant impact on the quality of financial reporting, while Mohd Nor, Ahmad, and Mohd Saleh (2010) found a significant negative relationship between company size and fraudulent financial reporting. Large companies therefore typically generate high-quality financial reports; businesses should be encouraged to do the same.

2.8.2 Firm age

One sort of company attribute that can be used to gauge the financial reports of the company is firm age. It is described as the duration of the business's existence or incorporation. A company's experience increases with age. As a result, its expertise has increased in comparison to younger firms (Waluyo, 2017).An older business typically operates more efficiently. Additionally, older companies typically have a larger investor base than younger ones (Guha, 2017). Ilaboya & Ohiokha (2016).

The internal control of the firm is correlated with its age as well. According to Olowokure et al. (2016), as time goes on, the business will encounter a number of issues that will require better corporate governance. Increasing internal control is one method of enhancing corporate governance. A company's financial report is more trustworthy the stronger its internal control is (Huang et al., 2012). Firm age and earnings management have no discernible relationship, according to Bassiouny (2016).

2.9 Research Gap

According to the reviewed literature, research has been done globally on the impact of audit committee characteristics on financial reporting fraud. For example, Rozali & Arshad (2014) integrated Altman's Z-score model with the Beneish M-score model to study the relationships between corporate governance structure and fraudulent financial reporting. The results showed that strengthening the credibility of financial reporting requires an efficient corporate governance structure.

A study on the impact of financial performance on the caliber of financial reporting of particular Indian companies was conducted by Kalyani et al. in 2019. Board features, audit committees, board independence, board size, and whistleblower mechanisms are examples of governance mechanisms. The study's conclusions showed a strong correlation between commercial companies' financial performance and their disclosure of corporate governance.

Gathaiya (2017) carried out research on the problems influencing Kenya's bank failures between 2015 and 2016. The study used a content analysis methodology. Researchers analyzed and quantified the problems affecting Kenya's bank collapses between 2015 and 2016, drawing conclusions about the various scholarly works and journals in the process. The study came to the conclusion that insider lending, lax corporate governance standards, deficiencies in the regulatory and supervisory frameworks, inadequate risk management techniques, a lack of internal controls, and conflicts of interest could be the main causes of the failure of the majority of Kenya's banking institutions.

The majority of earlier research concentrated on the traits of the audit committee and how it affected financial reporting fraud. The relationship between audit committee characteristics and fraudulent financial reporting was found to be moderated by CEO tenure, which was first identified in this study. Additionally, it has added two control variables: firm age and firm size. The study was conducted in Kenya's listed commercial banks.

2.10 Conceptual Framework

A conceptual framework is hypothesized model identifying the model under study and the relationship between the dependent and independent variables. The Independent variables in this case are: AC size, AC independence, AC financial expertise and AC Gender diversity. The dependent variable is fraudulent financial reporting while the moderator is CEO tenure.

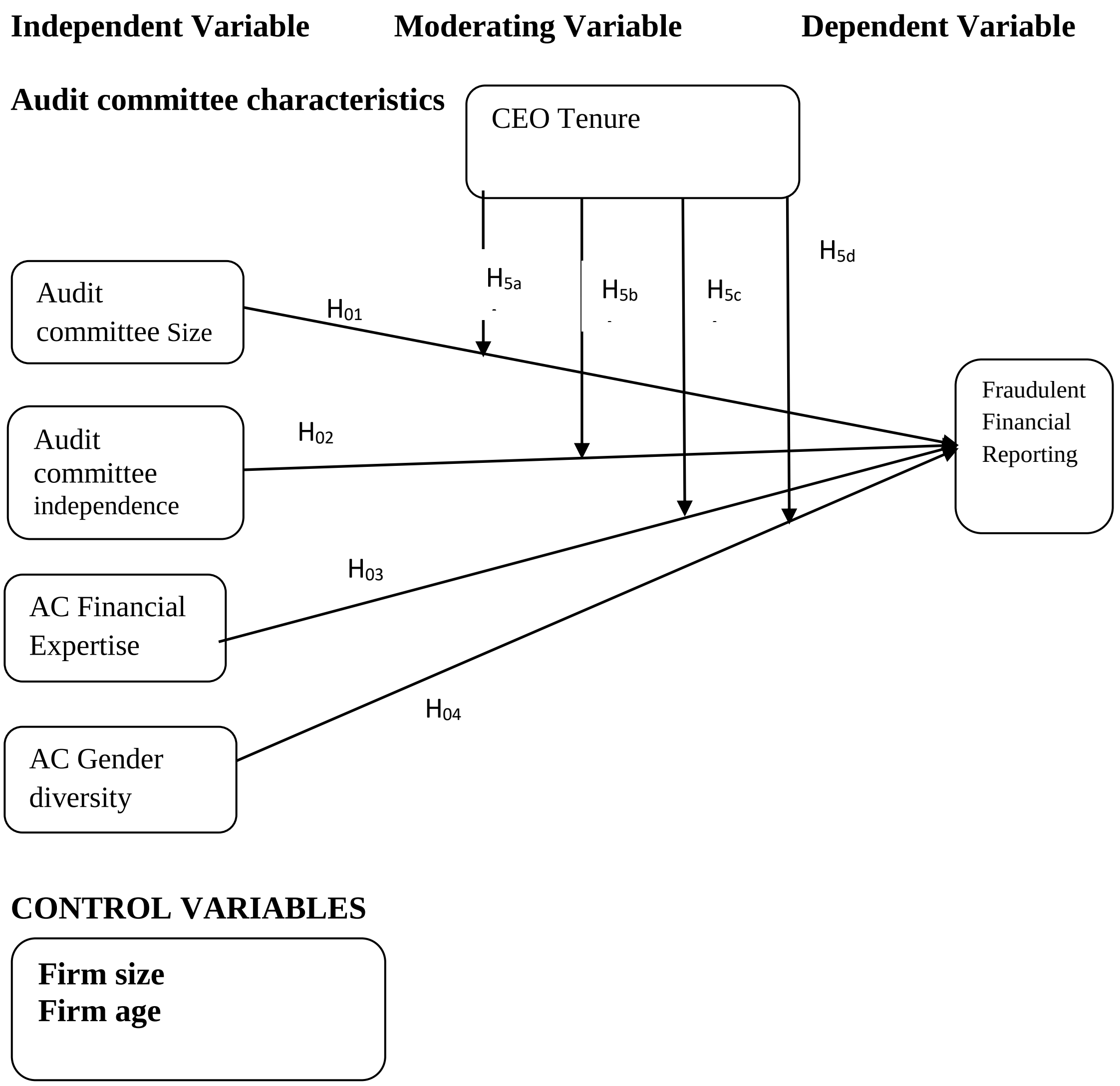

Figure 2.1: Conceptual Framework

(Source: Author, 2023)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter provides details about the methodology adopted to assist in achieving the research objectives. It highlights the following elements: research design, target population, sampling design, inclusion and exclusion, data collection instruments, measurement of variables, data analysis and presentation, and ethical considerations

3.1 Research Design

Explanatory research design was used in the study. Secondary quantitative data was employed in the use of panel data. Panel data was used in the study because of its benefit of allowing researchers to examine how each bank behaves both spatially and over time (Baltagi, 2005; Gujarati, 2003).

3.2 Target Population and Sample

The target population comprised of all commercial banks in the Kenya. All the 42 licensed commercial banks were considered.The4 list of all banks was obtained from the CBK website. A sample of 39 Commercial banks was selected. Each bank was analyzed annually for 5 years from 2018 to 2022.

3.2.1 Inclusion and Exclusion

From the sampling frame of 42 commercial banks in Kenya from 2018 to 2022, the study only selected commercial banks that were in operation from 2018 to 2022, to avoid missing in information and to deal with balanced data. 3 firms were dropped for failing to meet the inclusion criteria; therefore, the study surveyed 39 commercial banks that met the inclusion criteria, resulting to 195 firm year observations.

3.3 Data Types and Sources

The study was conducted using secondary data which was achieved by analyzing the content of financial reports of all commercial banks in Kenya for the period between 2018 and 2022.

A content or document analysis guide was employed in the study as a means of gathering data. Document analysis is a research method that works especially well for qualitative case studies, which are in-depth investigations that provide detailed accounts of a single phenomenon, event, program, or organization (Bowen, 2009). Compared to other research methods, document analysis is more efficient because it takes less time. Instead of gathering data, it needs to select data. But it also has its drawbacks. For example, documents might not contain all the data that is accurate or complete (Patton, 2002). The information was gathered from Kenyan commercial banks' online published books of accounts for the five-year period between 2018 and 2022.

3.4 Measurement of variables

The study variables measured comprised of the dependent and independent variables

3.4.1 Dependent variable: Fraudulent financial Reporting

The dependent variable in this research is fraudulent financial reporting, which is measured using the Beneish M-score model. Beneish Model is a statistical model created by Beneish (1999). It is a model that studies the trend of the organization through various ratios. This model is based on eight financial ratios. These eight ratios are explained in greater detail as follows:

Days' Sales in Receivables Index (DSRI): A large increase in receivable days might suggest accelerated revenue recognition to inflate profits (Beneish, 1999)

Gross Margin Index (GMI): A deteriorating gross margin sends a negative signal about a firm's prospects and creates an incentive to inflate profits. (Beneish, 1999)

Asset Quality Index (AQI): An increase in long term assets (for example, the capitalization of costs), other than property plant and equipment, relative to total assets indicates that a firm has potentially increased its involvement in cost deferral to inflate profits. (Beneish, 1999)

Sales Growth Index (SGI): High sales growth does not imply manipulation but high growth companies are more likely to commit financial fraud because their financial position and capital needs put pressure on managers to achieve earnings targets. If growth firms face large stock prices losses at the first indication of a slowdown, they may have greater incentives to manipulate earnings. (Beneish, 1999)

Depreciation (DEPI): A falling level of depreciation relative to net fixed assets raises the possibility that a firm has revised upwards the estimated useful life of assets, or adopted a new method that is income increasing. (Beneish, 1999)

Sales, General and Administrative Expenses (SGAI): Analysts might interpret a disproportionate increase in SG&A relative to sales as a negative signal about a firm's future prospects, thereby creating an inventive to inflate profits(Beneish, 1999)

Leverage Index (LVGI): Leverage is measured as total debt relative to total assets. An increase in leverage creates an incentive to manipulate profits in order to meet debt covenants(Beneish, 1999)

Total Accruals to Total Assets (TATA): Total accruals are calculated as the change in working capital (other than cash) less depreciation relative to total assets. Accruals, or a portion thereof, reflect the extent to which managers make discretionary accounting choices to alter earnings. A higher level of accruals is, therefore, associated with a higher likelihood of profit manipulation (Beneish, 1999)

The formula is:

-4.84 + 0.92*DSRI + 0.528*GMI + 0.404*AQI + 0.892*SGI + 0.115*DEPI – 0.172*SGAI + 4.679*TATA – 0.327*LVGI

Where:

$$\mathrm{DSRI} = \frac{\text{Net Receivables (n)} \big/ \text{Sales (n)}}{\text{Net Receivables (n - 1)} \big/ \text{Sales (n - 1)}},$$

$$\mathrm{GMI} = \frac{\text{Sales (n - 1) - Cost of Sales (n - 1)} \big/ \text{Sales (n - 1)}}{\text{Sales (n - 1) - Cost of Goods (n - 1)} \big/ \text{Sales (n - 1)}},$$

$$\mathrm{AQI} = \frac{\text{1 - (Current Assets (n) - PPE (n))} \big/ \text{Total Assets (n)}}{\text{1 - (Current Assets (n - 1) - PPE (n - 1))} \big/ \text{Total Assets (n - 1)}},$$

$$\mathrm{SGI} = \frac{\text{Sales (n)}}{\text{Sales (n - 1)}},$$

$$\mathrm{DEPI} = \frac{\text{Depresiation(n)} \big/ \text{Depreciation(n) + PPE (n)}}{\text{Depresiation(n - 1)} \big/ \text{Depresiation(n - 1) + PPE (n - 1)}},$$

$$SGAI = \frac{SG \& A(n) / Sales(n)}{SG \& A\ Expense(n-1) / Sales(n-1)}$$

$$TATA = \frac{Income\ from\ continuing\ operations(n) - Cashflow\ from\ operations(n)}{Total\ Assets(n)},$$

and

$$LVGI = \frac{\left(Current\ liabilities(n) + Total\ long\ Term\ debt(n)\right) / Total\ Assets(n)}{Current\ liabilities(n-1) + Total\ long\ Term\ debt(n-1) / Total\ Assets(n-1)}$$

When the result is greater than -1.78 then the chances of manipulation is higher, less that -1.78 indicates the company is unlikely to be a manipulator.

3.4.2 Independent Variables

The study independent variables were audit committee size, audit committee independence, audit committee financial expertise, and audit committee gender diversity.

3.4.2.1 Audit Committee Size

Audit committee size is the total number of Audit committee members sitting on the board. An optimal board size should include both executive and non-executive directors. According to Hassan and Bello (2013), the quality of financial reporting produced by an AC suffers if the number of directors participating in the committee is inadequate.

3.4.2.2 Audit Committee Independence

Audit committee independence was measured by the proportion of independent non-executive audit committee members on corporate boards, calculated from the number of independent members divided by the total number of members in the audit committee.

3.4.2.3 Audit Committee Financial Expertise

Audit committee financial expertise is the level of financial and accounting skills, experience and knowledge that Audit committee members possess (Ararat *et* al., 2015). It was measured by the number AC members with financial and accounting skills divided by the total number of AC members in the audit committee.

