AUDIT COMMITTEE CHARACTERISTICS, FIRM SIZE AND FRAUDULENT FINANCIAL REPORTING AMONG LISTED FIRMS IN EAST AFRICA COMMUNITY

BY

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A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINSTRATION DEGREE (FORENSIC AUDIT AND ACCOUNTING OPTION)

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DECLARATION

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DEDICATION

I want to express my gratitude to my family (Mum Joyce, Dad Lawrence, Auntie Rose Paul, my sisters Stacy, Kate, Sheila and my friend Matiko) for the tremendous assistance they have provided. You are the reason why I've been able to concentrate. Above all, I want to thank God for bringing me this far and for directing my attention and focus throughout the time I spent studying.

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ABSTRACT

Corporate accounting scandals involving firms such as Enron, WorldCom, Mumias, Uchumi, among others, have demonstrated managerial motive in fraudulent financial reporting and the effectiveness of audit committee in mitigating fraud. Despite the contributions of prior studies that sought to determine the effect of audit committee characteristics on fraudulent financial reporting, the findings are incongruent. Studies have also reported that firm size play an important role on fraudulent financial reporting and that the audit committee also plays a crucial role in enhancing audit quality and eliminating fraudulent financial reporting. Therefore, this study sought to examine whether firm size moderates the relationship between audit committee characteristics and fraudulent financial reporting among listed firms in East Africa Community partner states. The specific objectives examined the effect of audit committee gender diversity, expertise, size, and frequency of meetings on fraudulent financial reporting. The study further examined whether firm size moderates the relationship between audit committee gender diversity, frequency of meetings, expertise, size and fraudulent financial reporting. The study was anchored on the agency and fraud pentagon theories. The study adopted the longitudinal and explanatory research design. The target population for this study consisted of all non-final firms listed firms in East Africa Community partner states stocks/securities exchanges from the period 2012-2023. The study employed an inclusion/exclusion criterion to arrive at a final sample size of 33 firms. The study employed secondary and quantitative data extracted from annual financial reports with the aid of a data collection schedule. Data was analyzed using both inferential and descriptive statistics. The study adopted the logistic regression and multiple hierarchical regression model. The results of the logistic regression model were used to test the hypotheses. The study established that audit committee gender diversity ($\beta = -2.177$, ρ -value <0.05) and audit committee expertise ($\beta = -2.961$, $\rho<0.05$) had a negative and significant effect on fraudulent financial reporting while audit committee frequency of meeting ($\beta = 3.951$, ρ -value <0.05) and audit committee size ($\beta = 1.620$, $\rho<0.05$) had a positive and significant effect on fraudulent financial reporting with an R-square of 31.44 percent. Further, the study found that firm size moderated the relationship between audit committee gender diversity ($\beta = -3.506$, $\rho<0.05$), audit committee frequency of meeting ($\beta = -2.840$, $\rho<0.05$), audit committee expertise ($\beta = -3.015$, $\rho<0.05$) and audit committee size ($\beta = -1.664$, $\rho<0.05$) with an R-squared of 48.18 percent. Based on the results, the study concluded that firm size moderated the relationship between audit committee characteristics and the fraudulent financial reporting. The findings have several implications. Regulators may provide clear guidance on the optimal size of audit committees based on firm size and industry dynamics. Moreover, firms should actively recruit more women to join their audit committees. This inclusion brings diverse perspectives and promotes ethical decision-making. Additionally, companies should foster an inclusive environment where female members feel encouraged to contribute actively. The frequency of audit committee meetings needs careful optimization. The results suggest that more frequent meetings can sometimes increase the likelihood of fraud, possibly due to reactionary rather than proactive measures. The main limitation was found on F-score model. Future research may use other models of measuring the likelihood of fraudulent financial reporting such as the M-score and Beinish Model. Additionally, the study recommend that future research may also consider employing other moderator variables such as board activity to evaluate their effect on fraudulent financial reporting.

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ABBREVIATION AND ACRONYMS

ACFE	Association of Certified Fraud Examination
AQ	Audit Quality
FFR	Fraudulent Financial Reporting
FRG	Financial Reporting Quality
GAAPs	Generally Accepted Accounting Principles
IAS	International Accounting Standards
ISA	International Standards of Audit
MBR	Market to Book Ratio
NSE	Nairobi Security Exchange
OLS	Ordinary Least Square
ROE	Return on Equity
UET	Upper Echelons Theory

OPERATIONAL DEFINITION OF TERMS

Audit Committee Gender Diversity: Audit committee gender diversity refers to the inclusion of both men and women on the audit committee, contributing to diverse perspectives and decision-making (Cohen et al., 2021).

Audit Committee Frequency of Meeting: This term describes how often the audit committee convenes within a given period, typically reflecting its diligence in overseeing financial reporting and internal controls (Garcia-Sanchez et al., 2020).

Audit Committee Expertise: Audit committee expertise refers to the financial, accounting, and industry knowledge possessed by committee members, crucial for effective oversight of financial reporting (Dhaliwal *et al.*, 2006).

Audit Committee Size: Audit committee size refers to the number of members serving on the audit committee, with larger sizes often linked to broader expertise and more robust discussions (Vafeas, 2022).

Firm Size: Firm size is generally measured by metrics such as total assets, revenue, or market capitalization, influencing the complexity of operations and corporate governance needs (Chen et al., 2023).

Fraudulent Financial Reporting: Fraudulent financial reporting involves the intentional misstatement or omission of financial information to deceive stakeholders, undermining the reliability of financial statements (Dechow *et al*., 2011).

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter discusses the background of the study, institutional setting the problem statement, the objectives, the hypotheses, significance and the scope of the study.

1.1 Background of the Study

Fraudulent financial reporting is an increasingly prevalent form of fraudulent activity within the corporate sphere (Narang, 2023). In spite of the enactment of the Sarbanes-Oxley Act and the formation of the Public Companies Accounting Oversight Board (PCAOB) in response to the Enron scandal that occurred in the United States twenty years ago, financial statement misreporting and manipulation continue to be widespread. A comparable occurrence occurred in India in 2007 with the Satyam scandal (Bhasin, 2013). In 2021, the fraudulent financial reporting market was valued at USD 20.8 billion, according to a recent survey of more than 35 countries (including India) (Narang, 2023). According to Data Bridge Market Research (2022), projections indicate that this amount could reach USD 82.53 billion by 2029, expanding at a CAGR of 18.80% between 2022 and 2029. Fraudulent financial reporting, committed by management, is classified as a white-collar crime. It involves the manipulation of financial statements to create the appearance of a favorable financial position for the company through means such as exaggeration, concealment, understatement, omission, or commission. Profit-driven incentives, performance-based pressure, individual development, combating competition, and other such factors are among the fundamental goals.

The Fraud Triangle Theory, which was introduced by Donald R. Cressey, delineates three elements that contribute to the commission of fraud: opportunity, incentive, and rationalization (Marquart & Thompson, 2024). Opportunity refers to conditions that facilitate fraudulent activities, such as the lack of or a deficient internal control system, inadequate auditing procedures, a negative leadership attitude, or ineffective accounting policies, among others. Incentives and pressures encompass a range of factors, such as profit-linked compensation, the imperative to consistently outperform peers, personal financial obligations, and the satisfaction of investors' expectations (Wang *et al*., 2024). A fraudster's justification for perpetrating fraudulent activity is known as "rationalization." Given the typically substantial monetary stakes associated with financial statement forgeries, it is critical to proactively identify and prevent their occurrence. Fraudulent financial reporting is described as "the intentional misrepresentation of the financial condition of an enterprise through the intentional misstatement or omission of amounts or disclosures in the financial statements with the intent to deceive users of financial statements" (ACFE 2018).

Fraudulent financial reporting practices such as earnings management has been cited as the major reason behind these scandals (Bansal, 2024). This practice leads to hindering the economic development of the countries and lower investment from domestic and foreign investors [Eugster & Wagner, 2021). Moreover, companies have goals to earnings in an effort to sustain the continuity of businesses. Real earning management is a strategy that diverges from the regular operations used by the managers to deceive shareholders.

Financial statements are one of the outcomes of the accounting process that give information about the company’s performance and financial condition that is helpful to stakeholders in making decisions about the economy (Mesioye & Bakare, 2024). Financial statements are published by the company as a means of internal and external communication and management responsibility. According to the agency theory, divergence in the interests between the management (as an agent) and the shareholders (the principal), can lead to FFR (Jensen & Meckling 1976). This makes it possible for management to conceal facts that the principal is unaware of, which is what leads to fraud. The nexus between financial reporting and corporate scandals has led to greater focus on the role of corporate governance mechanisms in protecting shareholders with a specific focus on audit committee structure (McLaughlin *et al*., 2021; Akyol, 2020).

The purpose of financial statement analysis is to determine the financial condition and financial health in providing an overview of the company's development over time (Nurfadillah *et al.*, 2024). Hence stakeholders base their decisions and actions on financial statements. Relevance and precise disclosure are two fundamental information characteristics that underpin the financial reporting conceptual framework (Lastanti, 2020). Financial statements that are precisely disclosed contain comprehensive, neutral, and error-free information processes and accurately elucidate phenomena.

Fraudulent financial reporting has serious consequences for the organization and public trust in market capital, and it raises concerns about the credibility of the financial reporting process and calls into question the role of auditors, regulators, and analysts in financial reporting on a regular basis (Sijabat & Tamba, 2021). In recent years, there has been a lot of talk about fraudulent financial reporting. Fraudulent financial reporting can pose serious risks, including the erosion of public trust, particularly investor trust in the reliability of the financial information reported (Mesioye & Bakare, 2024). They also emphasized that fraudulent financial reporting undermines financial reporting's quality, dependability, transparency, and integrity.

Auditors play a crucial part on a global scale in assuring accurate financial reports by the upkeep and publication of high-quality financial reports with no manipulation

(Alsughayer, 2021). They do this by ensuring that trustworthy audit reports receive the necessary attention (Campbell *et al*., 2022). Users from a variety of backgrounds, including investors, shareholders, and the general public, have maintained their desire for reliable financial statements from the firms they deal with. On the other hand, the pressure of performance causes many firms to engage in fraudulent financial reporting in order to signal that they have sustainable financial health (Achmad *et al.,* 2022). This has resulted in different audit opinions being reached during audits, which has an impact on the quality and reliability of financial reports.

Alabdullah (2023) demonstrates that to guarantee the accuracy of financial reporting, the roles played by the company's audit committee which serve as its mechanisms of internal control, are extremely vital. Audit committees have a number of important responsibilities regarding the internal audit, some of which include conducting reviews of the internal audit program and making certain that the scope of the internal audit activities is adequate (Carcello *et al.,* 2002). Furthermore, Gramling *et al.,* (2004) argue that one of the four pillars that comprise corporate governance is the audit function

Audit committee are generally established by Companies Acts, securities exchanges guidelines or capital markets' corporate governance codes. It has been demonstrated by empirical literature that audit committee attributes may influence financial reporting quality. For instance, Olubukunola *et al*., (2016) reported a link between audit committee size and the quality of audits. The monitoring and oversight duties of the audit committee are more effective for organizations with smaller audit committees. The justification for this is that smaller boards allow for easier communication and, as a result, there are fewer bottlenecks in the decision-making process. However, Bedard *et al*., (2004) disagreed with this reasoning and argued that a large-sized audit committee would have better control and oversight functions, which would translate to improved audit quality as a result of having more hands to work. Saleh *et al*., (2007) found that the presence of a committee with at least four members has a strong inverse correlation with earnings restatement. The activities of the audit committee are an extremely important component of controlling and monitoring the process of financial reporting. It is argued that the frequency of meetings of the audit committee is the most important factor in determining its sufficiency and plays an essential role in addressing crucial organizational problems associated with management force vesting through large ownership. This is because the audit committee is responsible for ensuring that critical issues are addressed (Khemakhem & Fontaine, 2019). According to the findings of the Free *et al*., (2021), meetings of audit committees are at the center of the work, and it is necessary for the groups to hold the meeting at which their roles and responsibilities are defined. The regular meetings of audit committees are related with the improvement and openness of improved audit quality and lower the possibility of fraudulent financial reporting (Hasan *et al.,* 2020). The findings research conducted by Raimo *et al*., (2021), show that audit committee frequency of meetings may increase the likelihood of a high degree of quality while simultaneously decreasing the likelihood of restatements or reporting difficulties (Abbott *et al*., 2004). The majority of the material regarding the audit committee meeting was obtained through the use of the company's annual reports pertaining to corporate governance. It was disclosed in the annual report that the minimum number of meetings that should be held by the audit committee each year was two (Hermawan & Adinda, 2012).

The corporate audit committees' major mission is to manage the internal auditing process within the firm, offer quality assurance, and ensure the efficiency of financial reporting (Bananuka & Nkundabanyanga, 2023). In addition, the committees are responsible for ensuring that financial reports are accurate. These responsibilities are amenable to being handled by independent managers who have the necessary skills as well as substantial knowledge in accounting and finance (Abbasi *et al.,* 2020). It is anticipated that an audit committee with previous experience in accounting will be able to urge external auditors to carry out review procedures for an organization's internal control, which will result in an improvement in both the quality and efficiency of the auditing process and reliable financial statements. In addition, an audit committee that has experienced accountants on its staff has the ability to shield external auditors from dismissal in the event that they issue unfavorable or amended opinions (Al-Shaer *et al*., 2022).

It is expected that audit committees will hold regular meetings in order for them to be effective in the fulfillment of their oversight responsibilities (Almasria, 2022). Evidence suggests that audit committees that meets regularly is expected to do better because it has more time to deliberate and make choices (El-Deeb & Mohamed, 2024). Companies that have audit committees that meet regularly reported higher quality report (Mose, 2016). This improvement was attributed to increased transparency in reporting. They also discovered that audit committees that meet on a consistent basis are better able to carry out monitoring responsibilities than audit committees that meet only occasionally. They suggested that rather than being reactive in character, audit committee ought to be proactive if they are to be considered beneficial. In a similar vein, informal empirical research revealed that size criteria should be complementary to committee meetings. That instance, if the audit committee is comprised of a small number of people, their meetings will need to go longer in order for them to accomplish the same amount of work that a committee with a larger membership would likely complete in a shorter amount of time.

Research on gender diversity has found that having female directors on the audit committee results in a greater degree of objectivity on the part of the committee (Alkebsee *et al*., 2021). For example, research has shown that companies with gender-diverse audit committees are less likely to engage in tax avoidance, produce high-quality financial reports (Al-Shaer & Zaman, 2016), and engage in less earnings management (Yahaya, 2025) and corporate fraud (Wang *et al*., 2022). This lends credence to the idea that including female directors as members of the audit committee could contribute significantly to the committee's overall efficiency.

Since, studies on audit committee attributes and fraudulent financial reporting show mixed findings there is need to explore potential moderating factors such as firm size (Ginting & Hidayat, 2019). Furthermore, recent studies in corporate governance emphasize on firm size and it effect on f internal control systems (Cohen *et al*., 2002; Kaituko *et al*., 2023). For example, larger firm size can be a valuable resource for the audit committee in carrying out its responsibilities, and as a result, it can help the audit committee be more effective in its overall role (Merter & Özer, 2024). Furthermore, smaller firms are often more susceptible to financial misreporting due to their limited resources, weaker internal controls, and less scrutiny from regulators and investors (Down *et al*., 2023). They may engage in fraudulent activities to appear more profitable or financially stable than they actually are, especially if they are struggling to compete in the market. Conversely, larger firms tend to have more extensive resources, stronger internal controls, and greater transparency, which can deter fraudulent activities (Teguh & Kristanto, 2020). However, large firms may face their own challenges related to the complexity of their operations, which can create opportunities for sophisticated financial manipulation, potentially leading to an uptick in fraudulent reporting. Therefore, going by the empirical literature there may be an important relationship between audit committee characteristics, firm size and fraudulent financial reporting that is missing in existing literature, which requires further investigation.

1.1.1 East Africa Community listed firms

Nairobi Securities Exchange was established in 1954 as a regional exchange for Uganda, Kenya, Tanzania (then Tanganyika), and Zanzibar, making it the oldest exchange in the region. However, following the independence of these nations, the exchange ceased providing services to the securities markets of the other countries, thereby establishing itself as the inaugural Kenya Securities Exchange. By permitting the listing and trading of debt instruments, the Nairobi Securities Exchange rebrands itself as the Nairobi Stock Exchange, thereby increasing market liquidity. At this time, NSE functions as a limited liability company. As of December 2020, the Nairobi Securities Exchange had a total of 62 listed companies. In terms of market capitalization, the company held a total of Ksh 2,776.9 billion. The exchange comprises five market tiers, namely the Real Estate Investment Trusts (REITS) fixed income securities market segment, the Main investments market segment, the alternative investment market segment, and the Growth and Enterprise Market Segment (GEMS).

The regulations governing stock exchanges (1996) were promulgated by the Capital Markets Authority in accordance with the Capital Markets Authority Act (1996). Their purpose is to provide direction for the establishment and functioning of stock exchanges. The Uganda Securities Exchange (USE) commenced operations in 1998 subsequent to the regulatory modifications. During this period, the East African Development Bank listed a bond that reached its maturity date of December 2001. Since 2000, the exchange has been conducting equity transactions. December 2020 saw a total market capitalization of UGX 18,577.94 billion (USE annual report, 2010). As of December 2013, the Uganda exchange had a total of seventeen listed companies.

The fixed income securities market, the primary investment market segment (for large corporations), and the alternative investment market segment (for smaller corporations) comprise the three segments of the exchange. At present, transactions are carried out using an open outcry system, and their settlement occurs on a T+5 schedule. USE and the NSE have recently synchronized their listing, trading, and settlement policies and procedures. The establishment of an East African central depository system and electronic trading system is the objective of the three East African exchanges. Unlike the NSE and DSE, foreign investors in securities traded on the Uganda exchange are not subject to any particular restrictions. A number of statutes and regulations govern the Uganda Stock Exchange's operations. The oversight of the USE's regulatory compliance is predominantly carried out by the Uganda Capital Markets Authority, an entity endowed with authority under the Capital Markets Act (Cap 84).

As per the Capital Markets Regulations (1996), the exclusive responsibility of the USE is to manage a stock exchange. The regulator, known as the Capital Markets Authority, is entrusted with the responsibility of upholding stock exchange transparency. To achieve this, the authority gathers comprehensive information prior to a stock exchange's registration and conducts ongoing evaluations of operational developments.

In 1996, the Dar es Salaam Securities Exchange (DSE) was established in accordance with the 1994 Capital Markets and Securities (CMS) Act. However, the DSE commenced operations on April 15, 1998, and the inaugural companies to be listed were TOL Gas Limited and Tanzania Breweries Limited (TBL). To increase the maturity profile of government debt, the Tanzanian government issued two-year bonds in 1997, followed by five- and seven-year bonds in 2002. Initial listings of two- and five-year bonds on the DSE occurred in 2002; however, investment in these instruments is restricted to Tanzanian citizens. As of early 2005, the DSE also listed "corporate" bonds issued by the East African Development Bank and BIDCO, in addition to the bonds issued by the Tanzanian government. The DSE eased cross-listing restrictions in May 2003, permitting cross-listings by corporations headquartered in Kenya and Uganda, which are EAC partners. Kenya Airways became the initial company to cross-list on the DSE in 2004. The automated trading, clearing, settlement, and depository systems that Kenya had devised for the EAC region were implemented by the DSE in 2006. This should contribute to the enhancement of the market infrastructure of the Tanzanian exchange and aid in the augmentation of liquidity. Government securities predominate on the Tsh 10,533 billion minor bond market in Tanzania.

The re-registration of the Dar-es-Salaam Stock Exchange as a public limited company took place in 2015. The Dar Es Salaam Stock Exchange Limited was reorganized as the Dar Es Salaam Stock Exchange Public Limited Company. According to the DSE annual report for 2020, the market capitalization of the DSE was slightly above Tsh 16445.17 billion as of December 2020. As of September 2013, the exchange had thirteen listings for equity. At the moment, the DSE comprises a total of 28 listed enterprises.

Although the Rwanda Stock Exchange was established in January 2011, it was incorporated in 2005. The regulation of the RSE falls within the purview of the Capital Market Authority (CMA) of Rwanda, which was instituted in accordance with Law No.23 (2017). Prior to that, the RMA was referred to as the Capital Markets Advisory Council (CMAC), a body mandated by the Prime Minister on 28 March 2007 to provide preliminary guidance on the establishment of a capital market in Rwanda.

The portals of the stock exchange were opened for business on January 31, 2011. That day also marked the opening day of trading for Bralirwa, the sole brewery in Rwanda, represented by the symbol BLR. Since 2008, Rwanda has had an over-the-counter exchange; this was superseded by the Rwanda Stock Exchange, which listed two corporations: National Media Group (NMG) and Kenya Commercial Bank Group (KCB), both of which commenced operations on 2 November 2010.

In terms of the stock market, the Rwanda Stock Exchange (RSE) is home to ten operational companies, collectively valued at around USD 3,627 million (2020). The NSE, DSE, and USE are all members of the African Stock Exchanges Association, with which RSE maintains close partnership. The consolidation of the four stock exchanges into a single East African bourse is in the works. Five listed local and East African enterprises, three government fixed-income instruments, and one corporate fixed-income instrument are all traded on the RSE as of April 2014. RSE had ten listed companies as of December 2020, five of which were cross-listed.

1.2 Statement of the Problem

Numerous incidents involving financial fraud by the management company have brought financial reporting to the public. The WorldCom accounting scandals negatively impacted the trust of regulators in financial statements. The accounting scandals that occurred in the US companies like (Sunbeam, Cendant, Waste Management, WorldCom, and Enron), Comrade in Germany, 2008 financial crisis, and more recent cases such as Carillion. Over the last two decades, the FFR and corporate governance malpractices has had a substantial influence on the performance of companies listed in the East African Community (EAC). As a result, investors have suffered financial losses and their confidence has been eroded. Evidently, a number of companies listed on the NSE (Mumias Sugar Company, TransCentuary, Kenya Airways and Uchumi Supermarkets and National Bank of Kenya) have been put under receivership or delisted as a result of their non-compliance with CGCs and involvement in financial reporting gaps.

According to Abbott *et al.,* (2002), detection of fraudulent financial reporting in companies are determined by audit committee traits. These traits include audit committee independence, gender diversity, frequency of meetings and size. Lin, Li, and Yang (2006) outlines that the recommendations of the Blue Ribbon Committee of 1999 were aimed at strengthening the effectiveness of audit committees as it relates to quality reporting and eliminate fraudulent financial reportings.

While no definitive consensus has been reached, several trends and considerations have emerged (Kalbuana, *et al*., 2021). On one hand, larger firms, with their extensive resources, can potentially implement more robust internal controls and audit mechanisms to deter fraudulent activities. However, their size and complexity may also provide opportunities for sophisticated financial manipulation. In contrast, smaller firms often lack the resources and sophisticated internal controls of their larger counterparts, making them potentially more vulnerable to fraudulent financial reporting (Ruwanti *et al*., 2019). Nevertheless, they may also face less external pressure to meet market expectations. While audit committees are widely recognized as an essential component of corporate governance codes worldwide, empirical literature is still scanty on how specific attributes of audit committees can contribute to the prevention or reduction of corporate fraud/ scandals in developing regions (Sari *et al*., 2022; Indrati *et al*., 2021). Thus, in this study, the researcher makes an effort to bridge the gap in corporate fraud and corporate governance literature by examining the relationship between audit committee attributes and the likelihood of financial reporting fraud in EAC, which is a developing region. The researcher further expand the existing literature on audit committee and the likelihood of corporate fraud/scandal by exploring the moderating role of firm size. We conduct our analyses using F-SCORE to estimate the likelihood of financial statements fraud period 2012 to 2023. Also, by considering firm size, the researcher expand the current literature by offering empirical evidence that firm size influences the effectiveness of audit committees in mitigating FFR. Therefore, this study sought to determine whether firm size moderates the relationship between audit committee characteristics and fraudulent financial reporting among listed firms in East Africa Community.

1.3 Objectives

1.3.1 General Objectives of the study

The main objective of the study was to determine whether firm size moderates the relationship between audit committee characteristics and fraudulent financial reporting among listed firms in East Africa Community.

1.3.2 Specific Objectives of the study

The study specific objectives are shown below.

a) To examine the effect of audit committee gender diversity on fraudulent financial reporting among listed firms in East Africa Community
b) To determine the effect of audit committee frequency of meetings on fraudulent financial reporting among listed firms in East Africa Community
c) To examine the effect of audit committee expertise on fraudulent financial reporting among listed firms in East Africa Community
d) To assess the effect of audit committee size on fraudulent financial reporting among listed firms in East Africa Community
e) To establish the moderating effect of firm size on the relationship between;

    i. Audit committee gender diversity and fraudulent financial reporting among listed firms in East Africa Community

ii. Audit committee frequency of meeting and fraudulent financial reporting among listed firms in East Africa Community

iii. Audit committee expertise and fraudulent financial reporting among listed firms in East Africa Community

iv. Audit committee size and fraudulent financial reporting among listed firms in East Africa Community

1.4 Hypotheses of the Study

H_{01}: Audit committee gender diversity has no significant effect on fraudulent financial reporting among listed firms in East Africa Community

H_{02}: Audit committee frequency of meeting has no significant effect on fraudulent financial reporting among listed firms in East Africa Community

H_{03}: Audit committee expertise has no significant effect on fraudulent financial reporting among listed firms in East Africa Community

H_{04}: Audit committee size has no significant effect on fraudulent financial reporting among listed firms in East Africa Community

H_{05}: Firm size does not moderate the relationship between;

H_{05a}: Audit committee gender diversity and fraudulent financial reporting among listed firms in East Africa Community

H_{05b}: Audit committee frequency of meeting and fraudulent financial reporting among listed firms in East Africa Community

H_{05c}: Audit committee expertise and fraudulent financial reporting among listed firms in East Africa Community

H_{05d}: Audit committee size and fraudulent financial reporting among listed firms in East Africa Community

1.5 Significance of the Study

Understanding the dynamics of audit committees and their link with financial reporting is crucial for shaping effective regulatory frameworks and corporate governance policies. Policymakers can use the findings to develop or refine regulations that ensure audit committees are equipped with the right mix of expertise, independence, and size to mitigate the risk of fraudulent financial reporting. This is particularly important in the context of the EAC, where enhancing investor confidence and ensuring market integrity are vital for economic growth and stability. Additionally, the study's insights into the relationship between firm size and the likelihood of financial fraud can guide policymakers in creating tailored oversight mechanisms that address the unique challenges faced by both large and small firms in the region.

For investors, the study on audit committee characteristics and their influence on fraudulent financial reporting is of paramount importance. Investors rely heavily on accurate financial reports to make informed decisions about where to allocate their resources. The study provides valuable information on how different audit committee structures can either deter or fail to prevent financial misconduct, thus helping investors identify firms with strong governance practices. Moreover, understanding the correlation between firm size and the propensity for fraudulent reporting can help investors assess the risk profiles of different companies more accurately. This knowledge empowers investors to make more strategic decisions, potentially avoiding investments in firms with high fraud risk, thereby protecting their assets and ensuring better returns.

This study contributes significantly to the academic discourse on corporate governance, financial reporting, and fraud prevention. It provides understanding of how audit committee characteristics interact with firm size to influence financial reporting practices, particularly in the context of the East African Community, a region that is underrepresented in existing literature. The findings offer a foundation for further research, allowing scholars to explore the mechanisms through which audit committees can be optimized to prevent fraud. Additionally, the study opens up new avenues for cross-regional comparisons, enabling academia to develop more generalizable theories on the role of audit committees in different economic and regulatory environments. This research also serves as an important teaching resource, enriching the curriculum in business schools and fostering a deeper understanding of corporate governance issues among students

1.6 Scope of the Study

This research targeted non-financial firms listed in the EAC. Only non-financial companies that throughout the period between 2012 and 2023 were included. The study period was appropriate given that a number of publicly traded companies in EAC were placed into receivership or statutory as a result of corporate governance issues and corporate misreporting. The study was grounded on the fraud triangle theory and the agency theory. The study adopted the explanatory and longitudinal research design. The dependent variable was fraudulent financial reporting. The predictor variables were audit committee gender diversity, financial expertise, frequency of meetings and size. While firm size was employed as a moderating variable.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

This chapter discusses the concepts, theories, empirical literature, research gaps and finally presents a conceptual framework.