3.4.2.4 Audit Committee Gender Diversity

Gender diversity is the involvement of both male and female in the daily running of the organization. There has been an increase in involvement of female gender in management positions in the recent years.

Gender diversity was measured by a headcount of each gender in the AC divided by the total number of members in the AC.

3.4.3 CEO tenure

CEO tenure was measured by the number of years a CEO spends in office in that capacity of a CEO. CEOs are likely to have a strong incentive to report good performance in early tenure to build a reputation on the market and to avoid being labeled "low skill" managers. Furthermore, if the actual performance of certain periods is lower than expected, CEOs have strong incentives to generate an aggressive reporting of the company’s income (Makini, 2022)

3.4.4 Control Variable

The study control variables were firm size and firm age

Firm Size

Firm size is one of the common firm characteristics used to measure a company's financial reports. There are several different ways to measure firm size, such as through the total asset (Niresh & Velnampy, 2014). Another indicator to measure firm size is the total sales (Nor et al., 2016). In this study, Firm size was measured by the logarithm of total assets.

Firm Age

Firm age is one type of company characteristic that can be used to measure the company financial reports. It is defined as the length of time during which the company has existed or incorporated (Ilaboya & Ohiokha, 2016). The older the company, the more experience it has. Firm age in this study was measured as natural log of the number of years the firm has been in operation. (Waluyo 2017)

Table 3.1: Measurement of variables

Variables	Indicators	Measurement of variables	References (authors)
Dependent Variables			
Fraudulent financial reporting	Beneish M-Score model	M-score=-4.84+0.92*DSRI+ 0.528*GMI+0.404*AQI+ 0.892*SGI+0.115*DEPI– 0.172*SGAI+4.679*TATA– 0.327*LVGI	Beneish(1999)
Independent Variables			
Audit committee size	ACS	Audit committee size is measured by the Natural log of the total number of audit committee members	Anderson & al (2004)
Audit committee independence	BIACI	Audit committee independence is measured by the size of audit committee members who are independent as a percentage of the total audit committee size.	(Vafeas, 2005).
Audit committee financial Expertise	ACE	Number of financial experts in the audit committee as a percentage over the audit committee size	(Chang and Sun, 2009)
Audit committee Gender Diversity	ACGD	The number of each gender in the Audit committee	(Gul et al., 2011)
Moderator Variable			
CEO Tenure	CT	Natural log of the number of years a CEO spends in office in that capacity of a CEO	(Wei et al., 2011)
Control Variables			
Firm Size	FS	Natural log of total assets	(Niresh & Velnampy, 2014).
Firm Age	FA	Natural log of the number of years the firm has been in incorporation	(Waluyo 2017)

3.5 Data Analysis and Presentation

Data analysis starts with data preparation, coding, editing and cleaning**.** The panel data was analyzed using both descriptive and inferential statistics. Descriptive statistical techniques specifically mean, standard deviation, median, minimum and maximum was used. Inferential statistics that is multiple regression analysis and correlation analysis was used to predict and explain the nature and significance of relationships between the independent and dependent variables. The study results were presented using tables and graphs. Data analysis was conducted using STATA version 18 software.

3.6 Moderation

The moderator variable is one with an effect on the relationship between the independent variable and the dependent variable i.e. the presence of the third variable (moderator variable) changes the expected principal relationship between the independent variable and the dependent variable by affecting the amount of correlation and or changes the direction of the dependent or the independent variable. Testing for moderating effect of CEO Tenure is indicated in the model specification.

3.7 Conditions for moderation

For moderation to hold the F-value should be significant and there should be a change in R-square. Moreover, the Beta coefficient should not be equal to Zero and the P-Value for the interaction should be significant (Ramayan 2019).

3.8 Model specification

Hierarchical multiple regression analysis was used for direct and moderating effects. The model specification is as follows:

$$FFR_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{ model 1}$$

$$FFR_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 ACS_{it} + \beta_4 ACI_{it} + \beta_5 ACFE_{it} + \beta_6 AGD_{it} + \varepsilon_{it} \ldots\ldots\ldots \textit{model 2}$$

$$FFR_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 FA_{it} + \beta_3 ACS_{it} + \beta_4 ACI_{it} + \beta_5 ACFE_{it} + \beta_6 ACGD_{it} + \beta_7 CT_{it} + \varepsilon_{it} \ldots\ldots\ldots$$

$$\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \textit{model 3}$$

$$FFR_{it}=\beta_0+\beta_1 FS_{it}+\beta_2 FA_{it}+\beta_3 ACS_{it}+\beta_4 ACI_{it}+\beta_5 ACFE_{it}+\beta_6 ACGD_{it}+\beta_7 ACS*CT_{it}+\varepsilon_{it} \quad \text{……model 4}$$

$$FFR_{it}=\beta_0+\beta_1 FS_{it}+\beta_2 FA_{it}+\beta_3 ACS_{it}+\beta_4 ACI_{it}+\beta_5 ACFE_{it}+\beta_6 ACGD_{it}+\beta_7 ACS*CT_{it}+\beta_8 ACI_{it}*CT+\varepsilon_{it} \quad \text{……Model 5}$$

$$FFR_{it}=\beta_0+\beta_1 FS_{it}+\beta_2 FA_{it}+\beta_3 ACS_{it}+\beta_4 ACI_{it}+\beta_5 ACFE_{it}+\beta_6 ACGD_{it}+\beta_7 ACS*CT_{it}+\beta_8 ACI_{it}*CT+\beta_9 ACFE*CT_{it}+\varepsilon_{it} \quad \text{……Model 6}$$

$$FFR_{it}=\beta_0+\beta_1 FS_{it}+\beta_2 FA_{it}+\beta_3 ACS_{it}+\beta_4 ACI_{it}+\beta_5 ACFE_{it}+\beta_6 ACGD_{it}+\beta_7 ACS*CT_{it}+\beta_8 ACI_{it}*CT+\beta_9 ACFE*CT_{it}+\beta_{10} ACGD*CT_{it}+\varepsilon_{it} \quad \text{……Model 7}$$

Where:

FFR=Fraudulent Financial Reporting as measured using the Beneish Model

β_0 = constant

$\beta_1 \ldots \beta_7$ = regression coefficients

FS = Firm size

FA= Firm age

ACS_{it} = Audit committee size

ACI_{it}= Audit committee Independence

$ACGD_{it}$= Audit committee Gender diversity

$ACFE_{it}$= Audit committee Financial Expertise

CT_{it}= CEO Tenure

ε_{it} = error term

it =Period

The research hypotheses will be tested at a significance level of 0.05 where a resulting p-value of less than 0.05 will reject the null hypothesis meaning the relationships are statistically significant and a p-value greater than 0.05 means the relationships between the study variables are insignificant.

3.9 Fixed and Random Effects Model

To cater for the unobserved variables in the model and which may or may not have effect on the predictors included in the model, Hausman specification test at 5% level of significance was conducted to determine the suitability of application of random or fixed effect model (Green, 2008). The null hypothesis for this Chi square test was that the random effect model is preferred to fixed effect model and will be rejected if the p-value is less than 5% to imply that fixed model is preferred (Green, 2008).

3.10 Regression assumptions

The following tests were carried out to ensure that the data suits the basic model assumptions:

3.10.1 Multicollinearity

When there is a strong degree of correlation between independent variables, the situation is known as multicollinearity (Kothari, 2004). According to Cooper and Schindler (2006), there is an issue that distorts the regression coefficients, causing them to be unstable, challenging to interpret, and invalid for significance tests. Allison (2015) states that a general rule of thumb is that VIFs greater than 10 are indicators of the presence of multicollinearity that need to be corrected. A threshold of 10 was applied. The multicollinearity test was performed using the variance inflation factor (VIF) method (Montgomery, Peck & Vining, 2015).

3.10.2 Heteroscedasticity

Data that exhibit heteroscedasticity have a dependent variable variance that is unequal across a range of independent variables. The opposite of homoscedasticity is heteroscedasticity. Within the framework of regression analysis, the heteroscedasticity of the data is significant. A homoscedasticity, or consistent variance, across the data is assumed by a regression model.

The Breusch-Pagan test was used to determine heteroscedasticity. The existence of homoscedasticity is the null hypothesis for this statistical test. When the result is a p-value less than the 0.05 cutoff, the heteroscedasticity assumption is confirmed and the homoscedasticity null hypothesis is rejected.

3.10.3 Autocorrelation

The degree of correlation between the same variables between two consecutive time intervals is referred to as autocorrelation, according to the Corporate Finance Institute (CFI). It calculates the relationship between a variable's original value and its lag version in a time series.

To determine whether there was autocorrelation between the variables, the Durbin-Watson test was employed. Gujarati (2014) states that the Durbin-Watson statistic has a range of 0 to 4. Positive autocorrelation is indicated by a value close to 0, and negative autocorrelation is indicated by a value close to 4. There is no autocorrelation between the variables when the value is between 1.5 and 2.5.

3.10.4 Normality Test

The study performed the Jarque-Bera test, a goodness of fit test of whether the sample data have skewness and kurtosis matching a normal distribution. (Jarque and Bera 1987).

H_0: Data is normally distributed

H_1: Data does not come from a normal distribution.

Samples from a normal distribution have an expected skewness of zero and an expected kurtosis of 0 which is the same as a kurtosis of 3. Accept p value greater than 0.05 (normal) and reject p value less than 0.05 (not normal).

3.11 Panel unit root test

The panel unit root test was used to determine whether the data was stationarity. Data is considered stationary, according to Gujarati & Porter (2010), if its variance and mean remain constant over time and the amount of covariance between two time periods is dependent on the lag between them. The power of a test can be greatly increased by using a unit root test on panel data (Levin et al., 2002). Testing for the unit root is required because regressing non-stationary panel data results in meaningless regression and the interpretation will not provide the necessary amount of information (Makini, 2022). Thus, the Harris Tzavalis unit root test was used in this study.

Before starting regression analysis, Panel unit root test is tested on each individual series (variables). The null hypothesis of panel unit root test assumes that Y series are stationary, and alternative hypothesis is that Y series are non-stationary. Fail to reject Null hypothesis that the series has a unit root if the P- value is greater than 0.05 meaning and that it is stationery. Reject null Hypothesis that the series has a unit root if the P-value less or equal 0.05 meaning the series is not stationery

3.12 Ethical consideration

The study acquired the necessary research permit from National Commission for Science, Technology and Innovation (NACOSTI) and also obtained a letter from the university to conduct my research. Also, all Information sources were cited in the document and later referenced.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter presents the data analysis, presentation, and interpretation of the findings as set out in the study objectives and research methodology. The chapter was organized under different sections; descriptive statistics, diagnostic tests, correlation analysis, fixed effects regression analysis for direct effects, and moderation of the direct, and finally the empirical discussion of the findings.

The main study objective was to determine the effect of audit committee characteristics on financial reporting and moderated by CEO tenure in commercial banks in Kenya. The study research hypotheses were: audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity, and CEO tenure have no significant effect on fraudulent financial reporting and that CEO tenure does not moderate on the relationship between audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity, and fraudulent financial reporting.

4.1 Descriptive Statistics

The table 4.1 presents the descriptive statistics for the dependent and the independent variables. The descriptive results showed that the fraudulent financial reporting variable had an average value of approximately -2.19 with a standard deviation of about 0.52, indicating moderate variability around the mean. The skewness for FFR is 0.000, indicating that the distribution of fraudulent financial reporting is perfectly symmetrical. This means that the data is evenly distributed around the mean, with no skew towards either the lower or higher values. The kurtosis is also 0.000, suggesting a flat distribution with no excess kurtosis. This implies that the data has a similar peak and tails as a normal distribution, with no outliers or extreme values affecting the shape.

The firm size had a mean of 7.55, with a standard deviation of 1.36. This implies that while the average size is around 7.55, firms typically vary within a range of about one standard deviation above or below the mean. The skewness for FS is 0.003, which indicates that the distribution of firm size is nearly symmetrical with a very slight positive skew. This means that there are slightly more values on the higher end of the scale, but the distribution is still quite balanced. The kurtosis for FS is 0.000, indicating a flat distribution. This suggests that the peak and tails of the firm size distribution are similar to those of a normal distribution, with no significant outliers.

Firm age had an average of about 1.43(26.92) years with a standard deviation of approximately 0.33(2.14) years. This relatively low range of age indicates that the study focused on relatively young firms. The tight range and low standard deviation suggest that most firms in the study are closely grouped in terms of age. The skewness for FA is 0.006, suggesting that the distribution of firm age is almost symmetrical with a slight positive skew. This indicates that there are slightly more older firms, but the distribution remains fairly balanced. The kurtosis for FA is 0.009, which points to a very flat distribution. This implies that the firm age data does not have pronounced peaks or heavy tails, and resembles a normal distribution.

The average size of audit committees is approximately 0.41, with a standard deviation of about 0.10. The data suggests minimal variability in audit committee sizes among the firms studied. The skewness for ACS is 0.000, meaning that the distribution of audit committee size is perfectly symmetrical. The data is evenly spread around the mean with no skew towards any particular direction. The kurtosis for ACS is also 0.000, indicating a flat distribution. This suggests that the audit committee size data has a normal distribution with no extreme values or outliers.

Audit committee independence averages about 0.80 with a standard deviation of 0.20. The high average close to 1 suggests that firms have a largely independent audit committee, which is often a good sign of strong governance. The average shows that most of the firms had independent audit committees. The skewness for ACI is 0.037, indicating a slight positive skew. This means that there are marginally more independent audit committee members than less independent ones, but the distribution remains close to symmetrical. The kurtosis for ACI is 0.000, showing a flat distribution. This implies that the data for audit committee independence has a normal distribution with no significant peaks or tails.

The mean financial expertise in audit committees is approximately 0.71, with a variability of about 0.25. This suggests a majority of committees possess significant financial expertise, though there is still notable variation across different firms. The skewness for ACFE is 0.058, suggesting a slight positive skew. This indicates that there are slightly more audit committees with higher financial expertise, but the distribution is still nearly symmetrical. The kurtosis for ACFE is 0.000, pointing to a flat distribution. This means that the financial expertise data does not have pronounced peaks or heavy tails, resembling a normal distribution.

Gender diversity in audit committees has an average of about 0.30 with a standard deviation of 0.21. This variable shows a considerable spread, indicating that some audit committees may be all-male or close to it, while others approach a more balanced gender ratio. The skewness for ACGD is 0.042, which indicates a slight positive skew. This suggests that there are marginally more audit committees with higher gender diversity, but the distribution remains close to symmetrical. The kurtosis for ACGD is 0.001, indicating a flat distribution. This implies that the data for audit committee gender diversity has a normal distribution with no significant outliers or extreme values.

The average tenure of CEOs is approximately 6.35 years, with a high standard deviation of 5.44, indicating substantial differences in tenure length among the CEOs in the sample. The skewness for CT is 0.000, meaning that the distribution of CEO tenure is perfectly symmetrical. The data is evenly distributed around the mean, with no skew towards either the lower or higher values. The kurtosis for CT is 0.125, indicating a slightly peaked distribution. This suggests that the CEO tenure data has a normal distribution with a slightly higher peak, but still no significant outliers or extreme values.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Skewness	Kurtosis
FFR	195	-2.186658	.5221843	0.000	0.000
FS	195	7.547972	1.362604	0.003	0.000
FA	195	1.428776	.3339093	0.006	0.009
ACS	195	.4096866	.0970213	0.000	0.000
ACI	195	.7963248	.200613	0.037	0.000
ACFE	195	.7081197	.2467391	0.058	0.000
ACGD	195	.3044444	.2114497	0.042	0.001
CT	195	6.354986	5.439906	0.000	0.125

FFR: fraudulent financial reporting, FS: firm size, FA: firm age, ACS: audit committee size, ACI: audit committee independence, ACFE: audit committee financial expertise, ACGD: audit committee gender diversity, and CT: CEO tenure.

Research (2023)

4.2 Diagnostic Tests

The study carried out regression assumptions tests to ensure that the assumptions are met so as to improve the reliability and accuracy of the conclusions drawn from the model.

4.2.1 Test for Normality Assumption

The table 4.2 presents the Shapiro-wilk test for normality. The test results indicate that the p-values are greater than 0.05 for all the variables. Therefore, the study failed to reject the null hypothesis and conclude that the data comes from a population that is normally distributed.

Table 4.2: Shapiro-Wilk W Test for Normal Data

Variable	Obs	Prob>z
Fraudulent Financial Reporting	195	0.52731
Firm Size	195	0.87043
Firm Age	195	0.95462
Audit Committee Size	195	0.11066
Audit Committee Independence	195	0.92324
Audit Committee Financial Expertise	195	0.98200
Audit Committee Gender Diversity	195	0.98296
CEO Tenure	195	0.79154

Research (2023)

4.2.2 Test for Heteroscedasticity Assumption

The table 4.3 presents the Breusch-Pagan test for heteroscedasticity assumption. The results reveals that all the variables had p-values that were greater than 0.05, therefore there was sufficient evidence to fail to reject the null hypothesis and conclude that the data is homoscedastic.

Table 4.3: Breusch-Pagan Test for Heteroscedasticity

Variables: fitted values of FFR	Prob>Chi2
Firm Size	0.5071
Firm Age	0.9578
Audit Committee Size	0.4292
Audit Committee Independence	0.4411
Audit Committee Financial Expertise	0.8260
Audit Committee Gender Diversity	0.4930
CEO Tenure	0.9657

Research (2023)

4.2.3 Test for Multicollinearity Assumption

The table 4.4 presents the variance inflation factor values used to test multicollinearity. The results shows that all the variables had VIF values less than 5, indicating that there was absence of multicollinearity in the data.

Table 4.4: VIF Test for Multicollinearity

Variable	VIF	1/VIF
Firm Size	4.36	0.2295
Firm Age	4.13	0.2418
Audit Committee Size	3.36	0.2979
Audit Committee Independence	2.48	0.4036
Audit Committee Financial Expertise	2.41	0.4144
Audit Committee Gender Diversity	2.10	0.4754
CEO Tenure	2.00	0.4993

Research (2023)

4.2.4 Test for Autocorrelation Assumption

The table 4.5 presents the Durbin-Watson test for autocorrelation assumption. The results shows that the d-statistic is 1.67, indicating that there is absence of serial correlation because the d-value is between 1.5 and 2.5.

Table 4.5: Durbin-Watson Test for Autocorrelation

Durbin-Watson d-statistic (8, 195) = 1 .67

Research (2023)

4.3 Correlation Analysis

The table 4.6 presents the correlation matrix that shows the strength and direction of relationship between the various study variables. The table results showed that firm size had a moderate negative (r= -0.6088) relationship with fraudulent financial reporting, indicating that when firm size increase it leads to a decrease in fraudulent financial reporting. Firm age had a strong and negative association with fraudulent financial reporting (r= -0.6687), meaning that fraudulent financial reporting decreases with increase in firm age. Audit committee size had a moderate negative relationship with fraudulent financial reporting (r= -0.6266), meaning that an increase in audit committee size tends to reduce fraudulent financial reporting. Audit committee independence had a moderate negative association with fraudulent financial independence (r= -0.6062), implying that an increase in audit committee independence leads to decrease in fraudulent financial reporting. Audit committee financial expertise had a moderate negative association with fraudulent financial independence (r= -0.6458), meaning that an increase in audit committee financial expertise leads to decrease in fraudulent financial reporting. Audit committee gender diversity had a moderate negative association with fraudulent financial independence (r= -0.6410), implying that an increase in audit committee gender diversity leads to decrease in fraudulent financial reporting. Finally, CEO tenure had a weak negative association with fraudulent financial independence (r= -0.3023), implying that an increase in CEO tenure tends to reduce fraudulent financial reporting.

Table 4.6: Correlation Matrix

	FFR	FS	FA	ACS	ACI	ACFE	ACGD	CT
FFR	1.0000							
FS	-0.6088*	1.0000						
FA	-0.6687*	0.7014*	1.0000					
ACS	-0.6266*	0.3050*	0.4298*	1.0000				
ACI	-0.6062*	-0.0192	0.1585*	0.3384*	1.0000			
ACFE	-0.6458*	0.6559*	0.5579*	0.3205*	0.3795*	1.0000		
ACGD	-0.6410*	-0.0307	0.1882*	0.3574*	0.5569*	0.0249	1.0000	
CT	-0.3023*	0.3546*	0.3461*	0.7024*	-0.1345	-0.0307	0.0390	1.0000

FFR: fraudulent financial reporting, **FS:** firm size, **FA:** firm age, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, and **CT:** CEO tenure.

4.4 Panel Data Analysis

Panel data analysis in this study involved examining data collected over 2018 to 2022 periods and across different commercial banks in Kenya. It allowed for the investigation of both time-series and cross-sectional variations, offering insights into longitudinal trends and individual-level heterogeneity within the dataset.

4.4.1 Stationarity Test

The table 4.7 presents the Harris Tzavalis unit root test results. The results reveals that the p-values for all the variables were greater than 0.05 indicating that we have sufficient evidence not to reject the null hypothesis and conclude that the dataset is stationary.

Table 4.7: Harris Tzavalis Unit Root Test

Variable	p-value
Fraudulent Financial Reporting	0.5468
Firm Size	0.8436
Firm Age	0.9804
Audit Committee Size	0.4626
Audit Committee Independence	0.2307
Audit Committee Financial Expertise	0.7778
Audit Committee Gender Diversity	0.3148
CEO Tenure	0.4739

Research (2023)

4.4.2 Random and Fixed Effects Test

The table 4.8 presents the random effect regression results. The findings showed that the overall model was significant and that audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity, and CEO tenure explains 87.12% variation in fraudulent financial reporting. The results also showed that audit committee size had a negative and significant (β= -0.343456, p=0.001) effect on fraudulent financial reporting. This means that a unit change in audit committee size decreases fraudulent financial reporting by 0.343456. Audit committee independence had a negative and insignificant (β= -0.0055304, p=0.861) effect on fraudulent financial reporting. This implied that a unit change in audit committee independence decreases fraudulent financial reporting by 0.0055304.

Audit committee financial expertise had a negative and significant (β= -0.4293592, p=0.000) effect on fraudulent financial reporting. This reveals that a unit change in audit committee financial expertise decreases fraudulent financial reporting by 0.4293592. Audit committee gender diversity had a negative and significant (β= -0.5536394, p=0.000) effect on fraudulent financial reporting. This means that a unit change in audit committee gender diversity decreases fraudulent financial reporting by 0.5536394. Finally, CEO tenure had a negative and significant (β= -0.0034315, p=0.010) effect on fraudulent financial reporting. This reveals that a unit change in CEO tenure decreases fraudulent financial reporting by 0.0034315.

Table 4.8: Random Effects Model

```
Random-effects GLS regression                   Number of obs     =       195
Group variable: FIRM                            Number of groups  =        39
R-sq:  within  = 0.9840                         Obs per group: min =        5
       between = 0.6686                                        avg =      5.0
       overall = 0.8712                                        max =        5
                                                Wald chi2(5)       =    69.91
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =   0.0000
```

FFR	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
ACS	-.343456	.1008479	-3.41	0.001	-.5411143	-.1457977
ACI	-.0055304	.0314936	-0.18	0.861	-.0672567	.0561959
ACFE	-.4293592	.0253861	-16.91	0.000	-.4791151	-.3796033
ACGD	-.5536394	.0357408	-15.49	0.000	-.6236902	-.4835887
CT	-.0034315	.0013392	-2.56	0.010	-.0060562	-.0008067
_cons	.0791838	.0481588	1.64	0.100	-.0152056	.1735732

```
     sigma_u |   .1328995
     sigma_e |   .0594077
         rho |  .83345843   (fraction of variance due to u_i)
```

FFR: fraudulent financial reporting, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, and **CT:** CEO tenure.

The table 4.9 presents the fixed effect regression results. The findings reveals that the overall model was significant and that audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity, and CEO tenure explains 76.65% variation in fraudulent financial reporting. The results also showed that audit committee size had a negative and insignificant (β= -0.0575668, p=0.726) effect on fraudulent financial reporting. This implied that a unit change in audit committee size decreases fraudulent financial reporting by 0.0575668. Audit committee independence had a positive and insignificant (β= 0.0237255, p=0.505) effect on fraudulent financial reporting. This means that a unit change in audit committee independence increases fraudulent financial reporting by 0.0237255. Audit committee financial expertise had a negative and significant (β= -0.401569, p=0.000) effect on fraudulent financial reporting. This shows that a unit change in audit committee financial expertise decreases fraudulent financial reporting by 0.401569. Audit committee gender diversity had a negative and significant (β= -0.7959387, p=0.000) effect on fraudulent financial reporting. This revealts that a unit change in audit committee gender diversity decreases fraudulent financial reporting by 0.7959387. Finally, CEO tenure had a negative and insignificant (β= -0.000169, p=0.896) effect on fraudulent financial reporting. This means that a unit change in CEO tenure decreases fraudulent financial reporting by 0.000169.

Table 4.9: Fixed Effects Model

Fixed-effects (within) regression				Number of obs	=	195
Group variable: FIRM				Number of groups	=	39
R-sq: within	= 0.9858			Obs per group: min	=	5
between	= 0.5078			avg	=	5.0
overall	= 0.7665			max	=	5
				F(5,151)	=	097.00
corr(u_i, Xb)	= -0.4833			Prob > F	=	0.0000

FFR	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
ACS	-.0575668	.1637504	-0.35	0.726	-.3811048	.2659711
ACI	.0237255	.0355296	0.67	0.505	-.0464738	.0939248
ACFE	-.401569	.0433281	-9.27	0.000	-.4871767	-.3159613
ACGD	-.7959387	.063101	-12.61	0.000	-.9206136	-.6712639
CT	-.000169	.0012853	-0.13	0.896	-.0027085	.0023705
_cons	.1963504	.0512554	3.83	0.000	.0950801	.2976208
sigma_u	.28487316					
sigma_e	.0594077					
rho	.9583232	(fraction of variance due to u_i)				
F test that all u_i=0:		F(38, 151) =	33.31		Prob > F =	0.0000

FFR: fraudulent financial reporting, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, and **CT:** CEO tenure.

4.4.3 Hausman Test

The table 4.10 presents the hausman test results that was used to select the appropriate model the study adopted for running the regression analysis. The results showed that the p-value (0.7332) was greater than 0.05, therefore, the study failed to reject the null hypothesis and concluded that the random effects model was appropriate for running the regression analysis.