2.1 Concepts of the Study

2.1.1 Concept of fraudulent financial reporting

Fraudulent financial reporting denotes the intentional misrepresentation of a company's financial statements, whether by omission or exaggeration, in order to create a more favorable impression of the company's financial position, performance, and cash flow (Fridson & Alvarez, 2022). A black law dictionary defines fraudulent financial reporting as fraudulent financial reporting (Priantara, 2022). It is a report or statement that is untrue or is made carelessly without realizing or caring whether the report is true or false, with the intent of influencing the people who use the report and causing them to suffer losses. According to ACFE, Priantara (2022) defines fraudulent financial reporting as an intentionally incorrect description or financial presentation of an organization.

Accounting's role is becoming increasingly important in this globalization era, with financial reports generated from accounting information serving as the cornerstone of investment decisions. Unfortunately, fraudulent accounting information may lead to biased information being presented. This is commonly referred to as deception. Fraud is defined as a deliberate misstatement action (Sangkala & Safitri, 2022). On the other hand, fraudulent financial reporting, can be defined as a situation where corporate managers prepare financial reports in a manner that can mislead financial report readers about the firm's actual economic performance (Menicucci, 2020). Because of the importance of accurate financial reporting, there has been extensive debate about who is responsible for detecting and preventing fraud in financial reporting (Murdock, 2018).

In the form of audit comments, a bridge is thus created between the auditors' findings and those within and outside the company, which play an important role in warning users of financial statements to recognize the company's problems. If there are any objections or distortions, the audit company will not easily pass it, and the audit opinion will suffer as a result (Lotfi *et al*., 2023).

In this globalization era, the role of accounting is becoming increasingly important, with reports generated by accounting data serving as the foundation for investment decisions. Unfortunately, the information generated by accounting has flaws that can lead to biased information being presented (Sangkala & Safitri, 2022). This process is then commonly referred to as fraudulent financial reporting, in which management uses judgment in financial reporting and transaction settlement to mislead financial report readers about the company's economic performance (Menicucci, 2020). Ensuring high quality audit mitigates the adverse effect of financial misstatements. Therefore, since actual audit quality cannot be observed before or after an audit, a valid proxy is required when investigating the relationships between actual audit quality and other factors. Consequently, adherence with acceptance accounting principles and financial reporting standards is regarded important in the preventing fraudulent financial reporting (Efunniyi et al., 2024).

2.1.2 Audit committee Size

One important factor in preventing and identifying fraudulent financial reporting in a corporation is the size of the audit committee (Lastanti, 2020). An audit committee with a higher size may be able to provide a stronger oversight mechanism by offering more diversified experience and impartiality. Such a committee is more suited to examine and, if needed, contest management's financial reporting choices because it has a wider range of expertise and viewpoints. Additionally, it encourages improved member communication and openness, which promotes a fraud-aware culture (Persons, 2009). To keep the committee effective and concentrated on the most important financial monitoring issues, a balance must be achieved.

Smaller committee might be more competent and adaptable, but it might not have the diversity and experience needed to adequately handle the risk of fraudulent financial reporting. The ideal size for the audit committee should be determined by the size, complexity, and unique characteristics of the company's business (Huang & Thiruvadi, 2010). The qualifications and dedication of the committee's members, along with their active participation in examining financial reporting and internal controls, are crucial components of any successful audit committee in thwarting fraudulent financial reporting, regardless of the committee's size (Kamarudin *et al*., 2014). These elements can improve the audit process's quality and lower the likelihood of fraudulent financial reporting.

2.1.3 Frequency of Audit Committee Meetings

The frequency of audit committee meetings has been used as a stand-in for audit committee effectiveness in a number of studies. The Blue Ribbon Committee (BRC) discovered that better-governed companies have audit committee meetings more frequently (DeFond & Francis, 2005). According to Beasley *et al*., (2002), audit committees of companies accused of filing false reports had convened less frequently than those that hadn't. In a similar vein, Abbot *et al*., (2004) discovered that it was improbable that audit committees of companies obligated to restate their financial accounts had convened at least four times annually. The same authors also discovered a decreased fraud rate in the presence of more committee independence and regular meetings. In their analysis of 252 US companies, Abbott *et al.*, (2004) and Vafeas (2005) revealed that they discovered a positive correlation between the frequency of audit committee meetings and the caliber of reported earnings. However, Lin et al. (2006) discovered no correlation between the number of meetings, committee independence, and earnings re-statement incidents. According to McMullen and Raghunandan (1996) study reported that the audit committees of issue firms were less likely to consist solely of outside directors, to include a CPA, and to convene three or more times annually.

2.1.4 Audit committee financial expertise

Audit committee financial expertise is another attribute linked with audit committee effectiveness. According to the Blue Ribbon Committee (1999), the term expertise "signifies past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which result in the individual's financial sophistication including being or having been a CEO or other senior officer with financial oversight responsibilities."

Previous research contends that audit committees are a vital component of the board of directors' internal monitoring decision control system (Fama, 1980; Fama & Jensen, 1983) and identifies a number of audit committee responsibilities that are primarily concerned with enhancing shareholder wealth and company performance (Cadbury committee, 1992; Rickard, 1993; BRC, 1999; SOX, 2002; DeZoort et al., 2002; Cohen et al., 2011). On the contrary, this body of literature suggests that the effective execution of audit committee duties is hindered in the absence of independent directors and pertinent expertise on the committee. Sharma et al. (2011) observe that audit committee supervision and, by extension, the quality of financial reporting are compromised when audit committee characteristics such as expertise and independence are lacking. Additionally, it is worth mentioning that the presence of strong incentives and an independent mind do not ensure effective oversight in the absence of pertinent expertise (Mustafa & Youssef, 2010). As a result, audit committees prefer to delegate their responsibilities to an external auditor, according to Sharma et al. (2009), because they lack the knowledge, authority, and objectivity necessary to oversee management. Therefore, it is argued that the expertise of the audit committee serves as a foundation for and strengthens the audit committee's authority, which subsequently improves the quality of financial reporting by constraining the authority of management over numerous financial reporting processes (Kalbers & Fogarty, 1993).

A significant number of scholars have examined the nexus between audit committee financial expertise and financial reporting quality. For instance, McMullen & Raghunanthan (1996), using a sample of 121 companies with financial reporting problems to those without such problems, concluded that financial expertise is necessary in financial reporting. These studies conclude that the financial expertise of the audit committee significantly improves financial reporting quality (DeZoort & Salterio, 2001; Abbott & Parker, 2004; Carcello *et al.*, 2006; Saleh *et al.*, 2007). Furthermore, empirical continues to acknowledge the beneficial effects of directors with financial expertise, a notion that was previously confined to accounting and auditing expertise alone and not extended to other areas of financial expertise (DeFond *et al.*, 2005; Krishnan & Visvanathan, 2009). Research has demonstrated that audit committees comprised of directors with finance, accounting or auditing expertise are more likely to implement conservative accounting practices (Alves & Carmo, 2022) support external auditors reports (Saei *et al.*, 2023) promptly address material weaknesses (Manry *et al*., 2023), maintain high-quality accruals (Dhaliwal *et al*., 2006), prevent asset misappropriation (Mustafa & Youssef, 2010), and boost auditor independence (Kohlbeck & Wang, 2025).

2.1.5 Audit Committee gender

Audit committee gender diversity focuses on the creation of an equitable and all-encompassing representation of male and female members in this critical element of the governance framework of an organization (Oradi & Izadi, 2020). Gender diversity is an essential factor in ensuring the effectiveness of a firm’s internal corporate governance, as the audit committees are entrusted with the responsibility of supervising financial reporting, internal controls, and the audit process (Zalata *et al*., 2018). Corporate entities can enhance their capacity to handle complex financial and risk management matters by incorporating a diverse range of perspectives, experiences, and skills into their committees through the inclusion of individuals of both genders.

There are numerous benefits that firms can derive from gender-diverse audit committees (Velte, 2018). By integrating diverse perspectives, they can promote more effective decision-making processes, decreasing the likelihood of groupthink and improving the committee's capacity to recognize potential risks and obstacles. Furthermore, in accordance with wider societal patterns that promote inclusivity and equality, gender diversity enhances the organization's standing and rapport with its stakeholders (El-Dyasty & Elamer, 2023). Furthermore, empirical evidence indicates that the presence of audit committees and other facets of diverse leadership teams contribute to enhanced corporate performance and long-term viability.

Nevertheless, the endeavor to incorporate gender diversity into audit committees is not devoid of obstacles (Oradi & Izadi, 2020).

Gender theory posits that women play a crucial role in economic success (Waring, 1988). Furthermore, there exist ethical disparities based on gender. The gender socialization theory proposed by Dawson (1997) can effectively elucidate these disparities. This idea posits that women exposed to diverse ethical advances tend to adopt distinct values, resulting in varied perspectives and behaviors. For example, men may prioritize monetary gain, advancement, and authority, demonstrating a greater propensity for competitive environments, while women may focus more on social dynamics, execute their responsibilities more efficiently, and exhibit a higher likelihood of adhering to regulations (Geiger & Connell, 1999), potentially resulting in enhanced information quality (Carter *et al*., 2010). Furthermore, studies in the domain of group dynamics indicate that gender-diverse groups exhibit distinct performance outcomes compared to homogeneous gender groups, attributable to their varied experiences and views. Furthermore, social variety (including gender, age, and ethnic groupings) may hinder intergroup communication, escalate conflicts of opinion and arguments, and ultimately boost the efficacy of group decision-making (Ittonen *et al*., 2010).

Moreover, previous studies on gender diversity indicate behavioral distinctions between males and girls. For instance, females may exhibit superior communication abilities (Westphal & Milton, 2000) and are inclined to pose inquiries that men typically do not (Konrad *et al*., 2008). They may enhance decision-making and leadership style (Rosener, 1990) while placing greater emphasis on qualitative factors such as social responsibility, humanitarianism (Hafsi & Turgut, 2013), task orientation, and adherence to rules and regulations (Geiger & Connell, 1999).

2.1.6 Concept of firm size

Studies have shown that firm size can influence the likelihood of corporate malpractices such as fraudulent financial reporting (Ginting & Hidayat, 2019). Generally, a positive correlation exists, indicating that larger firms are often more capable of carrying out fraudulent financial reporting, particularly because of their complex and extensive operations (Yahaya, 2024). Larger companies may have more resources, a wider range of business segments, and greater accounting complexities, providing additional opportunities and cover for fraudulent activities (An et al., 2018). The sheer scale of their operations can make it challenging for regulators and external parties to detect irregularities promptly. However, it's important to note that these larger firms are often subject to more significant regulatory scrutiny and public visibility, which can act as a deterrent.

Conversely, smaller firms, due to their limited resources and less complex operations, may have fewer opportunities to engage in fraudulent financial reporting (Suryani *et al*., 2023). However, they can be more susceptible to financial misreporting due to their limited internal controls, which are often inadequate to detect and prevent fraud effectively. Smaller firms may resort to fraudulent practices to attract investors or secure financing in an attempt to appear more prosperous than they truly are (Santosa, 2020). In essence, the relationship between firm size and fraudulent financial reporting is multifaceted, influenced by factors such as operational complexity, regulatory oversight, and corporate governance practices.

2.2 Theoretical Review

The study will be guided by the following theories: Agency theory and fraud pentagon theory.

2.2.1 Agency Theory

Agency theory describes the relationship between shareholders and management as agents. This relationship begins with the formation of a corporation that clearly separates firm ownership and management. Management is a third party employed by shareholders to operate in their best interests. An agency relationship occurs as a result of a contract between the principal and agent that assigned certain decision-making authority to the agent, according to Jensen and Meckling in (Ahmad, 2017). Agency theory explains the contractual link between principal and agent.

The assumption of agency theory is that managers always act in their interests own best interests (Corsi *et al*., 2021). If both the principal and the agent are continuously looking for methods to maximize their own self-interests in this relationship, the agent may not always behave in the best interests of the principal. As a result, the principle is forced to take action against the agent in order to keep the agent in line with the principal's interests (Jensen & Meckling, 1976).

According to the agency theory, a firm is a web of contracts between the owners (principals) of and managers (the agents) employed to controlling and apply economic resources(Jensen & Meckling, 1976). The theory contend that agents are more privileged with private information compared to the principals; thus, creating a state of information imbalance (asymmetry). This information imbalance can adversely affect the principals' ability to control the agent from extracting private benefits from the firm. The theory asserts that the firms ought to have necessary structures to ensure performance of the contracts; through the exercise of managerial control to minimizes managerial opportunism (Jensen & Meckling, 1976). As per the theory, a wide-ranging contract is developed to address the interests of both the agent and the principal in order to balance their interests. The principal's use of an expert and mechanisms (auditors and control systems) to monitor the agent strengthens the agent-principal connection (Nikkinen & Sahlström, 2004).

Furthermore, the theory recognizes that any incomplete information about the agent's connection, interests, or work performance could be detrimental and a moral hazard. Moral hazard and adverse selection have two effects on the agent's output: not having the necessary knowledge about what should be done and not accomplishing exactly what the agent is appointed to do (Jensen & Meckling, 1976).

The audit committee is one of the corporate governance mechanisms meant to offer oversight over the financial reporting environment and guarantee that shareholders' interests are protected and prioritized (Mardessi, 2022). Under the agency paradigm, both the firm size and the audit committee bind the relationship between principals and agents. The firm size and audit committee are considered as bonding functions carried out by top management (agents) of a corporation to supervise their behavior in order to safeguard the shareholders' interests (principal) of an organization are being served and protected (Ismael & Roberts, 2018).

According to the literature and agency theory, the audit committee and its influence on audit quality are the most important corporate governance tools for decreasing managers' unethical acts, improving financial performance, and increasing the trustworthiness of financial reporting (Raimo *et al*., 2021). It has also been demonstrated that audit committee reduces earnings management in an organization and improve the quality of financial reporting (Almaqtari *et al.*, 2021; Safari Gerayli *et al.*, 2021). Alzoubi (2019) asserts that audit committees should oversee financial reporting systems in order to ensure accurate reporting of firm performance.