Table 4.10: Hausman Test

```
hausman fe re                    ---- Coefficients ----
                   (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
                    fe           re         Difference          S.E.
        ACS    -.0575668     -.343456        .2858892        .1290112
        ACI     .0237255    -.0055304        .0292559         .016447
       ACFE     -.401569    -.4293592        .0277902        .0351123
       ACGD    -.7959387    -.5536394       -.2422993        .0520031
         CT     -.000169    -.0034315        .0032625               .
       b = consistent under Ho and Ha; obtained from xtreg
       B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        2.78
                Prob>chi2 =      0.7332
                (V_b-V_B is not positive definite)
```

4.5 Random Effects Regression Analysis

The study adopted the random effects regression model to carry out the regression analysis. The random effects regression analysis model was used to estimate the relationships between fraudulent financial reporting and audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity, CEO tenure.

4.5.1 Control Variables

The table 4.11 presents the control variables regression results on the effect of firm size and firm age on fraudulent financial reporting. The results reveal that the overall model was significant and that firm size and firm age explains 48.33% variation in fraudulent financial reporting. According to the results, firm size had a negative and significant effect on fraudulent financial reporting (β= -0.0810785, p=0.000). The p-value was less than 0.05, meaning that firm size significantly affects fraudulent financial reporting. The results showed that a unit change in firm size leads to a decrease in fraudulent financial reporting by 0.0810785. This was in line with the findings of Soyemi and Olawale (2019), who found that firm size has a positive significant effect on the quality of financial reporting, and Mohd Nor, Ahmad, and Mohd Saleh (2010), who found that company size had significant negative relationships with fraudulent financial reporting. Large companies therefore typically generate high-quality financial reports; businesses should be encouraged to do the same. Firm age had a negative and significant effect on fraudulent financial reporting (β= -0.3839416, p=0.000). The p-value was less than 0.05, meaning that firm age significantly affect fraudulent financial reporting. The results showed that a unit change in firm age leads to a decrease in fraudulent financial reporting by 0.3839416. This went against Bassiouny's (2016) findings, which showed that firm age has little bearing on earnings management.

Table 4.11: Random Effects Regression Results for the Control Variables

```
Random-effects GLS regression                  Number of obs    =       195
Group variable: FIRM                           Number of groups =        39
R-sq:  within  = 0.9570                        Obs per group: min =       5
       between = 0.1262                                       avg =     5.0
       overall = 0.4833                                       max =       5
                                               Wald chi2(2)       =   93.49
corr(u_i, X)   = 0 (assumed)                   Prob > chi2        =  0.0000
```

FFR	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
FS	-.0810785	.0142218	-5.70	0.000	-.1089526	-.0532043
FA	-.3839416	.0459805	-8.35	0.000	-.4740617	-.2938215
_cons	-.8716426	.0576869	-15.11	0.000	-.9847069	-.7585783

```
     sigma_u |   .2687625
     sigma_e |  .10123315
         rho |  .87575203   (fraction of variance due to u_i)
```

FS: firm size and **FA:** firm age,

4.5.2 Direct Variables

The table 4.12 presents the regression results for the effects of firm size, firm age, audit committee size, audit committee independence, audit committee financial expertise, and audit committee gender diversity on fraudulent financial reporting. The results showed that the overall model was significant and that firm size, firm age, audit committee size, audit committee independence, audit committee financial expertise, and audit committee gender diversity explains 92.79% variation in fraudulent financial reporting. The results demonstrates that firm size had negative and significant relationship with fraudulent financial reporting (β= -0.0824279, p=0.000). The p-value was less than 0.05 displaying that firm size had a significant effect on fraudulent financial reporting. The results further illustrated that a unit change in firm size tends to cut fraudulent financial reporting by 0.0824279. The firm age had a negative but significant relationship with fraudulent financial reporting (β= -0.0639685, p=0.000). The results highlights that a unit change in firm age lowers fraudulent financial reporting by 0.0639685 and the p-value was less than 0.05 indicating that firm age significantly affects fraudulent financial reporting.

The audit committee size had a negative and significant relationship with fraudulent financial reporting (β= -0.2462243, p=0.000). The audit committee coefficient suggests that a unit change in audit committee size minimizes fraudulent financial reporting and the p-value was less than 0.05 illustrating that audit committee size significantly affects fraudulent financial reporting. This was in line with Shankaraiah and Amiri's (2017) findings, which showed a connection between audit committee size and financial reporting procedures. Given that the size of the audit committee has a substantial impact on the quality of financial reporting, it can be concluded that companies can enhance the quality of their financial reporting by controlling its size.

The audit committee independence had a negative and significant relationship with fraudulent financial reporting (β= -0.2023934, p=0.000), meaning that a unit change in audit committee independence tends to reduce fraudulent financial reporting by 0.2023934. The p-value was less than 0.05 revealing that audit committee independence significantly affects fraudulent financial reporting. This was consistent with Kibiya, Che-Ahmad, and Amran's (2016) findings that the independence of the audit committee was important and that AC monitoring mechanisms affect the caliber of financial reporting of listed non-financial firms in Nigeria.

The audit committee financial expertise had a negative but insignificant relationship with fraudulent financial reporting (β= -0.0338268, p=0.138). The results indicate that a unit change in audit committee financial expertise minimizes fraudulent financial reporting. The results moreover highlighted that the p-value was greater than 0.05, implying that audit committee financial expertise insignificantly affects fraudulent financial reporting. This is consistent with the research conducted by Kamarudin, Ismail, and Alwi (2014), which found a negative correlation between corporate fraud and the audit committee members' expertise. This implies that members of audit committees are better equipped to stop false financial reporting when they have a solid understanding of finance.

The audit committee gender diversity had a negative and significant relationship with fraudulent financial reporting (β= -0.4387235, p=0.000). The coefficient indicated that a unit change in audit committee gender diversity diminishes fraudulent financial reporting by 0.4387235. The p-value was less than 0.05, demonstrating that audit committee gender diversity significantly affect fraudulent financial reporting. This contradicted the findings of Gul et al. (2011) that gender diversity in audit committee composition and the presence of experienced members with different perspectives can help the audit committee with a wide range of accounting issues, thereby leading to the reduction of fraud opportunity and financial misstatements. However, the findings of Kamarudin, Ismail, and Alwi (2014) that the results for gender show that there is no relationship between the gender and corporate fraud were also consistent with this.

Table 4.12: Random Effects Regression Results for the Direct Variables

```
Random-effects GLS regression                    Number of obs    =       195
Group variable: FIRM                             Number of groups =        39
R-sq:  within  = 0.9969                          Obs per group: min =       5
       between = 0.8304                                         avg =     5.0
       overall = 0.9279                                         max =       5
                                                 Wald chi2(6)       =38612.36
corr(u_i, X)   = 0 (assumed)                     Prob > chi2        =  0.0000
```

FFR	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
FS	-.0824279	.0054126	-15.23	0.000	-.0930364	-.0718195
FA	-.0639685	.0154302	-4.15	0.000	-.0942112	-.0337258
ACS	-.2462243	.0562814	-4.37	0.000	-.3565338	-.1359149
ACI	-.2023934	.0187104	-10.82	0.000	-.2390652	-.1657216
ACFE	-.0338268	.0228172	-1.48	0.138	-.0785477	.0108942
ACGD	-.4387235	.023838	-18.40	0.000	-.485445	-.3920019
_cons	.0842184	.0297455	2.83	0.005	.0259182	.1425186
sigma_u	.09613882					
sigma_e	.02646372					
rho	.92956566	(fraction of variance due to u_i)				

FFR: fraudulent financial reporting, **FS:** firm size, **FA:** firm age, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, and **CT:** CEO tenure.

4.5.3 Moderating Effect of CEO Tenure on the relationship Between Audit Committee Size and Fraudulent Financial Reporting

The table 4.13 presents the first interaction results. The results shows that CEO tenure minimizes the relationship between audit committee size and fraudulent financial (β= -0.0003972; p=0.549). This means that a large audit committee with CEO whom has been in the firm for a while reduces fraudulent financial reporting by 0.0003972, but the p-value indicates that the interaction effect between audit committee size and CEO tenure on fraudulent financial reporting is not statistically significant.

Table 4.13: Testing the Effect of the First Interaction

```
Random-effects GLS regression                    Number of obs      =       195
Group variable: FIRM                             Number of groups   =        39
R-sq:  within  = 0.9970                          Obs per group: min =         5
       between = 0.8239                                         avg =       5.0
       overall = 0.9253                                         max =         5
                                                 Wald chi2(8)       =  38894.53
corr(u_i, X)   = 0 (assumed)                     Prob > chi2        =    0.0000
```

FFR	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
FS	-.0838387	.0056206	-14.92	0.000	-.0948548	-.0728225
FA	-.0637093	.0157669	-4.04	0.000	-.0946118	-.0328069
ACS	-.2312864	.0599715	-3.86	0.000	-.3488284	-.1137444
ACI	-.2005716	.0196271	-10.22	0.000	-.23904	-.1621032
ACFE	-.032649	.0230126	-1.42	0.156	-.0777529	.0124549
ACGD	-.4406499	.0240887	-18.29	0.000	-.4878629	-.3934368
CT	.0000835	.0009796	0.09	0.932	-.0018364	.0020034
ACS*CT	-.0003972	.0006636	-0.60	0.549	-.0016979	.0009035
_cons	.0853467	.0299907	2.85	0.004	.0265659	.1441274

```
       sigma_u |  .09418693
       sigma_e |   .0253871
           rho |   .9322692   (fraction of variance due to u_i)
```

FFR: fraudulent financial reporting, **FS:** firm size, **FA:** firm age, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, **CT:** CEO tenure, and **ACS*CT:** first interaction.

4.5.4 Moderating Effect of CEO Tenure on the relationship Between Audit Committee Independence and Fraudulent Financial Reporting

The table 4.14 presents the interaction term ACI*CT representing the combined effect of audit committee independence (ACI) and CEO tenure (CT) on fraudulent financial reporting (FFR). This assesses whether the relationship between audit committee independence and fraudulent financial reporting depends on the length of the CEO's tenure. The results indicates that the interaction effect between audit committee independence and CEO tenure on fraudulent financial reporting is statistically significant (β=0.0033034; p=0.000). The p-value is 0.000, which is less than 0.05 revealing that the effect of audit committee independence on fraudulent financial reporting changes with different levels of CEO tenure. The positive coefficient (0.0033034) implies that as CEO tenure increases, the negative effect of audit committee independence on fraudulent financial reporting decreases. This means that longer CEO tenure weakens the effectiveness of an independent audit committee in reducing fraudulent financial reporting.

Table 4.14: Testing the Effect of the Second Interaction

Random-effects GLS regression				Number of obs	=	195
Group variable: FIRM				Number of groups	=	39
R-sq: within = 0.9970				Obs per group: min	=	5
between = 0.8652				avg	=	5.0
overall = 0.9385				max	=	5
				Wald chi2(9)	=	37369.34
corr(u_i, X) = 0 (assumed)				Prob > chi2	=	0.0000

FFR	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
FS	-.0758256	.0054615	-13.88	0.000	-.08653	-.0651212
FA	-.060723	.01545	-3.93	0.000	-.0910044	-.0304417
ACS	-.1463774	.0634464	-2.31	0.021	-.27073	-.0220247
ACI	-.3106576	.0362373	-8.57	0.000	-.3816814	-.2396337
ACFE	-.05569	.0223328	-2.49	0.013	-.0994615	-.0119186
ACGD	-.4119013	.0236747	-17.40	0.000	-.4583028	-.3654997
CT	-.0033195	.0013023	-2.55	0.011	-.005872	-.0007671
ACS*CT	-.0034306	.0011397	-3.01	0.003	-.0056644	-.0011968
ACI*CT	.0033034	.000916	3.61	0.000	.001508	.0050988
_cons	.1326959	.0320797	4.14	0.000	.0698208	.1955709
sigma_u	.07983479					
sigma_e	.0247691					
rho	.91219415	(fraction of variance due to u_i)				

FFR: fraudulent financial reporting, **FS:** firm size, **FA:** firm age, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, **CT:** CEO tenure, **ACS*CT:** first interaction, and **ACI*CT:** second interaction.

4.5.5 Moderating Effect of CEO Tenure on the relationship Between Audit Committee Financial Expertise and Fraudulent Financial Reporting.

The table 4.15 presents the interaction term ACFE*CT which is the combined effect of audit committee financial expertise and CEO tenure on fraudulent financial reporting. The results indicates that the interaction effect between audit committee financial expertise and CEO tenure on fraudulent financial reporting is statistically significant (β= -0.0048475: p=0.000). There is evidence to suggest that the effect of audit committee financial expertise on fraudulent financial reporting changes with different levels of CEO tenure. The negative coefficient (-0.0048475) implies that as CEO tenure increases, the positive effect of audit committee financial expertise on fraudulent financial reporting decreases. This means that longer CEO tenure diminishes the effectiveness of financial expertise within the audit committee in reducing fraudulent financial reporting.