Poor corporate governance standards, a lack of effective control and monitoring mechanisms, and a failure to apply market and operational requirements all contribute to an ideal environment for managerial misconduct (Paruchuri *et al*., 2024). As a result, shareholder interests are neither safeguarded nor realized. Creating and maintaining an audit committee in a firm is an essential remedy that not only ensures effective and efficient managerial practices, but also maximizes profit and wealth for shareholders (Al-Matari *et al*., 2014; Alqatamin, 2018). The study applied this theory to argue that since corporate reporting is an internal control problem, an effective audit committee can mitigate fraudulent financial reporting. This is premised on the argument that audit committee effectiveness is influence by its attributes such as size, frequency of meetings, expertise and gender diversity

2.2.2 Fraud Pentagon Theory

In 2010, the American public accounting company, Crowe Horwath LLP, independently developed a novel hypothesis concerning the underlying factors contributing to fraudulent activities (Awodiran, 2022). The formulation of this theoretical framework arises from the recognition that Cressey's fraud triangle theory is considered inapplicable to present circumstances. Fraud Pentagon Theory posits that there are five fundamental components that underpin the act of fraud.

Among the components were pressure, opportunity, rationalisation, competence, and arrogance.. Pramudyastuti (2020) contends that fraud is not exclusively associated with the pursuit of money interests, but can also stem from the pursuit of accomplishment or status. Crowe (2010) introduced the concept of ability and arrogance based on his observations of employees who possess the capacity to disregard and deceive the internal control system, which he refers to as the fourth aspect, competence or capability. Meanwhile, he elucidated the conceitful nature of the presumption that employees who engage in fraudulent activities will not face any consequences for their behaviour due to their perception of being inherently superior to the current system.

The term "pressure" refers to an impulse that arises in a person as a consequence of several causes that convince him to act in a certain manner in order to fulfil his requirements. Fraud is not only conceivable when a person is depressed, but it is also possible when an opportunity presents itself to a person who is not under any great amount of stress. A person who rationalizes their actions is certain that they did not make a mistake. It is challenging to quantify this component because of the reasoning sense that one possesses. Competence can be defined as the ability of an individual to make advantage of the position that they possess; he has the power to break established laws and policies in an arbitrary manner. It is possible for a person to exhibit arrogance when they assume that the rules of the firm do not apply to them (Padayachee, 2021).

Figure 2. 1: Fraud Pentagon Theory

Source: Crowe Horwath (2012)

This theory is utilized in the study in order to establish a foundation for the outcome variable by stressing the role of managerial incentive in fraudulent financial reporting.

2.3 Empirical Literature Review

This study discusses empirical literature regarding audit committee gender diversity and fraudulent financial reporting, audit committee frequency of meetings and fraudulent financial reporting, audit committee financial expertise and fraudulent financial reporting, audit committee size and fraudulent financial reporting, firm size and fraudulent financial reporting and lastly moderating role of firm size and fraudulent financial reporting.

2.3.1 Audit committee gender diversity on fraudulent financial reporting

Wang *et al.*, (2022) using data from 2007 to 2018, investigated the role of gender diversity in fraud commission and detection with the goal of determining whether companies with more female corporate leaders are less likely to be involved in fraudulent financial reporting. The findings of the study confirmed that female corporate leaders increase the likelihood of fraud detection, reducing firms' proclivity to engage in fraud. The findings confirm that women in corporate leadership positions are more risk averse and committed to ethical practices than men. Female corporate leaders play a more positive role in preventing and detecting fraud.

Oradi and Izadi (2020) investigated the relationship between gender diversity on audit committees and the incidence of financial restatements using a sample of 683 firm-year observations from Iranian listed companies from 2013 to 2017. The authors discovered that having at least one female member on audit committees reduces the likelihood of financial restatements. This result was also confirmed by robustness tests. Furthermore, additional analyses revealed that independent and financial expert female audit committee members are more strongly associated with a decrease in financial restatements. Furthermore, the findings suggested that the presence of female audit committee members can increase the likelihood of hiring higher quality auditors. This study is consistent with the findings of Lai *et al*., (2017), who discovered that women in the AC in the United States contribute to audit quality by demanding more audit effort and selecting high-quality auditors. Similarly, Wahid (2019) discovered that board gender diversity is associated with a lower chance of financial manipulation in a sample of 6132 US enterprises from 2000 to 2010. These studies support the idea that women do better in monitoring roles.

Marzuki *et al.*, (2019) investigated the relationship between audit committee characteristics, board diversity, and Malaysian firms' proclivity to commit fraud. Their study found limited evidence to suggest that audit committee characteristics matter based on a matched-pair sample of 64 observations from 2002 to 2014. However, they discovered a link between the proportion of female directors and the likelihood of fraud. The findings emphasized the importance of the audit committee in terms of effectiveness, as well as the relative importance of female directors in Malaysia.

Based on a sample of 1112 firm-year observations and 3013 Key Audit Matters spanning the period 2017-2020, Bepari (2023) investigated whether audit committee characteristics such as audit committee members’ gender, audit committee members’ accounting and finance backgrounds, audit committee members’ industry expertise, and audit committee members’ legal expertise affect the number and content characteristics of Key Audit Matters disclosures. Their research used multivariable regression models to analyze the association between audit committee characteristics and important audit concerns. According to the study findings, when female audit committee members are present, auditors share more detailed information, identify more firm specific key audit matters, and produce more readable key audit matters.

Alhababsah and Yekini (2021) investigated the association between audit committee characteristics and audit quality while taking industrial experience, legal expertise, and gender diversity into account. The study’s conclusions emphasize the necessity of audit committee industry experience in maintaining excellent audit quality. However, the study found that audit committee legal knowledge and audit committee gender diversity have no significant effect on audit quality.

Although there is universal agreement that gender diversity on the board of directors for instance, increases performance, some data from management and behavioural literature suggests that gender diversity has a negative impact on teamwork. According to Earley and Mosakowski (2000), members of different genders converse less frequently because they are less likely to share the same viewpoints. Similarly, Tajfel and Turner (2004) and Williams and O'Reilly (1998) proposed that gender diverse groups are less cooperative and have larger emotional conflicts. Furthermore, according to some research, gender diversity is related with increased levels of conflict (Williams & O'Reilly, 1998) and decision-making delay (Carter *et al*., 2010).

According to Adams and Ferreira (2009), board gender diversity is negatively associated with financial performance. This conclusion supports the premise that excessive board monitoring might be detrimental to shareholder value (Adams & Ferreira, 2007).

2.3.2 Audit committee frequency of meetings on fraudulent financial reporting

McLaughlin *et al.*, (2021) used a sample of all firms investigated by the Financial Reporting Council through the audit enforcement procedure from 2014 to 2019, as well as two matched no-scandal firms, to examine audit committee characteristics that could be associated with the likelihood of corporate fraud. According to the study's findings, audit committee meeting frequency and audit member tenure both have positive associations with the likelihood of corporate scandal.

According to Ali and Kamardin (2018), one of the most significant ways for the corporation to keep an eye on itself is through the audit committee. It is a key aspect of maintaining financial policy and ensuring financial reporting quality and accountability (Zhang, Zhou, & Zhou, 2007). Regulators, for instance, have regularly voiced a strong preference for a frequent audit committee meeting. Prior studies have relied on the number of yearly audit committee meetings as a proxy for the audit committee's diligence because other metrics of diligence are not publicly visible (DeZoort et al., 2002). Prior research suggests that audit committees that meet regularly are more likely to be aware of current auditing issues and to be more attentive in carrying out their responsibilities. Carcello et al. (2002), as well as Goodwin-Stewart and Kent (2006), found a link between the number of audit committee meetings, audit fees and audit quality. According to the study therefore, audit committees that meet frequently are related with higher quality audits, as seen by higher audit fees.

The higher the level of audit committee meetings, the more active and participative the audit committee members are in audit committee meetings, contributing to greater financial reporting oversight hence minimum fraudulent financial reporting (Mbobo & Umoren, 2016). Audit committee members are expected to devote significant time to attending audit committee meetings in order for the meetings to be effective (Dhaliwal *et al*., 2006). The frequency of quarterly audit committee meetings has a good link with audit quality (Asiriuwa *et al*., 2018). The frequency of audit committee meetings is related to the increase in audit firm specialization and industry specialization for higher audit quality, particularly in earnings management (Abbott & Park, 2000).

2.3.3 Audit committee expertise on fraudulent financial reporting

Individuals with prior experience in accounting, supervision of financial professionals, and management of company performance, together with knowledge of generally accepted accounting principles and financial statements, and the capacity to assess the overall implementation of these principles in relation to accounting for estimates, are eligible to act as financial experts on the audit committee (Mustafa & Youssef, 2010).

In accordance with the findings of DeFond, Hann & Hu (2005), the audit committee must possess financial expertise, which can be shown by the possession of accounting qualifications or previous experience in accounting-related roles such as auditor, chief financial officer, controller, certified public accountant, or related positions.

Klein's (2002) study of 692 large publicly traded firms in the United States reported a negative correlation between the financial expertise of audit committees and misleading financial reporting. Kallamu and Saat (2015) argue that the efficacy of an audit committee is contingent upon certain characteristics of the composition of the committee. The existence of an audit committee alone does not ensure its efficacy. Furthermore, there exists a clear correlation between the degree of management control and the level of financial expertise present within the audit committee (Helland & Sykuta, 2005).

Bédard *et al.*, (2002) also reported a link between audit committee expertise and aggressive fake financial reporting. In the same line, Saleh *et al.*, (2007) found that having all audit committee will financial expertise decreased the likelihood of earnings manipulation.

A study conducted by Owens-Jackson *et al*., (2009) examined the correlation between audit committee attributes, the contracting process, and the probability of fraudulent financial reporting. The findings revealed that the probability of fraudulent financial reporting is inversely associated with the financial expertise of the audit committee, the frequency of audit committee meetings, and managerial ownership. Conversely, it is positively associated with the size of the firm and the opportunities for firm growth.

In their study, Kamarudin *et al*., (2014) examined the correlation between audit committee attributes (such as financial expertise, meeting frequency, gender diversity, and ethnic composition) and the inclination towards fraudulent financial reporting. The researchers analyzed data from 2005 to 2010 for 116 firms listed on the Bursa Malaysia, including both fraudulent and non-fraudulent entities. Their results indicate a favorable correlation between the financial competence of the audit committee and fraudulent financial reporting.

In a study of 692 major publicly traded US corporations, Klein (2002) found a negative correlation between the financial expertise of audit committees and the practice of earnings management. In their study, Kallamu and Saat (2015) found that the efficacy of audit committees is contingent upon several factors and is not only determined by the mere existence of the committee. Moreover, there is a positive correlation between the financial competence of the audit committee and the extent of managerial supervision (Helland & Sykuta, 2005).

Research conducted by Abott et al. (2004) and Agrawal and Chadha (2005) found that the likelihood of financial statement restatement is significantly reduced when the audit committee consists of financial specialists. The incorporation of financial experts into the audit committee has the potential to enhance the integrity of the financial balance sheets and reporting. Accounting companies (PWC, 1999) and regulators (SEC, 2003) have contended that possessing financial competencies is crucial in order to guarantee that audit committees effectively carry out their main duty of supervising the financial reporting process and improving the overall quality of financial reporting. This reasoning was founded on the notion that audit committees would be unable to carry out their responsibilities efficiently in the absence of it.

2.3.4 Audit committee size on audit quality

The audit committee size sets the specific number of directors on the audit committee. As the number of directors on the audit committee increases, their knowledge and expertise become more extensive and varied. Implementing this diversification enhances the supervision of the audit committee. The inclusion of more directors in the audit committee enhances the availability of information and expertise for the purpose of monitoring the quality of financial reporting (Yap & Foo, 2012). According to Mohd Ghazali (2014), the increasing number of members on audit committees reveals potential issues in the disclosure of corporate reporting.

The study conducted by Asiriuwa *et al*., (2018) examined the characteristics of audit committees and the quality of audit reviews. This study employed a deductive method, utilizing the ex post facto research design and the Binary probit regression model, to analyze the several hypotheses put forward. The research results indicate that there is a positive correlation between audit quality and key factors such as audit committee size, meeting frequency, number of specialists, and overall effectiveness. Only size and total effectiveness, however, showed a statistically meaningful relationship. The study suggests that due to the significant positive impact of audit committee effectiveness, which is represented by four criteria, it is advisable for firms to establish audit committees that possess all of these qualities.

In their study, Chukwu and Nwabochi (2019) employed the ordinary least square approach to investigate the impact of audit committee features on the regularity of corporate financial reporting within the Nigerian insurance industry. The results revealed a strong negative correlation between the frequency of audit committee meetings and the timeliness of corporate financial data reporting. Additionally, there existed a modest negative correlation between the gender of the audit committee, the independence of the audit committee, and the financial reporting of the corporation. Ultimately, the results indicated that the size of the audit committee had a positive but statistically insignificant correlation with the timeliness of company financial reporting. Moses (2016) asserts that the size of the audit committee plays a vital role in determining the committee's efficient operation. Consequently, the size of the audit committee must be accurately and suitably stated. Thus, the size of the audit committee should be substantial and include a greater number of members with expertise in accounting and finance to advantage the shareholders.

2.4 Moderator Variable

2.4.1 The Moderating role of firm size on fraudulent financial reporting

In their study, Ginting and Hidayat (2019) examined the impact of audit delay on various factors, including the scale of the audit firm, profitability, the magnitude of a fraudulent financial reporting, and the company itself. The research sample comprised agricultural and mining enterprises that were publicly traded on the Indonesia Stock Exchange during the period spanning from 2014 to 2017. The sampling method employed in this investigation is purposive sampling. The target population consists of 94 enterprises that have been selected in accordance with the predetermined criteria. The normality test, descriptive statistical analysis, Pearson correlation, and multiple linear regression analysis are the analytical methods utilized in this study. The findings suggested that neither the profitability nor the scope of the fraudulent financial reporting influenced the audit delay. However, both the scale of the company and the size of the public accounting firm significantly impacted the audit delay in a negative way.