Table 4.15: Testing the Effect of the Third Interaction

Random-effects GLS regression				Number of obs	=	195
Group variable: FIRM				Number of groups	=	39
R-sq: within = 0.9980				Obs per group: min	=	5
between = 0.8798				avg	=	5.0
overall = 0.9449				max	=	5
				Wald chi2(10)	=	55744.41
corr(u_i, X) = 0 (assumed)				Prob > chi2	=	0.0000

FFR	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
FS	-.0861993	.0048794	-17.67	0.000	-.0957627	-.0766359
FA	-.0446259	.0134186	-3.33	0.001	-.0709259	-.018326
ACS	-.4862777	.0698754	-6.96	0.000	-.623231	-.3493245
ACI	-.3997987	.0332821	-12.01	0.000	-.4650304	-.334567
ACFE	.1256825	.0285147	4.41	0.000	.0697947	.1815702
ACGD	-.3643974	.0222105	-16.41	0.000	-.4079291	-.3208657
CT	-.0086005	.0013193	-6.52	0.000	-.0111862	-.0060148
ACS*CT	.0054341	.0014886	3.65	0.000	.0025164	.0083518
ACI*CT	.0058092	.0008436	6.89	0.000	.0041558	.0074626
ACFE*CT	-.0048475	.0006154	-7.88	0.000	-.0060537	-.0036413
_cons	.2344766	.0308874	7.59	0.000	.1739384	.2950148
sigma_u	.07843169					
sigma_e	.0207583					
rho	.93453687	(fraction of variance due to u_i)				

FFR: fraudulent financial reporting, **FS:** firm size, **FA:** firm age, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, **CT:** CEO tenure, **ACS*CT:** first interaction, **ACI*CT:** second interaction, and **ACFE*CT:** third interaction.

4.5.6 Moderating Effect of CEO Tenure on the relationship Between Audit Committee Gender Diversity and Fraudulent Financial Reporting.

The table 4.16 presents the complete effect of CEO tenure on the relationship between audit committee gender diversity and fraudulent financial reporting. The results highlighted that the overall model was significant and that firm size, firm age, audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity and the interaction terms explains 93.34% variation in fraudulent financial reporting. Firm Size coefficient was -0.0846 with a standard error of 0.0054. This coefficient was statistically significant ($p < 0.000$), indicating a significant negative relationship between firm size and fraudulent financial reporting. This demonstrates that larger firms tend to have lower levels of fraudulent financial reporting. The coefficient for firm age was -0.0697 with a standard error of 0.0147. This coefficient was also statistically significant ($p < 0.000$), indicating a significant negative relationship between firm age and fraudulent financial reporting. Older firms tend to have lower levels of fraudulent financial reporting.

The coefficient for audit committee size was -0.4300 with a standard error of 0.0875. This coefficient was statistically significant ($p < 0.000$), suggesting a significant negative relationship between audit committee size and fraudulent financial reporting. Larger audit committees are associated with lower levels of fraudulent financial reporting. This was consistent with Hasan, Kassim, and Hamid's (2020) findings that the size of the audit committee had a detrimental impact on the quality of financial reporting (FRQ). Real Earnings Management (REM) and Mardessi (2022) found a statistically significant correlation between real earnings management and corporate governance mechanisms, primarily audit committee size.

The coefficient for audit committee independence was -0.2361 with a standard error of 0.0275. This coefficient is statistically significant ($p < 0.000$), indicating a significant negative relationship between audit committee independence and fraudulent financial reporting. More independent audit committees are associated with lower levels of fraudulent financial reporting. This was in line with the findings of Hasan, Kassim, and Hamid (2020), who found that audit committee independence improved real earnings management (REM) and financial reporting quality (FRQ).

The coefficient for audit committee financial expertise was 0.0428608 with a standard error of 0.0312427. The p-value associated with this coefficient was ($p>0.170$), indicating that the coefficient was not statistically significant. This suggests that there was no statistically significant relationship between audit committee financial expertise and fraudulent financial reporting. In other words, the expertise of the audit committee members in financial matters does not appear to have a significant impact on the level of fraudulent financial reporting. The results contradicted the findings of Hasan, Kassim, and Hamid (2020), who found a significant negative impact on financial reporting quality (FRQ) from the Audit Committee Financial Accounting Expert. According to Safari Gerayli, Rezaei Pitenoei, and Abdollahi (2021) and Real Earning Management (REM), an audit committee's financial knowledge considerably raises a company's financial ratio (FRQ). To put it another way, an audit committee's FRQ may rise in response to increased financial expertise.

The coefficient for audit committee gender diversity was -0.420446 with a standard error of 0.0310154. The p-value associated with this coefficient is ($p < 0.0001$), indicating that the coefficient was statistically significant at conventional significance levels. This significant negative coefficient suggests that there was a significant relationship between audit committee gender diversity and fraudulent financial reporting. This indicates that greater gender diversity within the audit committee is associated with lower levels of fraudulent financial reporting. This result was consistent with Oradi and Izadi's (2020) findings, which found that having at least one female member on audit committees lowers the likelihood of financial restatements, even after controlling for other factors related to restatements. This result was also validated by robustness tests. Furthermore, the additional analyses demonstrate that a decrease in financial restatements is more strongly correlated with independent and financially literate female audit committee members. Furthermore, the findings imply that hiring better auditors may be more likely when there are female members of the audit committee.

The interaction terms in the table represents the moderation effects of CEO tenure on the relationship between the independent variables and fraudulent financial reporting.

The interaction 1 represented the moderation effect of CEO tenure on the relationship between audit committee size and fraudulent financial reporting. The coefficient associated with this interaction term was 0.0018436 with a standard error of 0.0023292. The p-value was $p>0.429$, indicating that this interaction term was not statistically significant. Therefore, CEO tenure does not significantly moderate the relationship between audit committee size and fraudulent financial reporting. The interaction 2 represents the moderation effect of CEO tenure on the relationship between audit committee independence and fraudulent financial reporting. The coefficient associated with this interaction term was 0.001635 with a standard error of 0.0007311. The p-value was $p<0.025$, indicating that this interaction term was statistically significant. Therefore, CEO tenure significantly moderates the relationship between audit committee independence and fraudulent financial reporting. The interaction 3 represents the moderation effect of CEO tenure on the relationship between audit committee financial expertise and fraudulent financial reporting. The coefficient associated with this interaction term was -0.0026807 with a standard error of 0.0006158. The p-value was $p< 0.0001$, indicating that this interaction term was statistically significant. Therefore, CEO tenure significantly moderates the relationship between audit committee financial expertise and fraudulent financial reporting. Finally, interaction 4 represents the moderation effect of CEO tenure on the relationship between audit committee gender diversity and fraudulent financial reporting. The coefficient associated with this interaction term was 0.0005513 with a standard error of 0.0009994. The p-value was 0.581, indicating that this interaction term was not statistically significant. Therefore, CEO tenure does not significantly moderate the relationship between audit committee gender diversity and fraudulent financial reporting.

Table 4.16: Testing the Complete Effect of Moderation

```
Random-effects GLS regression                   Number of obs      =       195
Group variable: FIRM                            Number of groups   =        39
R-sq:  within  = 0.9979                         Obs per group: min =         5
       between = 0.8872                                        avg =       5.0
       overall = 0.9486                                        max =         5
                                                Wald chi2(10)      =  47779.11
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
```

FFR	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
FS	-.083301	.0049137	-16.95	0.000	-.0929317	-.0736703
FA	-.0464103	.013639	-3.40	0.000	-.0731423	-.0196783
ACS	-.489969	.0786695	-6.22	0.000	-.6438583	-.3354797
ACI	-.3989765	.0348038	-11.46	0.000	-.4671907	-.3307623
ACFE	.1152458	.0295292	3.90	0.170	.0573698	.1731219
ACGD	-.3602138	.0295725	-12.18	0.000	-.4181749	-.3022526
ACS*CT	.0058295	.0021419	2.72	0.006	-.0016314	.0100276
ACI*CT	.0058593	.0009105	6.44	0.000	.0040747	.0076439
ACFE*CT	-.0049611	.0006442	-7.70	0.000	-.0062237	-.0036986
ACGD*CT	-1.52e-06	.0008833	-0.00	0.999	-.0017328	.0017298
cons	.2269057	.306778	7.40	0.000	.1667783	.287033

```
     sigma_u |  .06853016
     sigma_e |   .02082407
         rho |  .91546981   (fraction of variance due to u_i)
```

FFR: fraudulent financial reporting, **FS:** firm size, **FA:** firm age, **ACS:** audit committee size, **ACI:** audit committee independence, **ACFE:** audit committee financial expertise, **ACGD:** audit committee gender diversity, **CT:** CEO tenure, **ACS*CT:** first interaction, **ACI*CT:** second interaction, and **ACFE*CT:** third interaction.

4.6 Hypothesis Testing

The table 4.17 presents the random regression model summaries from model 1 to model 7. The study used the last model, model 7 to test the study hypotheses. The results showed that the overall model was significant and that firm size, firm age, audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity and the interaction between CEO tenure and audit committee size, audit committee independence, audit committee financial expertise, audit committee gender diversity explains 94.86% variation in fraudulent financial reporting.

$H0_1$: Audit Committee Size has no Significant Effect on Fraudulent Financial Reporting in Commercial Banks in Kenya

The audit committee size had a coefficient of -0.4897 suggesting that a unit increase in audit committee size reduces fraudulent financial reporting by 0.4897. The p value was $p<0.05$ providing sufficient evidence to reject the null hypothesis and conclude that audit committee size has a significant effect on fraudulent financial reporting. This suggests that an increase in audit committee size was associated with a decrease in fraudulent financial reporting. In other words, larger audit committees tend to be linked with lower levels of fraudulent financial reporting. This was in line with Mardessi's (2022) empirical findings, which show that the size of the audit committee a key corporate governance mechanism has a statistically significant relationship with real earnings management.

$H0_2$: Audit Committee Independence has no Significant Effect on Fraudulent Financial Reporting in Commercial Banks in Kenya

The audit committee independence had a negative coefficient of -0.3990 demonstrating that a unit increase in audit committee independence minimizes fraudulent financial reporting by 0.3990. The p-value was $p<0.05$, therefore, the null hypothesis was rejected and the study concluded that audit committee independence had a significant effect on fraudulent financial reporting. This illustrates that an increase in audit committee independent members leads to diminished fraudulent financial reporting. This was consistent with Makhlouf's (2022) findings, which suggest that the audit committee's independence has a negative impact on impression management and can thus mitigate financial reporting manipulation and reduce impression management practices.

$H0_3$: Audit Committee Financial Expertise has no Significant Effect on Fraudulent Financial Reporting in Commercial Banks in Kenya

The audit committee financial expertise had a negative coefficient of -0.1152 highlighting that a unit increase in audit committee financial expertise cuts fraudulent financial reporting by 0.1152. The p-value was $p<0.05$ providing the study with sufficient evidence to reject the null hypothesis and conclude that audit committee financial expertise has significant effect on fraudulent financial reporting in commercial banks in Kenya. This demonstrates that when firms increase members with financial know how in audit committee it leads to reduced fraudulent activities in financial preparation and presentation. This was consistent with the findings of Oussii and Klibi (2020), who found a positive correlation between the de facto adoption of IFRS and the percentage of financial experts on audit committees. Furthermore, the correlation between the financial proficiency of audit committee members and the voluntary adoption of IFRS is stronger in cases where the business is audited by a minimum of one BIG 4 audit firm.

$H0_4$: Audit Committee Gender Diversity has no Significant Effect on Fraudulent Financial Reporting in Commercial Banks in Kenya

The coefficient of -0.3602 represents the estimated change in fraudulent financial reporting for a one unit increase in audit committee gender diversity, implying that an increase in audit committee gender diversity was associated with a decrease in fraudulent financial reporting. The p-value ($p< 0.05$) was less than 0.05 suggesting that the coefficient for audit committee gender diversity was statistically significant. In other words, there was sufficient evidence to reject the null hypothesis and conclude that audit committee gender diversity has a significant effect on fraudulent financial reporting in commercial banks in Kenya. This indicates that an increase in audit committee gender diversity is linked with a reduction in fraudulent financial reporting in commercial banks in Kenya. This suggests that greater gender diversity within the audit committee may contribute to improved oversight and control mechanisms, leading to lower incidences of fraudulent financial activities within the banking sector. This was consistent with Luh's (2024) findings that greater external audit quality is guaranteed when there is a female CEO and greater gender diversity on the board, as a result of higher audit fees being paid. It's interesting to note that it was discovered that having female members on the audit committee improves the integrity of internal controls and internal audit procedures, which results in high-quality financial reporting, lower audit effort requirements, a lower audit fee, and Alkebsee, Tian, Usman, Siddique, and Alhebry (2021) found that having female directors on the audit committee enhances internal communication and monitoring, which lowers perceived audit risk and the requirement for external auditor assurances. The results also suggest that female directors demand high-quality audits and further assurance from external auditors when the firm is more complex and riskier.

$H0_{5a}$: CEO Tenure Has No Significant Effect on the Relationship between Audit Committee Size and Fraudulent Financial Reporting In Commercial Banks in Kenya

The study findings showed that CEO tenure significantly moderates the relationship between audit committee size and fraudulent financial reporting ($\beta = 0.0058$, $p<0.05$). This demonstrates that a unit change in CEO tenure enhances the relationship between audit committee size and fraudulent financial reporting. The p value was less than 0.05, giving sufficient evidence to reject the null hypothesis and conclude that CEO tenure has a significant effect on the relationship between audit committee size and fraudulent financial reporting. This implies that the length of time a CEO has been in their position influences how the size of the audit committee affects the occurrence of fraudulent financial reporting in commercial banks in Kenya. This was consistent with the findings of Ngo and Nguyen (2022), who found that CEOs having experience in finance and accounting had a greater impact on earnings management and a negative impact on FRQ. This behavior makes sense because CEOs are skilled at manipulating earnings management in addition to having a solid understanding of accounting and financial regulations. Furthermore, in emerging economies, CEOs' awareness and management skills are still limited, and there are lax legal penalties. As a result, when they do have power, CEOs quickly work to establish a reputation that will increase their own authority and income. The figure 4.2 supports the finding that CEO tenure moderates the relationship between audit committee size and fraudulent financial reporting. The figure shows that fraudulent financial reporting is minimized when there is a high audit committee size with high CEO tenure.