A study was conducted by Al-Thuneibat *et al.*, (2011) to examine the impact of audit firm size and the duration of the audit firm-client relationship on audit quality in Jordan.

The study's sample comprised of all companies whose shares were publicly traded on the Amman Stock Exchange during the entire period of 2002-2006. A statistical analysis of the data revealed that the tenure of the audit firm had a negative effect on the quality of the audit. An extension of audit firm tenure leads to a decline in audit quality due to the increase in discretionary accruals. In contrast, further analysis of the data did not yield any significant findings on the influence of audit firm size on the correlation between audit firm tenure and audit quality.

Kim *et al*., (2003) investigated the correlation between firm size and corporate earnings management. They noted that the following factors influence earnings management differently: Large and medium-sized businesses are less likely to indulge in earnings management as a means of preventing the disclosure of losses than small and medium-sized enterprises. In contrast, in order to evade reporting earnings declines, large and medium-sized enterprises engage in more assertive earnings management practices than their smaller counterparts. Insofar as firm size is concerned, their findings provided additional insight into the analyses of Degeorge et al. (1999) concerning the manner in which behavioral earnings thresholds elicit particular forms of earnings management.

An empirical study was conducted by Suryani *et al*., (2023) to ascertain the impact of KAP magnitude and tenure on the ability to detect fraudulent financial reporting. Using a technique of purposive sampling, the research sample consisted of 140 manufacturing companies that were listed on the Indonesia Stock Exchange between 2014 and 2015. For data analysis, SPSS version 20 was utilized. In descriptive analysis, multiple regression was utilized. The study's results indicate that there was no significant relationship between the size of the audit firm, the tenure of the audit, and the indicators of fraudulent financial reporting.

Santosa (2020) sought to determine whether firm size moderates the relationship between Islamic firm value and financial characteristics. The research examined the moderating effect of firm size on the relationship between firm value and financial characteristics and corporate governance. The research employed secondary data obtained from financial statements and underwent a six-year analysis using the panel data method. The author found that the value of an Islamic firm is significantly impacted in a positive way by profitability, efficiency, and leverage, but neither liquidity nor the audit committee are affected. As a result of the reinforcing effect of firm size moderators on all independent variables, audit committees and liquidity have a positive impact on firm value. Islamic firm investors participating in the equity market ought to take into account the pivotal factor of firm size, alongside other pertinent attributes such as corporate governance and firm nature.

The study conducted by Mubeen *et al.*, (2021) aimed to investigate the correlation between chief executive officer (CEO) duality and the performance of the organization. The study centered on examining the moderating effects of firm size and corporate social responsibility (CSR) on this relationship. Datasets of listed Chinese businesses from the China Stock Market and Accounting Research database were utilized for this study. The empirical analysis revealed a statistically significant inverse correlation between CEO duality and firm performance. Additionally, they investigated how firm size (small and large) and CSR practices moderated the association between CEO duality and enhanced performance of Chinese firms. The study reported a significant and positive moderating effect were observed for CSR practices and large firms in relation to the relationship between CEO duality and firm performance. On the contrary, small firms exhibited a negative moderating effect on firm performance when CEO duality was present.

Ratnawati *et al*., (2019) examined the moderating influence of firm size on the relationship between tax aggressiveness and institutional ownership, the board of commissioners, and the audit committee. From 2014 to 2017, the manufacturing companies that were listed on the Indonesia Stock Exchange constituted the population for this study. Multiple regression analysis was employed to investigate the direct impact of the independent variables on the dependent variable through the application of data analysis techniques. In contrast, moderated regression analysis examines the moderating effect of business scale. The findings indicated that tax aggressiveness is influenced by both institutional ownership and the board of commissioners. Furthermore, the board of commissioners and institutional ownership were found to have an adverse impact on tax aggressiveness, according to this study. However, audit committee did not affect tax aggressiveness. Additionally, it was reported that the impact of institutional ownership and the board of commissioners on tax aggressiveness was moderated by the firm size.

2.5 Control Variables

2.5.1 Firm age and fraudulent financial reporting.

The study by Ginting and Hidayat (2019) examined the impact of audit delay on the profitability of the audit firm, the age of the company, and the occurrence of fraudulent financial reportings. The research sample comprised agricultural and mining enterprises that were publicly traded on the Indonesia Stock Exchange during the period spanning from 2014 to 2017. This investigation employed the sampling method of purposive sampling. The target population consisted of 94 enterprises that were selected according to the predetermined criteria. The normality test, descriptive statistical analysis, Pearson correlation, and multiple linear regression analysis were utilized in this investigation. The findings suggested that neither the profitability nor the scope of the fraudulent financial reporting influenced the audit delay. However, both the age of the company and the size of the public accounting firm significantly impacted the audit delay in a negative way.

In their study, Teguh and Kristanto (2020) sought to establish a correlation between a tendency for fraudulent financial reporting and company characteristics. From 2014 to 2018, the research data were obtained from the Indonesian Stock Exchange and Compustat. The study employed a logistic regression model to analyze the data. The results indicated that the tendency for fraudulent financial reporting is negatively correlated with the age of the company, its size, and the integrity of its management. In contrast to the initial hypothesis, the results of this study indicated a positive correlation between audit quality and a tendency for fraudulent financial reporting.

Huang, Rose-Green, and Lee (2012) investigated the correlation between the age of chief executive officers (CEOs) and the quality of financial reporting by companies. Financial restatements and the fulfillment or underachievement of analyst earnings projections are the aspects of financial reporting that are evaluated. Based on extant research, they hypothesize that older CEOs are associated with higher-quality financial reporting. Using a sample of 3,413 firms for the period 2005 to 2008, they found a positive association between CEO age and financial reporting quality. Specifically, they found that CEO age was negatively associated with firms meeting or beating analyst earnings forecasts and financial restatements. Their study therefore extended the corporate governance and financial reporting quality literature by identifying CEO age as a determinant of financial reporting quality.

2.5.2 Firm leverage and fraudulent financial reporting.

The correlation between fraudulent financial reporting, corporate governance, liquidity, leverage, and profitability was investigated by Baridwan and Mardiati (2018), with financial distress serving as a mediating variable. According to the 2016 report by the Association of Certified Fraud Examiners (ACFE), fraudulent financial reporting increased steadily between 2012 and 2016. It indicates that a greater number of businesses were motivated by financial statement deception. Financial distress served as a mediating variable in this study prior to the occurrence of the fraudulent financial reporting. The research utilized the fraud diamond theory in the application of quantitative research. The research demonstrated that profitability, leverage, the proportion of shareholders exceeding 3%, and the number of directors all contributed to financial distress. The research revealed that the likelihood of financial distress for a company decreases as its profitability increases. According to the research, financially distressed companies had a propensity to commit fraudulent financial reporting.

In their study, Izzalqurny *et al.*, (2019) sought to establish the correlation between financial ratios (comprising profitability, leverage, and liquidity), and the risk of fraud in financial statements; furthermore, they hypothesized that the quality of auditors could moderate this relationship. In addition to summarizing and inferring, this study utilized a population of manufacturing firms whose financial statements were published on the Indonesian Stock Exchange between 2016 and 2017. The research employed purposive sampling to obtain a study sample of 275 firm years. By way of a proxy Dechow F-score, the dependent variable represents the fraud risk of financial statements. In this study, the independent variables were profitability as measured by the ROA ratio, liquidity as determined by the ratio of total current assets to current liabilities, and leverage as calculated by the ratio of total liabilities to total assets. Using a fictitious variable, auditor quality serves as the moderating variable in this investigation. The hypothesis is examined through the implementation of moderated regression analysis (MRA). The results of this study indicate that financial liquidity ratios affected the fraud risk associated with financial statements, whereas profitability and leverage ratios have not been shown to influence financial report fraud.

The purpose of the study by A'yunin et al., (2019) was to determine how the corporate governance perception index (CGPI) and the size of the public accounting firm (KAP) influence the integrity of the financial statements of companies listed on the Indonesia Stock Exchange (IDX). The study encompasses data collection over a span of five years, from 2012 to 2016. Panel data regression analysis was utilized to examine the impact of KAP size, leverage, and corporate governance. As demonstrated by the outcome, leverage significantly compromises the reliability of financial statements. Nevertheless, neither the magnitude of KAP nor corporate governance significantly impact the reliability of financial statements.

2.6 Summary of Literature and Emerging Issues/Gaps

The users of financial statements rely on high quality information in managing the affairs of the firm by assessing the financial performance and position to make crucial business decisions, which contributes to global financial stability. The audit committee's role in overseeing internal control and the firm size has grown in recent decades as corporate governance mechanisms have evolved in response to dramatic scandals and failures. The audit committee oversees the work of internal auditors and collaborates with outside auditors. Internal Auditing Standards define internal auditors' roles and responsibilities for fraud. Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but they are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud, according to Institute of Internal Auditors Standards. The ACFE global study identifies the importance of internal audit in the prevention and detection of fraud, stating that internal audit is critical in catching frauds early and limiting their losses. The most common detection technique for scenarios of fraud cases, according to the same study, is tips, followed by management review and internal audit. It is therefore clear from the reviewed literature that the firm size is one of the main components of corporate governance system and should not be underrated.

Reviewed studies have given limited attention to the role of audit committee characteristics and the importance of the firm size on how they can influence fraudulent financial reporting. This study is therefore significant because identifying audit committee characteristics and the role of firm size of an organization as associated with fraudulent financial reporting adds another dimension to improving the quality of financial reporting (See et al., 2020). Consequently, contributes to the literature by examining whether the effect of audit committee characteristics on financial reporting fraud is moderated by the firm size.

2.7 Conceptual Framework

A conceptual framework is a pictorial relationship between the dependent and independent variables. It presents the relationship between the dependent and independent variables of the study in a diagrammatic form. The independent variables of this study were audit committee gender diversity, audit committee frequency of meetings, audit committee financial expertise and audit committee size while the dependent variable will be fraudulent financial reporting. The moderating variable in this study was firm size. The conceptual framework is clearly presented in the figure 2.1 below:

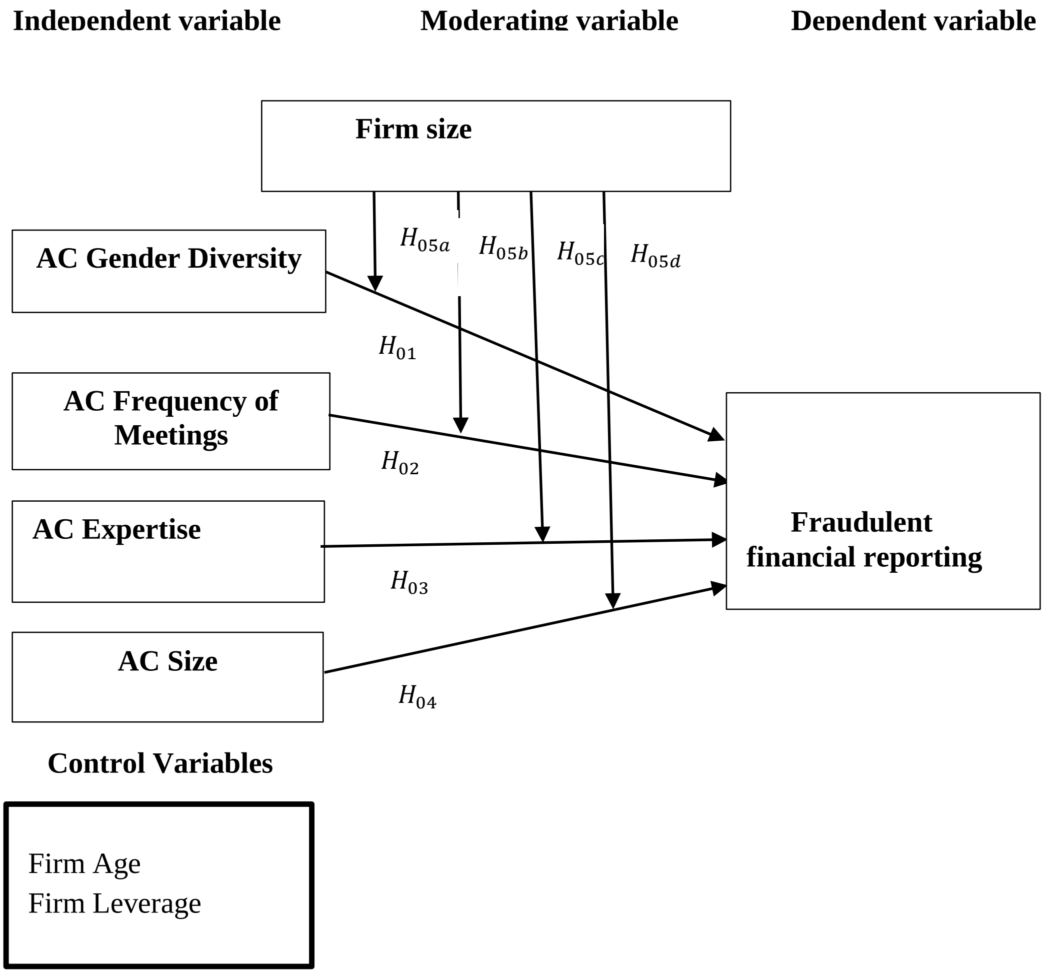

Figure 2.2: Conceptual Framework

Source. Author (2024)

Table 2. 1: Summary of Empirical Review and Gaps in Knowledge Identified

Authors	Topic	Methodology	Findings	Knowledge Gaps
Wang *et al*., (2022)	Gender diversity and fraudulent financial reporting	bivariate probit model	The finding confirms that women are risk averse and more committed to ethical practices than men in corporate leadership positions. Moreover, this impact of gender diversity is contingent upon the nature of ultimate controllers of listed companies: more female representation in top leadership roles can mitigate fraud commission or detect fraud effectively in non-state-owned enterprises, but not in state-owned enterprises.	The reviewed study was done in Chinese listed companies from 2007 to 2018. The study considered only gender diversity as the independent variable. Additionally, the study employed bivariate probit model as data analysis tool. The current study was done in East Africa community, with the main objective being the determination of the moderating effect of firm size on the relationship between audit committee characteristics and fraudulent financial reporting. The current study employed four independent variables i.e gender diversity, frequency of meetings, audit committee financial expertise and committee size. The current study also utilized the hierarchical model.
McLaughlin *et al*., (2021)	Audit committee diversity and corporate scandals: evidence from the UK	The findings were analysed by use of logistic binary regression analysis	The study showed that audit member tenure and audit committee meeting frequency both have positive associations to the likelihood of corporate scandal.	The study was done in UK between 2014 and 2019 and utilized logistic binary regression analysis. The current study employed the hierarchical model and also had both independent variable and the moderator variable. Lastly the current study was done up to the year 2022.
Asiriuwa *et al*., (2018)	Audit Committee Attributes and Audit Quality: A Benchmark Analysis	The study applied the deductive approach via the expost facto research	Findings from the study revealed that audit committee size, frequency of meetings, number of expertise and overall effectiveness all have a	The study was conducted in Nigeria with the sole intention of investigating audit committee attributes on audit quality utilizing a binary probit regression. This

		design and the Binary probit regression model	positive relationship with audit quality. However, only size and overall effectiveness was significant in their relationship.	study endeavoured to apply the same regression model to confirm the moderating role of firm size on the relationship between audit committee characteristics and fraudulent financial reporting between 2007 and 2022 period. The current study was done in East Africa Community. Additionally, the choice of variables was different from the current study. The current study also employed a moderator variable which was firm size.
Ginting and Hidayat (2019)	The Effect of a Fraudulent financial reporting, Firm Size, Profitability, and Audit Firm Size on Audit Delay	The sampling technique utilized in this research is purposive sampling. Based on the predetermined criteria, 94 enterprises have been obtained as the target population. Analytical techniques employed in this research are the normality test, descriptive statistical analysis, Pearson correlation, and multiple linear regression analysis.	The results indicated that the scope of the fraudulent financial reporting and profitability did not affect the audit delay	The study utilized firm size as an independent variable. Data used was primary data. However the current study will use firm size as a moderator variable and secondary data will also be used. Additionally, the current study employed hierarchical regression model while the Ginting and Hidayat (2019) employed normal regression model
Santosa (2020)	The Moderating Role of Firm Size on Financial Characteristics and Islamic Firm Value at	This study uses secondary data from financial statements and analyzed by the panel data method for six years.	The study found leverage, profitability, and efficiency have a significant positive effect on Islamic firm value, but the liquidity and audit committee do not affect. Firm size	The study was done in Indonesian equity market. The current study was conducted in East Africa community between 2007- 2022. Additionally, the choice of independent variables and dependent variable were

	Indonesian Equity Market		moderators provide a reinforcing effect for all independent variables so that liquidity and audit committees have a positive effect on firm value.	different from the current study that utilized audit committee characteristics and fraudulent financial reporting respectively. Only the moderator was similar between the two study.
Al-Thuneibat, Issa, and Baker (2011)	Do audit tenure and firm size contribute to audit quality?: Empirical evidence from Jordan	The study used the quadratic form approach.	Statistical analysis of data shows that, audit firm tenure affects the audit quality adversely (negatively). Audit quality deteriorates, when audit firm tenure is extended as a result of the growth in the magnitude of discretionary accruals. Meanwhile, data analysis did not reveal that the audit firm size has any significant impact on the correlation between audit firm tenure and audit quality.	The study was conducted by applying quadratic form approach while this study will employ hierarchical model. Additionally, this study employed different independent variables from the current study. The current study also used firm size as a moderator.
Kamarudin *et al.*, (2014)	The Effects of Audit Committee Attributes on Fraudulent Financial Reporting	The sample includes 116 fraudulent and non-fraudulent firms listed on Bursa Malaysia from 2005 to 2010.	Results revealed that audit committee independence was positively associated with fraudulent financial reporting	This study was conducted in Malaysia. The proposed study therefore used hierarchical regression model which is different from what was employed in that study. Additionally, the current study focused on Manufacturing firms in East Africa Community. Firm size was also used as a moderator in this proposed study.
Ali and Kamardin (2018)	Audit Committee Characteristics and Real Earnings Management: A Review of Existing	The current paper reviews the studies that examined the relationship between ACCs and REM during the last ten years period (2008 – 2017). The	The study concluded that the role of audit committee characteristics in mitigating REM is ambiguous as the results were inconsistent	The study used independent variables and dependent variable only. There was no moderator employed. Additionally, the study was a review of existing literature. The current study will be conducted in East Africa Community with an intention of

	Literature and the New Avenue of Research	review organised based on the ACCs (size, independence, financial expertise, meeting, tenure, additional directorship, stock, chair characteristics).		investigating the moderating role of firm size on the relationship between audit committee characteristics and fraudulent financial reporting. The study period will run from 2007 to 2022 and the firms that will be used are Manufacturing firms.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Overview

The chapter focuses on research design, target population, measurements of the variables of the study, data analysis, diagnostic regression assumptions, and the ethical consideration.

3.1 Research Design

A research design is the conceptual framework within which actual research is carried out; it serves as the blueprint for the collection, measurement, and interpretation of data (Kothari, 2004). The procedures for acquiring evidence, evaluating data, and presenting results are the components of research design. Other components of research design include study strategies, tools, and methodologies. The methodology of longitudinal and explanatory research was utilized for this investigation. Because it requires the collection of numerical data on a single variable over the course of a considerable amount of time, this research strategy is seen as being appropriate. Additionally, explanatory research investigates the cause effect relationship among the variables of the study. Longitudinal design it takes into account a panel data set over a ten-year period beginning in 2012 and ending in 2023, this design is therefore suited for the study being conducted.

3.2 Target Population

Ngechu (2017) defines a population as a clearly delineated collection of individuals, services, elements, events, and groups or households that are the subject of investigation. It refers to all the members who meet the criteria specified for a research study (Willie, 2022). Hence, the target population consists of a group of elements that provide the basis for generalizing study findings. The sample for this study comprised all non-final publicly traded companies in the partner states of East Africa Community: the Nairobi Securities Exchange (NSE), Uganda Securities Exchange (USE), Rwanda Stock Exchange (RSE) and the Dar es Salaam Stock Exchange (DSE). The Federal Republic of Somalia joined EAC in November, 2023. While, Burundi, Democratic Republic of Congo and South Sudan are excluded since they lack a functional securities/stocks exchange.

3.2.1 Inclusion and Exclusion Criterion

The firms were selected using three criteria. The primary criterion for evaluation was whether the firm's continuity of operation during the designated research timeframe spanning from 2012 to 2023. The second criterion stipulates that the organization must possess comprehensive data and must not have undergone substantial restructuring, such as mergers or acquisitions, during that period, as this may compromise the data's consistency. The final criterion takes into consideration cross-listed firms in the EAC, for which the financial performance data from their consolidated accounts in the country of origination was utilized in this analysis.

3.3 Data Types and Sources

The data for the study was extracted from secondary sources such as annual reports and financial statements provided by companies that are registered with the various securities exchange in Kenya (NSE), Uganda (USE), Tanzania (TSE) and Rwanda (RSE) as well as the African financial security exchange. In addition, the process of data collection was guided by a schedule designed specifically for that purpose.

According to Greenhoot and Dowsett (2012), secondary data are useful not only for improving comprehension and elaborating on the research issue at hand, but also for providing additional information that may be used to assist in the problem-solving process. The use of secondary data sources can save a researcher both time and resources, as well as provide them with data that is comparable and relevant, lead to unexpected discoveries, and are relatively simple to use.

3.4 Measurement of Variables

The goal of this study was to determine how firm size effects the link between audit committee members' attributes and fraudulent financial reporting in listed firms in East Africa. The variables in the study were categorized as independent, moderating, controlling, and dependent, and their quantification were as follows:

3.4.1 Dependent Variable

3.4.1.1 Fraudulent financial reporting

Dechow F Score is a financial report fraud detection model developed using a scaled logistic probability technique (Marais et al., 2023; Sørensen, 2025; Dechow *et al*., 2011). The score of F can be counted using the following formula: Predicted : -7.893 + 0.790 (RSST_Acc) + 2.518 (ch_rec) + 1.191 (ch_inv) + 1.979 (soft_assets) + 0.171 (ch_cs) + (-0.932) (ch_ROA) + 1.029 (issue)

RSST Accruals

This variable measures the changes of current assets with the formula as below:

RSST = ΔWC + ΔNCO + ΔFIN Average Total Assets

WC = [Current Assets – Cash and Short term Investment] – [Current Liabilities – Debt in Current Liabilities]

NCO = [Total Assets – Current Assets – Investment and Advances – [Total Liabilities – Current Liabilities – Long term Debt]

Fin = [Short-term Investment + Long-term Investment] – [Long-term Debt + Debt in Current Liabilities + Preferred Stock]

Average Total Asset = Total Asset t + Total Asset t-1/2

Changes in Receivables

Changes in receivable from last year to this year are scaled against the average of total assets. It indicates a big change in accounts receivable that shows the income and income manipulation. The changes in accounts receivable formulated with the following model:

Ch_Rec = Account Receivables Average Total Assets

Changes in Inventories

The change in inventory from last year to this year is scaled against the average of total assets. Big changes in inventory can indicate a surplus, shortage, obsolescence, or liquidation. The change in inventory is obtained by the following formula:

INV = ∆ Inventory Average Total Assets

Percentages of Soft Assets

This measure is as total assets minus total cash and cash equivalents (scaled against total assets). The ratio of the current asset can be obtained with the following formula:

Soft Assets = Total assets – PPE – Cash and cash equivalents Total Assets

Changes in cash sales

This measure is the change percentage in cash sales from last year to this year. The formula used to get the change in cash sales are as follows:

Cash Sales = Salest - ∆ Accounts Receivables t Salest-1∆ Accounts Receivablest-1

Changes in Return on Assets

This measure is the percentage calculated as revenue divided by total assets this year less than the same measure last year. Volatile income might be an indicator of revenue manipulation. The formula is as below:

Change ROA = earnings – Average total asset earnings-1 – Average total asset-1

Issuance

This measure is a dummy variable that is 1 if additional securities were issued during the year of the manipulation and 0 if there are no securities issued.

Issuance = 0 or 1 (Score = "1" if bonds or shares are issued).

The computed VALUE is converted to a probability as follows

Prob (FFR) = $\frac{e^{logit}}{1+e^{logit}}$

The resulting probability is then divided by the unconditional probability of misstatement (=0.0037) to obtain the FSCORE. An F-Score of 1.00 indicates that the firm has the same probability of misstatement as the unconditional expectation (the probability of misstatement when randomly selecting a firm from the population). F-Scores greater than one indicate higher probabilities of misstatement than the unconditional expectation. F-Scores less than one indicate lower probabilities of misstatement than the unconditional expectation.

3.4.2 Independent Variable

3.4.2.1 Audit Committee Gender Diversity

Audit committee gender diversity is the proportion of women in the committee. Hence, audit committee gender diversity was measured as follows (Boukattaya et al., 2024).

$$ACGD = \frac{Number\ of\ female\ in\ the\ committee}{total\ number\ of members\ in\ the\ audit\ committee}$$

3.4.2.2 Audit Committee Frequency of Meetings

Audit committees are expected to hold regular meetings in order to fulfill their oversight responsibilities in an efficient manner (Abbott et al. 2002). Casual empirical evidence suggests that a group or committee that meets regularly is expected to do better than a group or committee that does not, because it is expected to have more time to think and make choices than the group or committee that does not meet consistently. This variable was measured as shown below (Vafeas & Vlittis, 2024).

$$ACFM = Natural\ of\ meetings\ held\ by\ the\ audit\ committee\ in\ a\ year$$

3.4.2.3 Audit Committee Expertise

Kibiyaa *et al*., (2016) also emphasized that knowledge, skills, and experience in accounting and finance among audit committee member can improve quality of the financial report. This variable will be measure as the proportion of audit committee members with accounting and finance skills (Wiroonratch & Tripipat, 2023).

$$ACFE = \frac{Number\ of\ members\ with\ accounting\ and\ finance\ skills}{Audit\ committee\ size}$$

3.4.2.4 Audit Committee Size

Within the scope of this investigation, the term "size of the audit committee" refers to the number of individuals that are included on the committee (Asiriuwa *et al*., 2018).

$$ACS = Natural\ logarithm\ total\ number\ of\ members\ in\ the\ audit\ committee$$

3.4.3 Moderating Variable

3.5.1.1 Firm Size

Firm size was the study's moderating variable. Going by earlier studies firm size will be measured as the natural logarithm of the total assets (Chindasombatcharoen *et al*. ,2022; Mnzava, 2023).

3.4.4 Control Variable

3.4.4.1 Firm Age

Firm age was measured by the natural logarithm of the number of years since incorporation (Arvanitis *et al.*, 2022).

3.4.4.2 Firm Leverage

This study measured a firm's financial leverage as the ratio of longterm debt to total assets (Arhinful & Radmehr, 2023).

3.4.4.3 Firm Performance

firm performance is measured as the return on Assets (ROA) (Githaiga & Kosgei, 2022; Githaiga, Kabete & Bonareri, 2022). ROA is an indicator of a company's efficiency in generating income from its assets.

Table 3. 1: Measurement of Variables

Research Variable	Formula
Fraudulent Financial Reporting	F score test
Audit Committee Size	The natural logarithm of the total number of audit committee members
Frequency of Audit Committee Meetings	Measured as the natural logarithm of the total number of audit committee meetings per year
Expertise of Audit Committee	Ratio of the number of audit committee members with expertise in financial and accounting to audit committee size
Gender diversity of Audit Committee	The ratio of female members constituting the committee
Control Variables	
Firm Leverage	Measured by dividing a firm's total debt by the total assets
Firm Performance	Measured as the ratio of net profit to total assets.
Firm Age	Firm age was measured as the natural logarithm of the number of years since incorporation
Moderating Variable	
Firm Size	Measured as logarithm of the total firm's total assets

Source, Author (2024)

3.5 Data Analysis and Presentation

The data obtained was examined using a variety of different methods of data analysis. This section provides a concise overview of each of these extremely important operations. To perform the analysis on all of the data, STATA version 16. STATA is an important package since it provides extensive data manipulation capabilities as well as several statistical analysis techniques that are able to analyze data sets ranging in size from very small to extremely large (Kabir *et al*., 2022).