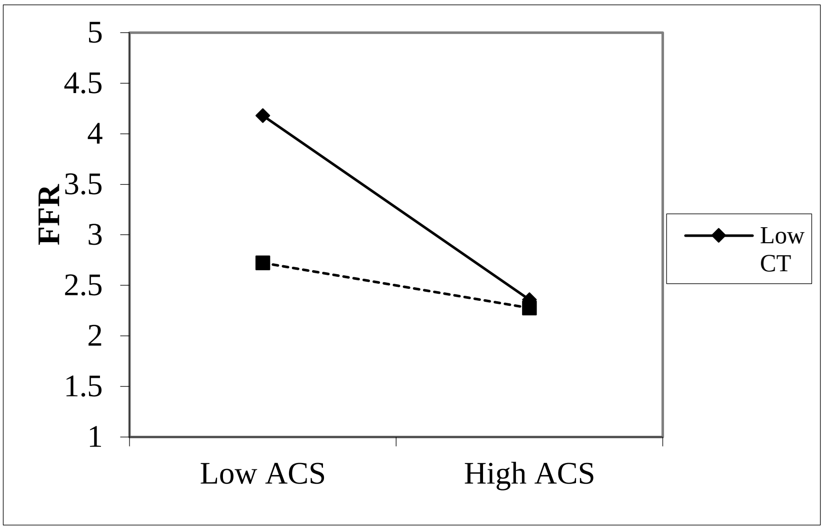

Figure 4.2: modgraph on the effect of CEO tenure on the relationship between audit committee size and fraudulent financial reporting

$H0_{5b}$: CEO Tenure Has No Significant Effect on the Relationship between Audit Committee Independence and Fraudulent Financial Reporting in Commercial Banks in Kenya

The hypothesis asserts that CEO tenure lacks a significant impact on the correlation between audit committee independence and fraudulent financial reporting within commercial banks in Kenya. The statement provides statistical evidence to support this assertion, citing a beta coefficient (β) of 0.0059 and a p-value of less than 0.05. The beta coefficient (β) of 0.0059 indicates the magnitude and direction of the relationship between CEO tenure and the interaction between audit committee independence and fraudulent financial reporting. The positive coefficient suggests that as CEO tenure increases, so does the effect of audit committee independence on fraudulent financial reporting. The p-value being less than 0.05 implies there was sufficient statistical evidence to reject the null hypothesis, indicating that CEO tenure does indeed have a significant effect on the relationship between audit committee independence and fraudulent financial reporting in Kenyan commercial banks. The findings suggest that the tenure of a CEO influences how audit committee independence affects the occurrence of fraudulent financial reporting. It implies that CEOs' length of service in their positions plays a role in shaping the effectiveness of audit committees in preventing or detecting fraudulent activities within commercial banks. This was consistent with the research done in 2024 by Hussain, Nie, Tian, and Ashraf, which found a negative relationship between CEO tenure and the adoption of GRI reporting standards. Additionally, this study discovers that the correlation is weaker for female CEOs and CEOs with international experience. Moreover, this study concludes that the correlation between the experience of foreign CEOs and female CEOs is not statistically significant. This study also reveals that state-owned businesses in China have a stronger correlation between CEO tenure and GRI adoption. The figure 4.3 supports the findings that CEO tenure moderates the relationship between audit committee independence and fraudulent financial reporting. The result shows that fraudulent financial reporting is reduced when the audit committee independence is high with an experienced CEO who has been in the firm for a while.

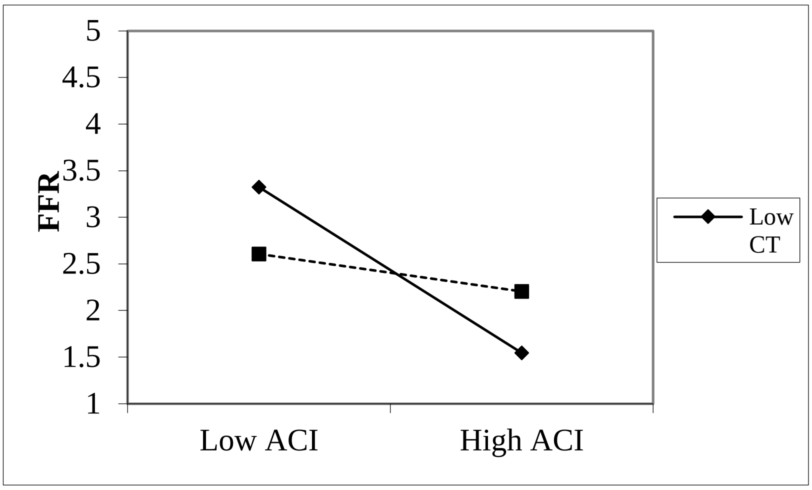

Figure 4.3: modgraph showing the effect of CEO tenure on the relationship between audit committee independence and fraudulent financial reporting.

H0$_{5c}$: CEO Tenure Has No Significant Effect on the Relationship between Audit Committee Financial Expertise and Fraudulent Financial Reporting in Commercial Banks in Kenya

The hypothesis posits that CEO tenure does not exert a significant influence on the association between audit committee financial expertise and fraudulent financial reporting in commercial banks in Kenya. The statistical values include a beta coefficient (β) of -0.0050 and a p-value less than 0.05. The beta coefficient (β) of -

0.0050 indicates the direction and strength of the relationship between CEO tenure and the interaction effect of audit committee financial expertise on fraudulent financial reporting. The negative sign suggests an inverse relationship. As CEO tenure increases, the effect of audit committee financial expertise on fraudulent financial reporting decreases. The p-value being less than 0.05, there was statistical evidence to reject the null hypothesis, indicating that CEO tenure indeed has a significant effect on the relationship between audit committee financial expertise and fraudulent financial reporting in Kenyan commercial banks. This implies that the tenure of CEOs plays a role in shaping how the financial expertise of audit committees impacts the occurrence of fraudulent financial reporting. This conclusion suggests that the length of time a CEO influences the effectiveness of audit committee financial expertise in detecting or preventing fraudulent activities within commercial banks. This was consistent with the findings of Baatwah, Salleh, and Ahmad (2015), who found that timely audit reports are linked to CEO tenure and CEOs with financial expertise. Additional testing validated this outcome as well. Furthermore, there is evidence to support the suggestion that the timeliness of audit reports is influenced by the interaction between the tenure of the CEO and financial expertise. The figure 4.4 showed that there was an interaction and that with high audit committee financial expertise and high CEO tenure, fraudulent financial reporting by management tend to decrease.

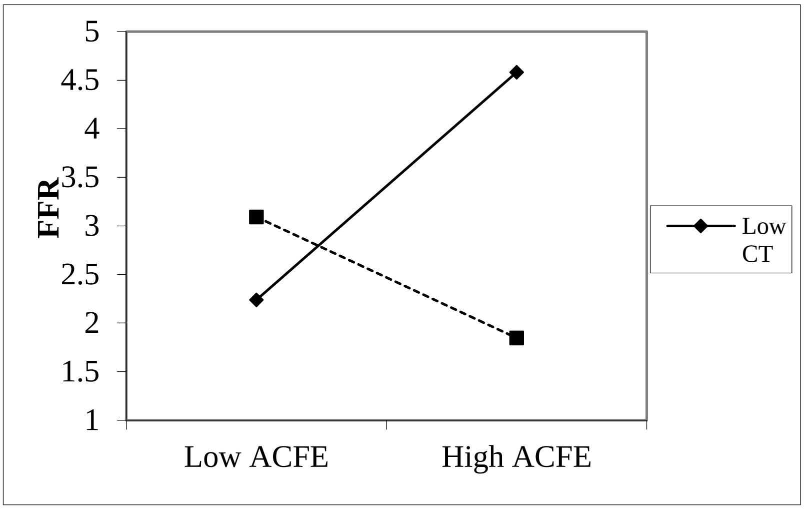

Figure 4.4: Modgraph showing the moderating effect of CEO tenure on the relationship between audit committee financial expertise and fraudulent financial reporting.

H0$_{5d}$: CEO Tenure Has No Significant Effect on the Relationship between Audit Committee Gender Diversity and Fraudulent Financial Reporting in Commercial Banks in Kenya

The hypothesis suggests that CEO tenure does not significantly affect the correlation between audit committee gender diversity and fraudulent financial reporting in commercial banks in Kenya. The statistical values include a beta coefficient (β) of 0.0000 and a p-value greater than 0.05. The beta coefficient of 0.0000 suggests that there is no observed effect of CEO tenure on the relationship between audit committee gender diversity and fraudulent financial reporting. This coefficient implies that, regardless of CEO tenure, the impact of audit committee gender diversity on fraudulent financial reporting remains negligible. The p-value was greater than 0.05, therefore, there was insufficient statistical evidence to reject the null hypothesis, suggesting that CEO tenure does not have a significant effect on the relationship between audit committee gender diversity and fraudulent financial reporting in Kenyan commercial banks. This was in line with the findings of Salehi, Lari Dasht Bayaz, and Naemi (2018), who found that the natural logarithm of audit report lag and CEO financial expertise are the only variables that have a significant negative relationship, with no significant relationship found between the two other timely audit report indices and the former. Furthermore, there was no discernible correlation between the CEO tenure and the other three timely audit report indices. The figure 4.5 revealed that CEO tenure did not moderate the relationship between audit committee gender diversity and fraudulent financial reporting.

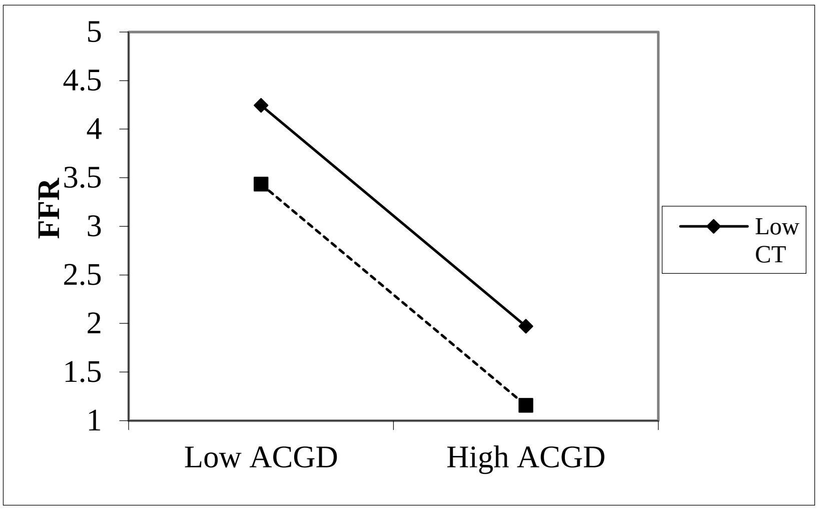

Figure 4.5: Modgraph on the moderating effect of CEO tenure on the relationship between audit committee gender diversity and fraudulent financial reporting.

Table 4.17: Model Summary

	MODELS						
FFR	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Prob>Chi2	0.000	0.000	0.000	0.000	0.000	0.000	0.000
R^2	48.33%	92.79%	92.82%	92.83%	93.85%	94.49%	94.86%
Change R^2	0	91.99%	0.0003%	0.0001%	0.01%	0.0068%	0.0039%
FS	-0.0811*	-0.0824*	-0.0823*	-0.0838*	-0.0758*	-0.0862*	-0.0833*
FA	-0.3839*	-0.0640*	-0.0631*	-0.0637*	-0.0607*	-0.0446*	-0.0464*
ACS		-0.2462*	-0.2366*	-0.2213*	-0.1464*	-0.4863*	-0.4897*
ACI		-0.2024*	-0.2033*	-0.2006*	-0.3107*	-0.3998*	-0.3990*
ACFE		-0.0338	-0.0358	-0.0326	-0.0557*	0.1257*	0.1152*
ACGD		-0.4387*	-0.4383*	-0.4406*	-0.4119*	-0.3644*	-0.3602*
CT			-0.0004	0.0001	-0.0033*	-0.0086*	-0.0089*
ACS*CT				-0.0004	-0.0034*	0.0054*	0.0058*
ACI*CT					0.0033*	0.0058*	0.0059*
ACFE*CT						-0.0048*	-0.0050*
ACGD*CT							0.000
CONS	-0.8716*	0.0842*	0.0835*	0.0853*	0.1327*	0.2345*	0.2269*

4.7 Discussion of the Findings

The descriptive results shows that many companies have audit committees with lots of financial know how and independence. But there's still diversity in how big companies are, how long CEOs have been in charge, and how many women are on audit committees. Some companies might have more risk of fraud, shown by negative numbers, while others have less risk. It tells us that it's important for companies to have strong internal control, diverse leadership, and ways to detect fraud to keep everything running smoothly.

The correlation results provided valuable insights into the relationships between various study variables and fraudulent financial reporting within commercial banks in Kenya. Firstly, firm size exhibits a moderate negative correlation with fraudulent financial reporting (r= -0.6088), suggesting that as firm size increases, there tends to be a decrease in fraudulent activities. This may indicate that larger firms have more resources and scrutiny, making it harder for fraudulent activities to occur unnoticed. Similarly, firm age demonstrates a strong negative association with fraudulent financial reporting (r= -0.6687), indicating that as a firm matures over time, fraudulent activities tend to decrease. This could be attributed to improved internal controls, organizational maturity, and experience gained over time. Audit committee size exhibits a moderate negative correlation with fraudulent financial reporting (r= -0.6266), implying that larger audit committees are associated with reduced fraudulent activities. This finding aligns with the notion that larger audit committees may provide better oversight and monitoring functions, deterring fraudulent behavior. Moreover, audit committee independence, financial expertise, and gender diversity all demonstrate moderate negative associations with fraudulent financial reporting, suggesting that as these attributes increase, and fraudulent activities tend to decrease. This underscores the importance of having independent, knowledgeable, and diverse perspectives within audit committees to effectively detect and prevent fraudulent behavior. Lastly, CEO tenure shows a weak negative correlation with fraudulent financial reporting (r= -0.3023), implying that longer CEO tenures are associated with a slight reduction in fraudulent activities. While the effect size is relatively small, it still suggests that experienced CEOs may contribute to a more stable and ethical organizational culture, which could deter fraudulent behavior.

The random effects regression results in table 4.13 showed that firm size and age exhibit significant negative relationships with fraudulent financial reporting, aligning with prior research. The findings of Hasan, Kassim, and Hamid (2020) as well as Mardessi (2022) highlight the significance of firm resources, maturity, and stability in reducing the risk of fraud. The regression also emphasizes how important audit committee traits are in the fight against false financial reporting. Consistent with existing literature, larger and more independent audit committees have been linked to a decrease in fraudulent activities. Nonetheless, audit committee gender diversity emerges as a significant determinant, even though audit committee financial expertise does not statistically significantly correlate with fraudulent reporting. According to Oradi and Izadi (2020), audit committees with a variety of viewpoints have more effective governance, which reduces the incidence of financial reporting fraud. While CEO tenure does not significantly moderate the relationship between audit committee size and gender diversity with fraudulent reporting, it does moderate the relationship between audit committee independence and financial expertise with fraudulent reporting, according to the moderation effects of CEO tenure on the relationship between audit committee attributes and fraudulent financial reporting. This highlights the complex relationship between the effectiveness of the audit committee in preventing fraud and the tenure of the CEO.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the study findings mainly from the descriptive, correlation and fixed effect regression results, conclusions and recommendations.

5.1 Summary of the Findings

The study main objective was to determine the effect of audit committee characteristics on fraudulent financial reporting, moderated by CEO tenure. The study specific objectives were to establish the effect of audit committee size, audit committee independence audit committee financial expertise, audit committee gender diversity, and CEO tenure on fraudulent financial reporting and also the moderating effect of CEO tenure on the relationship between audit committee size, audit committee independence audit committee financial expertise, audit committee gender diversity and fraudulent financial reporting. The study target population was the 42 commercial banks in Kenya between the years 2018 to 2022. Out of the 42commercial banks, 3 were not included in the final sample leaving a total of 39 commercial banks being observed for a period of 5 years giving us a total of 195 firm year observations.

5.1.1 Summary of the Descriptive Statistics

The descriptive statistics outlined key variables from the research study encompassing 195 observations. It includes metrics related to fraudulent financial reporting (FFR), firm size (FS), firm age (FA), audit committee size (ACS), audit committee independence (ACI), audit committee financial expertise (ACFE), audit committee gender diversity (ACGD), and CEO tenure (CT). FFR, indicates an average value of -2.19, possibly reflecting negative values denoting various levels of fraud, with a range from -4.02 to 3.65. FS averages at 7.55, implying moderate variability around the mean, while FA averages 1.43 years, indicating a focus on relatively young firms. ACS and ACI exhibit close averages of 0.41 and 0.80, respectively, suggesting modest committee sizes and high independence levels. ACFE, with an average of 0.71, highlights a majority of committees possessing significant financial expertise. ACGD indicates a mean diversity score of 0.30, depicting varied gender representation within committees. CT, averaging 6.35 years with a wide standard deviation of 5.44, showcases substantial CEO tenure differences across firms. The data suggests a diverse landscape in firm characteristics, with notable variations in governance structures, leadership tenure, and gender representation within audit committees.

5.1.2 Summary of the Correlation Analysis

The correlation analysis conducted on the variables related to fraudulent financial reporting within commercial banks in Kenya. Firm characteristics play a pivotal role, with both firm size and age demonstrating negative correlations with fraudulent activities. Larger and more established firms appear to experience fewer instances of fraudulent financial reporting, likely due to increased resources, stricter internal controls, and greater scrutiny from stakeholders. This suggests that as banks grow in size and maturity, they become more adept at detecting and deterring fraudulent behavior, fostering a more transparent and accountable operational environment. Moreover, the composition and attributes of audit committees emerge as crucial factors in combating fraudulent financial reporting. A larger audit committee size is associated with a reduction in fraudulent activities, indicating the importance of having a diverse set of perspectives and expertise in oversight roles. Additionally, audit committee independence, financial expertise, and gender diversity all exhibit negative correlations with fraudulent reporting, highlighting the significance of robust governance structures in mitigating unethical behavior. Independent and knowledgeable audit committees, augmented by diverse gender representation, are better equipped to identify and address potential risks, thus fostering greater integrity and transparency within banking institutions. Furthermore, the correlation findings suggest a nuanced relationship between CEO tenure and fraudulent financial reporting. While the correlation is relatively weak, longer CEO tenures appear to be associated with a slight reduction in fraudulent activities. This hints at the potential influence of experienced leadership in promoting ethical standards and fostering a culture of accountability within commercial banks. However, the extent of this impact may vary depending on other organizational factors and the specific leadership style of individual CEOs.

5.1.3 Summary of the Random Regression Results

The regression analysis indicates that firm size and age are negatively associated with fraudulent financial reporting. Larger, independent audit committees and gender diversity within them are linked to reduced fraud occurrences. CEO tenure moderates the effects of audit committee independence and financial expertise on fraudulent reporting, underscoring governance's pivotal role in fraud prevention. These findings align with prior research, emphasizing the importance of robust governance mechanisms, experienced leadership, and diverse perspectives within audit committees in mitigating fraud risks within commercial banks.

5.1.3.1 Control Variables and Fraudulent Financial Reporting

The study found a significant negative relationship between firm size and fraudulent financial reporting. Larger firms demonstrated a lower propensity for fraudulent activities, suggesting that their resources, scrutiny, and robust internal controls serve as deterrents to fraudulent behavior. This aligns with prior research, affirming the importance of encouraging practices associated with larger firms to enhance overall financial reporting integrity and minimize fraudulent risks across the banking sector. The study also revealed a significant negative effect of firm age on fraudulent financial reporting. Older firms, with longer operating histories, exhibited fewer instances of fraudulent activities. This finding underscores the value of established internal controls, governance structures, and ethical cultures in mitigating fraud risks over time.

5.1.3.2 Audit committee size and Fraudulent Financial Reporting

The analysis of audit committee characteristics in relation to fraudulent financial reporting within commercial banks in Kenya yielded significant findings that shed light on effective governance mechanisms. Firstly, the study found that a larger audit committee size was strongly associated with a decrease in fraudulent financial reporting. This aligns with previous research and suggests that larger committees are more effective in providing oversight and detecting irregularities, thereby mitigating the risk of fraudulent activities. The significance of this finding underscores the importance of robust audit committee structures in promoting financial integrity and transparency within banking institutions.

5.1.3.3 Audit committee independence and Fraudulent Financial Reporting

The study revealed that greater audit committee independence was correlated with a significant reduction in fraudulent financial reporting. This underscores the importance of independence in audit committees' oversight functions, as it enhances objectivity and reduces the potential for conflicts of interest. The finding reaffirms the crucial role of independent oversight bodies in maintaining trust and confidence in financial reporting processes, essential for the stability and credibility of the banking sector.

5.1.3.4 Audit committee expertise and Fraudulent Financial Reporting

The analysis demonstrated that increased financial expertise within audit committees was linked to a significant decrease in fraudulent financial reporting. This suggests that members with specialized financial knowledge are better equipped to identify and address potential irregularities, thereby enhancing the accuracy and reliability of financial reporting. The finding highlights the importance of recruiting and retaining qualified professionals within audit committees to strengthen governance and risk management practices.

5.1.3.5 Audit committee gender diversity and Fraudulent Financial Reporting

The study found that higher gender diversity within audit committees was associated with a significant reduction in fraudulent financial reporting. This underscores the value of diverse perspectives in decision-making processes, as gender-diverse teams are more likely to consider a broader range of viewpoints and approaches. The result emphasizes the importance of promoting gender diversity within governance structures to foster effective oversight and control mechanisms, ultimately contributing to the integrity and stability of the banking sector.

5.1.3.6 Effect of CEO Tenure on Direct Variables and Fraudulent Financial Reporting

The study findings revealed significant insights into the influence of CEO tenure on the relationship between various audit committee characteristics and fraudulent financial reporting within commercial banks in Kenya. CEO tenure significantly moderates the relationship between audit committee size and fraudulent financial reporting. A longer tenure enhances the impact of audit committee size on fraudulent financial reporting occurrences, indicating the importance of CEO experience in shaping the effectiveness of audit committee oversight. CEO tenure also significantly impacts the correlation between audit committee independence and fraudulent financial reporting. As CEO tenure increases, the effect of audit committee independence on fraudulent financial reporting strengthens, highlighting the role of CEO tenure in influencing audit committee effectiveness. Furthermore, CEO tenure influences the relationship between audit committee financial expertise and fraudulent financial reporting. With longer CEO tenure, the impact of audit committee financial expertise on fraudulent financial reporting diminishes, underscoring the dynamic interplay between CEO tenure and audit committee capabilities. However, CEO tenure does not significantly affect the correlation between audit committee gender diversity and fraudulent financial reporting. Regardless of CEO tenure, the impact of audit committee gender diversity on fraudulent financial reporting remains negligible, suggesting that CEO tenure may not play a substantial role in shaping this aspect of audit committee effectiveness.

5.2 Conclusion

The study sought to investigate the effects of audit committee characteristics on fraudulent financial reporting. The findings from the analysis of audit committee characteristics and their impact on fraudulent financial reporting within commercial banks in Kenya provided valuable insights for enhancing governance practices in the banking sector. The study revealed that larger audit committee sizes, greater independence, increased financial expertise, and higher gender diversity are all associated with significant reductions in fraudulent activities. These findings underscore the critical role of robust governance mechanisms in promoting financial integrity and transparency within banking institutions. Larger, independent, and diverse audit committees with strong financial expertise are essential for effective oversight and control, leading to enhanced detection and prevention of fraudulent activities. Moreover, the results highlight the importance of promoting gender diversity within governance structures to foster diverse perspectives and decision-making approaches.

The study also highlighted the significant influence of CEO tenure on the relationship between audit committee characteristics and fraudulent financial reporting in Kenyan commercial banks. While CEO tenure amplifies the impact of audit committee size and independence on fraud detection, it diminishes the effect of financial expertise. However, CEO tenure does not substantially alter the association between audit committee gender diversity and fraudulent financial reporting. These findings underscore the critical role of CEO tenure in shaping corporate governance mechanisms and their effectiveness in combating fraudulent financial activities. Understanding these dynamics is crucial for bank executives and policymakers in fostering robust governance practices to safeguard financial integrity.

5.3 Recommendations

In response to the study's results, the study included policy recommendations, practical suggestions, management suggestions, theoretical considerations, and recommendations for further research.

5.3.1 Policy Implications

Policy recommendations to mitigate fraudulent financial reporting within commercial banks include advocating for larger and diverse audit committees, enhancing independence, and prioritizing financial expertise in committee recruitment. Promoting gender diversity and strengthening regulatory oversight are crucial. These measures aim to bolster governance practices, improve audit committee effectiveness, and minimize fraud risk. By implementing these recommendations, policymakers can foster stability, integrity, and trust in the banking sector, benefiting both financial institutions and stakeholders. Also based on the results, policymakers should prioritize promoting board diversity within audit committees to enhance oversight effectiveness. Additionally, robust CEO succession planning frameworks are vital for maintaining governance stability. Continuous training for audit committee members in financial expertise and fraud detection is crucial for combating fraudulent financial reporting effectively.

5.3.2 Practical Implications

The findings suggest that commercial banks should prioritize larger, diverse, and independent audit committees with strong financial expertise to mitigate fraudulent financial reporting. Promoting gender diversity and strengthening regulatory oversight are essential for enhancing governance practices and maintaining trust in the banking sector. The findings also carry significant practical implications for stakeholders in commercial banks. They underscore the importance of considering CEO tenure when structuring audit committees, as it influences their effectiveness in detecting and preventing fraudulent financial activities. The results emphasize the need for ongoing training programs for audit committee members to enhance their financial expertise and fraud detection capabilities. Also the findings highlight the critical role of promoting board diversity within audit committees, ensuring varied perspectives and skills to strengthen oversight mechanisms. These implications can guide bank executives and policymakers in implementing measures to mitigate fraudulent financial reporting effectively.

5.3.3 Managerial Implication

Managers in commercial banks should focus on building robust audit committees with diverse expertise and independence to effectively mitigate fraudulent financial reporting. Promoting gender diversity and ensuring compliance with regulatory standards are essential for maintaining transparency and trust in financial reporting practices. Managers should consider CEO tenure when evaluating audit committee effectiveness. Robust CEO succession plans ensure governance stability amidst leadership changes. Continuous training for audit committee members enhances their financial expertise and fraud detection abilities, while promoting board diversity fosters varied perspectives for more effective oversight against fraudulent financial activities.