3.5.1 Descriptive Statistics

The purpose of descriptive analysis is to presents the data in a manageable form in such a way that salient points can be deduced from the data (Adeniran & Jahankhani, 2021).

Descriptive statistics facilitate the researcher's task of practically simplifying bulky data sets by condensing them into more manageable quantities for each variable. The study summarized the data through mean, Standard deviation, skewness, kurtosis, minimum and maximum values.

3.5.2 Inferential Statistics

The purpose of inferential statistics is to answer or test the hypotheses. The study applied both correlation and regression analysis (Salas-Parra et al., 2023). Correlation analysis investigates the degree of relationship that exists between two or more variables (Taylor, 1990). In statistical modeling, correlation is the initial step in determining how the independent variables are connected to the dependent. While, the purpose of regression analysis is to find out the functional relationship between the dependent variable and the independent variables (Annas et al., 2021). This study employed logistic regression model to test for hypothesis using a 5 percent level of significance. The logistic regression was used because the outcome variable was binary.

3.6 Model Specification

Panel data spanning the years 2012–2023 was utilized. In order to test hypotheses, a multiple regression analysis was carried out. A hierarchical multiple regression models was utilized in the research in order to investigate both the direct and moderating effects (Kaituko *et al*., 2023). In order to test the hypotheses, the researcher employed a number of different hierarchical linear regression methods. In order to conduct an analysis of the panel data, the following model parameters and regression equations were utilized.

Model 1: Testing the effect of control variables

$FSF_{it} = \beta_0 + \beta_1 FAge_{it} + \beta_2 FLev_{it} + \varepsilon_{it}$…………………………………………**Model 1**

Model 2: Testing for direct effect

$FSF_{it} = \beta_0 + C + \beta_1 ACGD_{it} + \beta_2 ACFM_{it} + \beta_3 ACFE_{it} + \beta_4 ACS_{it} + \varepsilon_{it}$ ………**Model 2**

Model 3: Testing the effect of the moderator

$FSF_{it} = \beta_0 + C + \beta_1 ACGD_{it} + \beta_2 ACFM_{it} + \beta_3 ACFE_{it} + \beta_4 ACS_{it} + \beta_5 FSit + \varepsilon_{it}$ …….**Model 3**

Model 4: Testing for first interaction

$FSF_{it} = \beta_0 + C + \beta_1 ACGD_{it} + \beta_2 ACFM_{it} + \beta_3 ACFE_{it} + \beta_4 ACS_{it} + \beta_5 FS_{it}$

$+\beta_6 ACGD_{i}\_FS_{it} + \varepsilon_{it}$ …………………………………………………………. **Model 4**

Model 5: Testing for second interaction

$FSF_{it} = \beta_0 + C + \beta_1 ACGD_{it} + \beta_2 ACFM_{it} + \beta_3 ACFE_{it} + \beta_4 ACS_{it} + \beta_5 FS_{it}$

$+\beta_6 ACGD_{i}\_FS_{it} + \beta_7 ACFM_{it}\_FS_{it} + \varepsilon_{it}$ ………...……..…………….….………...**Model 5**

Model 6: Testing for third interaction

$FSF_{it} = \beta_0 + C + \beta_1 ACGD_{it} + \beta_2 ACFM_{it} + \beta_3 ACFE_{it} + \beta_4 ACS_{it} + \beta_5 FS_{it}$

$+\beta_6 ACGD_{i}\_FS_{it} + \beta_7 ACFM_{it}\_FS_{it} + \beta_8 ACFE_{it}\_FS_{it} + \varepsilon_{it}$ ……..………………… **Model 6**

Model 7: Testing for fourth interaction

$FSF_{it} = \beta_0 + C + \beta_1 ACGD_{it} + \beta_2 ACFM_{it} + \beta_3 ACFE_{it} + \beta_4 ACS_{it} + \beta_5 FS_{it}$

$+\beta_6 ACGD_{i}\_FS_{it} + \beta_7 ACFM_{it}\_FS_{it} + \beta_8 ACFE_{it}\_FS_{it} + \beta_9 ACS_{it}\_FS_{it} + \varepsilon_{it}$……….**Model 7**

FSF = Fraudulent financial reporting of firm i at year t

ACGD = Audit committee gender diversity of firm i at year t

ACFM = Frequency of audit committee of firm i at year t

ACFE = Audit committee financial expertise of firm i at year t

ACS = Audit committee size of firm i at year t

FS = Firm size of firm i at year t

C = Control variable (Firm age, Firm Size and Firm Leverage)

$\beta 1 \ldots \beta 5$ = Coefficients of the equations

t = Time

i = Firm

ε = error term

3.7 Assumption of Logistic Regression

3.7.1 Multicollinearity

Multicollinearity is the existence of a perfect or exact linear relationship among some or all of the explanatory variables in a regression model, as stated by Gujarati (2022). It happens when one or more of the independent variables are strongly correlated, which leads to a number of challenges in recognizing the relevance of the individual predictor variables in the regression model. It can also occur when one or more of the dependent variables are highly correlated.

The research utilized variance inflation factor (VIF) and a correlation matrix of explanatory variables to measure the extent of multicollinearity in OLS analysis. The correlation coefficient between two independent variables needed to be less than 0.8. As a general rule, the Variance Inflation Factor (VIF) of a variable must be less than 10 in order to draw the conclusion that multicollinearity does not influence the regression outputs. In the event that multicollinearity is present, predictors with a high degree of correlation will be eliminated.

3.7.2 Model specification test

The study tested for model specification using the Hosmer-Lemeshow of fit test. The null hypothesis states that the model is not mis-specified while the alternative hypothesis states that the model is mis-specified.

3.8 Ethical Consideration

The researcher was objective by basing data presentation, analysis, and interpretation solely on the collected data. The School of Graduate Studies at Moi University evaluated the proposal for ethical approval. After obtaining these approvals, the researcher requested permission to acquire and analyze data from the National Commission for Science, Technology, and Innovation (NARCOSTI).

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Overview

This chapter covers the result of the study. The findings are provided in four important sections; descriptive statistics, diagnostic tests, correlation analysis and hypothesis testing.

4.1 Descriptive Statistics

Table 4.1 reveals that the mean FFR of companies in the EAC is 0.2115 and with a standard deviation rate equivalent to 0.4109. The standard deviation shows high variability in FFR across the selected firms. Table 4.1 shows that the average AC size is 3.74 (e1.39199) with a standard deviation of 0.279. On average AC has four members. Further the mean AC financial expertise was 0.814. This suggests that a majority of AC members have knowledge in finance and accounting. Table 4.1 illustrates that the gender of audit committee mean is 0.187 with a standard deviation of 0.232, the minimum is 0.000000 and with a maximum of 1.000. The table further reveals that the mean AC meetings per year was 3.711 (e^1.3113), approximately 4 meetings. This shows abide by the meeting of the audit committee in the EAC companies around the stage specified in the corporate governance code, which is four meetings at least for the audit committee members in the year. The mean firm size is 13.488 (logarithm of total assets. The mean firm age and leverage were 39.99 years (e^3.6888) and 0.487 respectively.

Table 4.1: Descriptive statistics results

Variable	Obs	Mean	Std. Dev.	Min	Max
FSCORE	396	.2142857	.4106315	0	1
FA	396	3.324462	.8905652	0	4.844187
LEV	396	.4865113	.2869015	0	1
ACGD	396	.186527	.2316711	0	1
ACFM	396	1.312126	.2862499	0	2.079442
ACFE	396	.8207991	.236563	0	1.666667
ACS	396	1.391537	.2858342	.6931472	2.397895
FS	396	13.48454	1.13752	10.90831	18.41011

Source: Field data, 2024

4.2 Correlation Analysis

Pearson correlation coefficient was used to determine the link between the dependent variable and the independent before performing the logistic regression analysis. Correlation analysis seeks to determine the strength and nature of the association between a study's variables. The coefficients of the correlation analysis are presented in Table 4.2.

There is a weak positive correlation between firm age and likelihood of fraudulent financial reporting ($r = 0.1111^*$, $\rho<0.05$), suggesting that older firms have a slightly higher likelihood of fraudulent financial reporting. There is a weak positive correlation between firm leverage and likelihood of fraudulent financial reporting ($r = 0.1786^*$, $\rho<0.05$), indicating that firms with higher leverage are somewhat more likely to engage in fraudulent financial reporting. There is a weak negative correlation between audit committee gender diversity and likelihood of fraudulent financial reporting ($r = 0.1438^*$, $\rho<0.05$), suggesting that greater gender diversity within the audit committee is associated with a slightly lower likelihood of fraudulent financial reporting.

There is a weak positive correlation between audit committee frequency of meeting and likelihood of fraudulent financial reporting ($r = 0.1685^*$, $\rho<0.05$), indicating that more frequent audit committee meetings are slightly associated with a higher likelihood of fraudulent financial reporting. There is a weak negative correlation between audit committee expertise and likelihood of fraudulent financial reporting ($r = -0.2098^*$, $\rho<0.05$), suggesting that greater expertise within the audit committee is associated with a slightly lower likelihood of fraudulent financial reporting. There is a weak positive correlation between audit committee size and likelihood of fraudulent financial reporting ($r = 0.1448^*$, $\rho<0.05$), indicating that larger audit committees are slightly associated with a higher likelihood of fraudulent financial reporting. There is a weak negative correlation between firm size and likelihood of fraudulent financial reporting ($r = -0.1052^*$, $\rho<0.05$), suggesting that larger firms are slightly less likely to engage in fraudulent financial reporting.

Table 4.2: Correlation test results

	FSCORE	FA	LEV	ACGD	ACFM	ACFE	ACS	FS
FSCORE	1.0000							
FA	0.1111*	1.0000						
LEV	0.1786*	-0.0362	1.0000					
ACGD	-0.1438*	0.0840*	-0.0703	1.0000				
ACFM	0.1685*	0.0027	0.0227	-0.0483	1.0000			
ACFE	-0.2098*	0.0065	0.0120	0.2064*	-0.0751	1.0000		
ACS	0.1448*	0.1727*	0.1015*	0.1958*	0.1519*	-0.1632*	1.0000	
FS	-0.1052*	-0.0091	0.1387*	-0.0124	-0.1397*	-0.0385	0.0328	1.0000

Source: Field data, 2024

4.3 Diagnostic Statistics

4.3.1 Test for Multicollinearity

Multicollinearity arises when there is a substantial correlation between independent variables or when one predictor variable is nearly a linear combination of another predictor variable (Keith, 2006). As the degree of overlap (correlation) between variables increases, researchers face greater difficulty in isolating the individual impacts of each variable. Multicollinearity occurs when the correlation coefficients exceed 0.9 (Hair, 2006; Kalnins & Praitis Hill, 2025) and 0.8 (Singh *et al*., 2023). Variance inflation factors (VIF) were utilized for diagnostic purposes as well.

As per Hair *et al*., (2010), a model is considered to be free from the issue of multicollinearity when the tolerance value is greater than 0.10 and the VIF value is less than 10. Table 4.3 shows that the research variables (firm age, firm leverage, firm size, audit committee frequency of meetings, audit committee financial expertise, audit committee size, audit committee gender diversity, and firm size) had a minimum variance inflation factor of 1.04 and a maximum variance inflation factor of 1.17. The score of 1.17 is below the threshold of ten (10), indicating the absence of multicollinearity in the study. This is additionally substantiated by the correlation analysis shown in table 4.2, as all the coefficients exhibit values below 0.8. Thus, the explanatory variables are not affected by multicollinearity.

Table 4.3: Multicollinearity test results

Variable	VIF	1/VIF
ACS	1.17	0.856648
ACGD	1.13	0.888105
ACFE	1.10	0.908404
ACFM	1.06	0.946938
FS	1.05	0.956490
LEV	1.04	0.957206
FA	1.04	0.963984
Mean VIF	1.08	

Source: Researcher 2024

4.3.2 Hosmer-Lemeshow of fit test

The statistical results for the Hosmer-Lemeshow goodness of fit are presented in Table 4.4. A goodness of fit test determines if the model is accurately stated or fitted. Given a p-value below 0.05, the hypothesis is rejected. Conversely, if the p-value above 0.05, the model passes the test and is considered to be fit. Table 4.4 indicates that the p-value of 0.6345 exceeds the significance level of 0.05, thereby confirming that the model is considered statistically significant.

Table 4.4: Hosmer-Lemeshow of fit test results

Logistic model for FSCORE, goodness-of-fit test
number of observations = 672
number of covariate patterns = 671
Pearson chi2(667) = 653.86
Prob > chi2 = 0.6345

Source: Researcher 2024

4.3.3 Model specification

The study tested for model specification using the Hatsq test. Table 4.5 presents the results of the hatsq test. Going by the findings, p-value is 0.655 is higher than the critical value of 0.05, revealing that the logistic model is not misspecified.

Table 4.5: Model specification test results

Logistic regression	Number of obs	=	225
LR chi2(2)		=	145.43
Prob > chi2		=	0.0000
Log likelihood = -79.109099	Pseudo R2	=	0.4789

F-SCORE	Coef.	Std. Err.	Z	P>z	[95% Conf.	Interval]
_hat	1.006205	.1590665	6.33	0.000	.6944403	1.317969
_hatsq	-.0225601	.0505067	-0.45	0.655	-.1215513	.0764312
_cons	.0355507	.2134756	0.17	0.868	-.3828538	.4539553

Source: Field data, 2024

4.4 Results of the Logistic Regression Analysis

4.4.1 Testing the Effect of the Control Variables

Before investigating the effect of the predictor variables on the dependent variable, the study examined the impact of the control variables, firm age, firm leverage and firm performance on likelihood of financial statement fraud. The results are presented in table 4.6, and they demonstrated that the controls explain 3.16% change in the likelihood of financial statement fraud.

Table 4.6: Regression results of control variables

Logistic regression	Number of obs	=	396
	LR chi2(2)	=	12.85
Log likelihood = -196.76737	Prob > chi2	=	0.0016
	Pseudo R2	=	0.0316

FSCORE	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FA2	.5731264	.807501	0.71	0.478	-1.009546	2.155799
LEV	1.833936	.5290578	3.47	0.001	.7970015	2.87087
_cons	-2.328542	.4049819	-5.75	0.000	-3.122292	-1.534792

Source: Field data, 2024

The goodness of fit confirms that the selected model perfectly fits the data, prob> chi2<0.05. The regression output confirms that firm age and leverage are important factors in predicting the likelihood of fraudulent financial reporting.