5.3.4 Theoretical Implication

The findings carry theoretical implications rooted in agency theory and the pentagon fraud theory. Agency theory suggests that larger, independent audit committees mitigate agency conflicts by aligning managerial interests with those of shareholders.

The pentagon fraud theory posits that diverse committees with strong financial expertise act as effective fraud deterrents. These implications underscore the importance of governance mechanisms in reducing fraudulent activities, aligning with both theoretical frameworks and emphasizing the critical role of audit committees in mitigating agency problems and fraud risks within commercial banks.

5.4 Recommendations for Further Research

This research study was seeking to find the moderating effect of CEO Tenure on the relationship between Audit committee characteristics and fraudulent financial reporting in commercial banks in Kenya, other researchers can do the same research in a different set up e.g. in government entities like parastatals, counties, all firms in the NSE etc.

Further research can also be done on other Audit committee characteristics like Frequency of meetings, Audit committee tenure, Audit committee competency etc. This study used CEO Tenure as its moderator. Other researchers can introduce other moderators for instance: Financial performance, audit quality to moderate the relationship between audit committee characteristics and fraudulent financial reporting.

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APPENDICES

Appendix I: Models

Model 1

```
Random-effects GLS regression                   Number of obs      =       195
Group variable: FIRM                            Number of groups   =        39
R-sq:  within  = 0.9570                         Obs per group: min =         5
       between = 0.1262                                        avg =       5.0
       overall = 0.4833                                        max =         5
                                                Wald chi2(2)       =   2493.49
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
------------------------------------------------------------------------------
         FFR |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         FS  |  -.0810785   .0142218    -5.70   0.000    -.1089526   -.0532043
         FA  |  -.3839416   .0459805    -8.35   0.000    -.4740617   -.2938215
       _cons |  -.8716426   .0576869   -15.11   0.000    -.9847069   -.7585783
-------------+----------------------------------------------------------------
     sigma_u |   .2687625
     sigma_e |  .10123315
         rho |  .87575203   (fraction of variance due to u_i)
```

Model 2

```
Random-effects GLS regression                   Number of obs      =       195
Group variable: FIRM                            Number of groups   =        39
R-sq:  within  = 0.9969                         Obs per group: min =         5
       between = 0.8304                                        avg =       5.0
       overall = 0.9279                                        max =         5
                                                Wald chi2(6)       =  38612.36
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
------------------------------------------------------------------------------
         FFR |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         FS  |  -.0824279   .0054126   -15.23   0.000    -.0930364   -.0718195
         FA  |  -.0639685   .0154302    -4.15   0.000    -.0942112   -.0337258
        ACS  |  -.2462243   .0562814    -4.37   0.000    -.3565338   -.1359149
        ACI  |  -.2023934   .0187104   -10.82   0.000    -.2390652   -.1657216
       ACFE  |  -.0338268   .0228172    -1.48   0.138    -.0785477    .0108942
       ACGD  |  -.4387235    .023838   -18.40   0.000     -.485445   -.3920019
       _cons |   .0842184   .0297455     2.83   0.005     .0259182    .1425186
-------------+----------------------------------------------------------------
     sigma_u |  .09613882
     sigma_e |  .02646372
         rho |  .92956566   (fraction of variance due to u_i)
```

Model 3

```
Random-effects GLS regression                   Number of obs      =       195
Group variable: FIRM                            Number of groups   =        39
R-sq:  within  = 0.9969                         Obs per group: min =         5
       between = 0.8307                                        avg =       5.0
       overall = 0.9282                                        max =         5
                                                Wald chi2(7)       =  38216.68
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
------------------------------------------------------------------------------
         FFR |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         FS  |  -.0822522   .0054203   -15.17   0.000    -.0928757   -.0716286
         FA  |  -.0630659   .0156018    -4.04   0.000    -.0936449   -.0324869
        ACS  |  -.2365794   .0594269    -3.98   0.000    -.3530539   -.1201048
```

```
         ACI  |  -.2033154   .0188793   -10.77   0.000    -.2403182   -.1663125
        ACFE  |  -.0357843   .0229384    -1.56   0.119    -.0807428    .0091742
        ACGD  |  -.4383393   .0238416   -18.39   0.000     -.485068   -.3916106
          CT  |  -.0003536   .0006564    -0.54   0.590    -.0016401    .0009329
       _cons  |   .0835449   .0297601     2.81   0.005     .0252161    .1418737
-------------+----------------------------------------------------------------
     sigma_u  |  .09524951
     sigma_e  |  .02646619
         rho  |  .92832658   (fraction of variance due to u_i)
```

Model 4

```
Random-effects GLS regression                   Number of obs      =       195
Group variable: FIRM                            Number of groups   =        39
R-sq:  within  = 0.9970                         Obs per group: min =         5
       between = 0.8239                                        avg =       5.0
       overall = 0.9253                                        max =         5
                                                Wald chi2(8)       =  38894.53
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
------------------------------------------------------------------------------
           FFR |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
---------------+--------------------------------------------------------------
            FS  |  -.0838387   .0056206   -14.92   0.000    -.0948548   -.0728225
            FA  |  -.0637093   .0157669    -4.04   0.000    -.0946118   -.0328069
           ACS  |  -.2312864   .0599715    -3.86   0.000    -.3488284   -.1137444
           ACI  |  -.2005716   .0196271   -10.22   0.000      -.23904   -.1621032
          ACFE  |   -.032649   .0230126    -1.42   0.156    -.0777529    .0124549
          ACGD  |  -.4406499   .0240887   -18.29   0.000    -.4878629   -.3934368
            CT  |   .0000835   .0009796     0.09   0.932    -.0018364    .0020034
interaction_~1  |  -.0003972   .0006636    -0.60   0.549    -.0016979    .0009035
         _cons  |   .0853467   .0299907     2.85   0.004     .0265659    .1441274
---------------+--------------------------------------------------------------
    sigma_u  |  .09418693
       sigma_e  |   .0253871
           rho  |   .9322692   (fraction of variance due to u_i)
```

Model 5

```
Random-effects GLS regression                   Number of obs      =       195
Group variable: FIRM                            Number of groups   =        39
R-sq:  within  = 0.9970                         Obs per group: min =         5
       between = 0.8652                                        avg =       5.0
       overall = 0.9385                                        max =         5
                                                Wald chi2(9)       =  37369.34
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000
------------------------------------------------------------------------------
           FFR |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
---------------+--------------------------------------------------------------
            FS  |  -.0758256   .0054615   -13.88   0.000      -.08653   -.0651212
            FA  |   -.060723     .01545    -3.93   0.000    -.0910044   -.0304417
           ACS  |  -.1463774   .0634464    -2.31   0.021      -.27073   -.0220247
           ACI  |  -.3106576   .0362373    -8.57   0.000    -.3816814   -.2396337
          ACFE  |    -.05569   .0223328    -2.49   0.013    -.0994615   -.0119186
          ACGD  |  -.4119013   .0236747   -17.40   0.000    -.4583028   -.3654997
            CT  |  -.0033195   .0013023    -2.55   0.011     -.005872   -.0007671
interaction_~1  |  -.0034306   .0011397    -3.01   0.003    -.0056644   -.0011968
interaction_~2  |   .0033034    .000916     3.61   0.000      .001508    .0050988
         _cons  |   .1326959   .0320797     4.14   0.000     .0698208    .1955709
---------------+--------------------------------------------------------------
       sigma_u  |  .07983479
       sigma_e  |   .0247691
           rho  |  .91219415   (fraction of variance due to u_i)
```

Model 6

```
Random-effects GLS regression                  Number of obs      =       195
Group variable: FIRM                           Number of groups   =        39
R-sq:  within  = 0.9980                        Obs per group: min =         5
       between = 0.8798                                       avg =       5.0
       overall = 0.9449                                       max =         5
                                               Wald chi2(10)      =  55744.41
corr(u_i, X)   = 0 (assumed)                   Prob > chi2        =    0.0000
------------------------------------------------------------------------------
          FFR |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
---------------+--------------------------------------------------------------
          FS  |  -.0861993   .0048794   -17.67   0.000    -.0957627   -.0766359
          FA  |  -.0446259   .0134186    -3.33   0.001    -.0709259    -.018326
         ACS  |  -.4862777   .0698754    -6.96   0.000     -.623231   -.3493245
         ACI  |  -.3997987   .0332821   -12.01   0.000    -.4650304    -.334567
        ACFE  |   .1256825   .0285147     4.41   0.000     .0697947    .1815702
        ACGD  |  -.3643974   .0222105   -16.41   0.000    -.4079291   -.3208657
          CT  |  -.0086005   .0013193    -6.52   0.000    -.0111862   -.0060148
interaction_~1 |   .0054341   .0014886     3.65   0.000     .0025164    .0083518
interaction_~2 |   .0058092   .0008436     6.89   0.000     .0041558    .0074626
interaction_~3 |  -.0048475   .0006154    -7.88   0.000    -.0060537   -.0036413
        _cons |   .2344766   .0308874     7.59   0.000     .1739384    .2950148
---------------+--------------------------------------------------------------
      sigma_u |  .07843169
      sigma_e |   .0207583
          rho |  .93453687   (fraction of variance due to u_i)
```

Model 7

```
Random-effects GLS regression                  Number of obs      =       195
Group variable: FIRM                           Number of groups   =        39
R-sq:  within  = 0.9979                        Obs per group: min =         5
       between = 0.8872                                       avg =       5.0
       overall = 0.9486                                       max =         5
                                               Wald chi2(11)      =  49779.11
corr(u_i, X)   = 0 (assumed)                   Prob > chi2        =    0.0000
------------------------------------------------------------------------------
          FFR |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
---------------+--------------------------------------------------------------
          FS  |   -.083301   .0049137   -16.95   0.000    -.0929317   -.0736703
          FA  |  -.0464103    .013639    -3.40   0.001    -.0731423   -.0196783
         ACS  |   -.489669   .0786695    -6.22   0.000    -.6438583   -.3354797
         ACI  |  -.3989765   .0348038   -11.46   0.000    -.4671907   -.3307623
        ACFE  |   .1152458   .0295292     3.90   0.000     .0573698    .1731219
        ACGD  |  -.3602138   .0295725   -12.18   0.000    -.4181749   -.3022526
          CT  |  -.0088882    .001355    -6.56   0.000    -.0115439   -.0062326
interaction_~1 |   .0058295   .0021419     2.72   0.006     .0016314    .0100276
interaction_~2 |   .0058593   .0009105     6.44   0.000     .0040747    .0076439
interaction_~3 |  -.0049611   .0006442    -7.70   0.000    -.0062237   -.0036986
interaction_~4 |  -1.52e-06   .0008833    -0.00   0.999    -.0017328    .0017298
        _cons |   .2269057   .0306778     7.40   0.000     .1667783     .287033
---------------+--------------------------------------------------------------
      sigma_u |  .06853016
      sigma_e |  .02082407
          rho |  .91546981   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Appendix II: List of Commercial Banks In Kenya

BANK	YEAR OF LICENCING
1. Absa Bank ltd	**1916**
2. Access Bank PLC	**1985**
3. African Banking Corporation Limited	**1994**
4. Bank of Africa	**2004**
5. Bank of Baroda	**1953**
6. Bank of India	**1953**
7. Citibank Kenya Ltd	**1974**
8. Co-operative Bank of Kenya	**1968**
9. Consolidated Bank of Kenya	**1989**
10. Credit Bank	**1994**
11. Development Bank of Kenya	**1996**
12. Diamond Trust Bank Kenya	**1994**
13. Dubai Islamic Bank Kenya Ltd(DIB)	**2017**
14. East African Development Bank	**1967**
15. Eco Bank Kenya Limited	**2008**
16. Equity Bank Limited	**2004**
17. Family Bank Limited	**2007**
18. First Community Bank Limited	**2008**
19. Guaranty Trust Bank	**1995**
20. Gulf African Bank	**2007**
21. Guardian Bank ltd	**1995**
22. Habib Bank A.G Zurich	**1978**
23. Housing Finance Group Ltd	**1965**
24. I&M Bank Limited	**1996**
25. Imperial Bank Ltd	**1996**
26. Kenya Commercial Bank Limited	**1896**
27. Kingdom Bank Limited	**2010**
28. M Oriental Bank limited	**1991**
29. Mayfair CIB Bank	**2017**
30. Middle East Bank	**1980**
31. National Bank of Kenya Limited	**1968**
32. NCBA Bank	**2019**
33. Paramount Bank ltd	**1995**
34. Post Bank	**1910**
35. Prime Bank Limited	**1982**
36. SBM Bank Kenya Limited	**1996**
37. Sidian Bank Limited	**1999**
38. Spire Bank Limited	**1995**
39. Stanbic Holding Ltd	**2008**

40. Standard Chartered Bank	**1910**
41. United Bank of Africa	**2009**
42. Victoria Commercial Bank	**1996**

Appendix III: Data Collection Sheet

VARIABLE	INDICATOR	2018	2019	2020	2021	2022
Audit committee Size	Total number of directors in the audit committee					
Audit committee independence	Independent audit committee members					
	Total members of the Audit committee members					
Audit committee Financial expertise	Financial experts in the audit committee					
	Total members of the Audit committee					
Audit committee Gender Diversity	Female gender in the Audit committee					
	Total members of the Audit committee					
CEO Tenure	Total number of years in office as a CEO					
Bank Size	Value of Total Assets					
Bank Age	Number of year since incorporation					
Fraudulent financial reporting	DSRI					
	GMI					
	AQI					
	SGI					
	DEPI					
	SGAI					
	LVGI					
	TATA					

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