The positive, though insignificant, coefficient of firm age suggests that as firms age increases, the likelihood of fraudulent financial reporting increases. Specifically, for each additional unit increase in firm age, the log odds of fraudulent financial reporting increase by approximately 0.593. The effect of firm age on the likelihood of financial statements fraud was statically significant and the results disagree with those of previous studies (Seifzadeh, Rajaeei & Allahbakhsh, 2021). This implies firm age is a determinant of the likely to manipulate financial statements.

The positive coefficient of firm leverage suggests that higher leverage increases the likelihood of fraudulent financial reporting. For each unit increase in leverage, the log odds of fraudulent financial reporting increase by approximately 1.834. The effect of firm leverage on the likelihood of financial statements fraud was statically significant and the results disagree with those of previous studies (Seifzadeh, Rajaeei &

Allahbakhsh, 2021). This implies firm leverage is a determinant of the likely to manipulate financial statements.

4.4.2 Testing the Direct Effect

Table 4.7 displays the empirical statistics used to examine predictor variables in the logistic regression model. Based on the significant chi-square ($p<0.000$) likelihood ratio statistics, the goodness of fit measurements suggest that the model exactly matches the data. The pseudo R2 value of 0.3144 indicates that the model has a high level of explanatory power. This implies that the specification of the model is suitable, and the predictor variables used for the estimation account for 31.44 percent of the variation in the variables. The model demonstrates statistical significance overall, as evidenced by the 127.79 likelihood ratio chi-square (LR chi2) score and a p-value of 0.0000. The coefficients of the predictor variables exhibit the same signs when estimated. Statistically significant estimated coefficients were obtained for all four predictor variables employed in the study at a significance level of 0.05. The presence of negative coefficient signs indicates that an increase of one unit in the predictor variables decreases the probability of financial statement fraud.

Table 4.7: Direct test results

Logistic regression				Number of obs	=	396
				LR chi2(6)	=	127.79
				Prob > chi2	=	0.0000
Log likelihood = -161.91992				Pseudo R2	=	0.3144
FSCORE	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FA	.2674046	.2878185	0.93	0.353	-.2967093	.8315185
LEV	2.152435	.6037181	3.57	0.000	.9691697	3.335701
ACGD	-2.177401	.8647014	-2.52	0.012	-3.872185	-.4826171
ACFM	3.951223	.8349074	4.73	0.000	2.314834	5.587611
ACFE	-2.961223	.6295515	-4.70	0.000	-4.195121	-1.727325
ACS	1.620346	.6485331	2.50	0.012	.3492442	2.891447
_cons	-8.448864	1.730112	-4.88	0.000	-11.83982	-5.057906

Source: Field data, 2024

The first hypothesis (H_{01}) stated that*: there is no significant effect between audit committee gender diversity and the likelihood of fraudulent financial reporting among listed firm in in East Africa.*

The results confirm that the effect of the audit committee gender diversity on the likelihood fraudulent financial reporting was negative and significant ($\beta = -2.177$, $\rho =< 0.05$). Therefore, H01 is rejected, and the conclusion is that the audit committee gender diversity reduces the likelihood of fraudulent financial reporting. Several studies support this finding. For instance, Gavious et al. (2012) found that gender-diverse audit committees are more diligent in their oversight roles, leading to fewer incidences of earnings management and financial statement manipulation. Women are often perceived as more risk-averse and ethical in decision-making, which translates into stricter adherence to financial reporting standards and reduced tolerance for fraudulent activities (Gavious, Segev, & Yosef, 2012).

Srinidhi *et al*., (2011) demonstrated that gender diversity in audit committees is associated with higher-quality financial reporting. Their research indicates that female directors bring unique perspectives and cognitive diversity, which enhances the committee's ability to detect and prevent fraudulent reporting. This finding aligns with the broader corporate governance literature that suggests diversity in leadership roles promotes better monitoring and controls (Srinidhi *et al*., 2011).

Additionally, a study by Huang and Kisgen (2013) supports the notion that female directors contribute to more conservative financial practices. They observed that companies with gender-diverse boards are less likely to engage in aggressive financial reporting and are more transparent in their disclosures. This conservative approach helps mitigate the risk of fraudulent financial reporting (Huang & Kisgen, 2013).

The second hypothesis (H_{02}) stated that*: there is no significant effect between audit committee frequency of meeting and the likelihood of fraudulent financial reporting among listed firm in in East Africa.*

The results confirm that the effect of the audit committee frequency of meeting on the likelihood fraudulent financial reporting was positive and significant (β = 3.951, ρ = <0.05). Therefore, H01 is rejected, and the conclusion is that the audit committee frequency of meeting increases the likelihood of fraudulent financial reporting, and the results agree with those of previous studies (Lary & Taylor, 2012).

One plausible explanation is that increased meeting frequency might be a reactive measure rather than a proactive one. When firms suspect or encounter financial irregularities, they may increase the number of audit committee meetings to address these issues. Thus, the heightened frequency of meetings could be symptomatic of underlying problems within the firm rather than a preventive measure (Zalata et al., 2018). This is supported by evidence that firms with higher risks or ongoing issues are likely to hold more frequent audit committee meetings to manage and control these risks (Lary & Taylor, 2012).

Additionally, increased meeting frequency might indicate an audit committee that is overwhelmed or ineffective in its monitoring duties. As Goh (2009) points out, simply increasing the number of meetings does not necessarily improve the effectiveness of oversight if the committee lacks the necessary expertise, resources, or support from the board. Overburdened audit committees might struggle to address complex financial issues adequately, leading to persistent problems and an increased likelihood of fraud despite their frequent convening.

The quality of discussions and actions taken during these meetings is crucial. If meetings are frequent but lack substantive discussions or fail to implement robust controls and corrective actions, the effectiveness of the audit committee is compromised. Abbott *et al.*, (2004) emphasize that the mere frequency of meetings is insufficient; the audit committee must engage in rigorous and effective oversight practices to reduce the likelihood of financial fraud.

The third hypothesis (H_{03}) stated that*: there is no significant effect between audit committee expertise and the likelihood of fraudulent financial reporting among listed firm in in East Africa*

The results confirm that the effect of the audit committee expertise on the likelihood fraudulent financial reporting was positive and significant (β = -2.961, ρ <0.05). Therefore, H03 is rejected, and the conclusion is that the audit committee expertise reduces the likelihood of fraudulent financial reporting, and the results agree with those of previous studies (Hoitash *et al*., 2008). Audit committee members with financial expertise possess the necessary knowledge and skills to critically evaluate financial statements and detect irregularities or inconsistencies. They are better equipped to understand complex accounting standards, financial transactions, and potential red flags indicative of fraudulent activities. According to DeZoort and Salterio (2001), the presence of financial experts on audit committees enhances their ability to comprehend and challenge management's financial reporting decisions, thereby reducing the likelihood of fraudulent reporting.

Audit committee expertise fosters a culture of accountability and diligence within the committee. Expert members are more likely to ask probing questions, challenge management assumptions, and conduct thorough investigations into areas of potential risk. This proactive approach to oversight acts as a deterrent to fraudulent behavior, as management becomes aware of the heightened scrutiny and accountability imposed by knowledgeable committee members. Research by Carcello *et al.*, (2002) suggests that audit committees with financial experts are more likely to engage in detailed discussions and deliberations regarding financial reporting issues, leading to greater transparency and integrity in financial disclosures.

Audit committee expertise enhances the committee's ability to effectively communicate with external auditors and other stakeholders. Experienced members can engage in meaningful dialogue with auditors, providing valuable insights and guidance on complex accounting matters. This collaboration between audit committee members and auditors strengthens the overall audit process and ensures a more thorough examination of financial statements. As highlighted by Hoitash *et al.*, (2008), audit committees with financial experts are better positioned to communicate expectations to auditors and facilitate constructive discussions on audit findings, ultimately reducing the likelihood of financial statement fraud.

Additionally, audit committee expertise contributes to the establishment of robust internal controls and risk management mechanisms within organizations. Experienced members are instrumental in designing and implementing effective control frameworks, identifying control weaknesses, and monitoring the effectiveness of control activities. This proactive approach to risk management reduces the opportunities for fraud and misconduct by addressing vulnerabilities in the financial reporting process. Research by Beasley *et al*., (2000) underscores the importance of audit committee expertise in evaluating the adequacy of internal controls and mitigating the risk of fraudulent financial reporting.

The fourth hypothesis (H_{04}) stated that*: there is no significant effect between audit committee size and the likelihood of financial statement fraud among firms listed on the securities exchanges in East Africa.*

The results confirm that the effect of the audit committee size on the likelihood of financial statements fraud was positive and significant ($\beta = 1.620$, $\rho <0.05$). Therefore, H01 is rejected, and the conclusion is that the audit committee size reduces the likelihood of financial statement fraud, and the results agree with those of previous studies (Lara, García Osma, and Penalva, 2016). This finding agrees with earlier studies (Wilbanks et al., 2017; Sharma & Iselin, 2012). On the other hand, the result of this study inconsistent with some existing literature (He & Yang, 2014; Yang & Krishnan, 2005). The findings supported by Dechow *et al*., (2011) who found that larger boards may result in poor monitoring due to a tendency toward communication breakdowns and inefficiencies. The finding therefore confirm that small size audit committees play a crucial role in ensuring financial reporting quality. According to agency theory, larger audit committees are generally less focused and less participatory than their smaller audit committees. Consequently, the oversight of these large audit committees is destroyed, resulting in diminished business performance. Conversely, advocates of resource dependency theory emphasize the impact of a large audit committees They believe that large committees can appoint additional members with diverse skills and experience, hence enhancing precise accounting.

Larger audit committees might face coordination and communication challenges. With more members, achieving consensus can become more difficult, potentially leading to diluted responsibility and less decisive action. According to Tanyi and Smith (2015), larger audit committees may suffer from reduced efficiency due to the complexities of managing a greater number of viewpoints and the potential for conflict among members. This can result in slower decision-making processes and less effective monitoring.

The presence of more members might lead to a diffusion of responsibility, where individual members feel less accountable for the committee's outcomes. This phenomenon, known as social loafing, suggests that as the size of the group increases, the incentive for each member to contribute effectively diminishes. As described by Hamidullah *et al*., (2019), larger groups often experience a decrease in individual accountability, which can undermine the overall effectiveness of the committee.

Larger audit committees may struggle with maintaining high levels of engagement and attendance. Ensuring that all members are consistently engaged and present for meetings becomes more challenging as the size increases. Research by Lin *et al*., (2009) indicates that larger committees often face issues with member attendance and participation, which can negatively impact their ability to monitor financial reporting effectively.

Moreover, it is possible that larger audit committees might include members who are less qualified or less knowledgeable about the company's specific financial and operational context. When committees are expanded, there is a risk of including individuals who do not possess the necessary expertise or are not as committed to the rigorous oversight required to prevent fraud. Krishnan and Visvanathan (2009) found that the presence of financial experts on audit committees is crucial for effective oversight, and simply increasing the number of members without regard to their qualifications can be counterproductive.

Lastly, larger audit committees might be more susceptible to influence and manipulation by management. With more members, it becomes easier for management to co-opt or sway some members to their side, thereby weakening the committee's independence and effectiveness. This dynamic is discussed by Klein (2002), who highlights the importance of maintaining a balance between size and independence to ensure robust oversight.

4.4.3 Test for Moderation

Moderation refers to the phenomenon where the causal link between two variables is altered by the presence of a moderator variable (Piriyakul & Piriyakul, 2024). Hence, the statistical test of moderation should assess the varying impact of the exogenous variable on the endogenous variable based on the moderator. A moderation effect may manifest as enhancing, when the increase of the moderator amplifies the impact of the predictor (IV) on the outcome (DV); buffering, when the increase of the moderator diminishes the impact of the predictor on the outcome; or antagonistic, when the increase of the moderator reverses the impact of the predictor on the outcome (Hayes, 2013). The existence of moderation is contingent upon the fulfilment of the following three conditions. Firstly, the level of variance explained by interaction should be clearly greater than the variance explained without the interaction. Furthermore, it is necessary for the coefficient of the interaction term to depart from zero. The basic slope for the interaction serves as the foundation for investigating the nature of the interaction by analyzing the simple slopes. Ultimately, the models both with and without the interaction should exhibit statistical significance (Hayes, 2013). The data shown in model 3 of table 4.8 indicates that there is a strong and statistically significant positive relationship between firm size and the probability of financial statement fraud (β= 0.3795, ϱ<0.05). Table 4.8 demonstrates that a one-unit increase in firm size is associated with a 0.3795 rise in the probability of financial statement fraud. Based on the likelihood ratio chi-square (LR chi2) value of 107.86 and a p-value of 0.0000, the model is statistically significant overall. This observation suggests that the factors together impact the probability of engaging in dishonest financial reporting. The Pseudo R2 score of 0.1545 indicates that the theoretical model accounts for around 15.45% of the variability in the probability of false financial reporting. The results of the moderating variable revealed that firm size had a negative coefficient value of β =-.3795 and a corresponding ρ -value = 0.000, <0.05 is statistically significant.

4.5 Moderating effect of firm size on the Relationship between audit committee characteristics and the Likelihood of fraudulent financial reporting.

To test the moderation, the predictor variables and the moderator were mean-centered before creating the interaction terms. Each interaction term was hierarchically entered into the model. The results for hierarchical regression are presented in the summary moderation table 4.8 and the summary for the moderation is presented in table 4.8. To ascertain whether there was moderation and the nature of moderation, the beta coefficients and Modgraphs were considered. The hypothesis on moderation was tested as follows;

H05a Stated that*: Firm size does not moderate the relationship between audit committee gender diversity and the likelihood of fraudulent financial reporting*.

The interaction term of audit committee gender diversity and the likelihood of fraudulent financial reporting reported a beta coefficient β= -3.506 and $\rho < 0.05$. Therefore, the null hypothesis was rejected. Based on these findings, one unit interaction between firm size and audit committee gender diversity will likely reduce fraudulent financial reporting by 3.506 units.

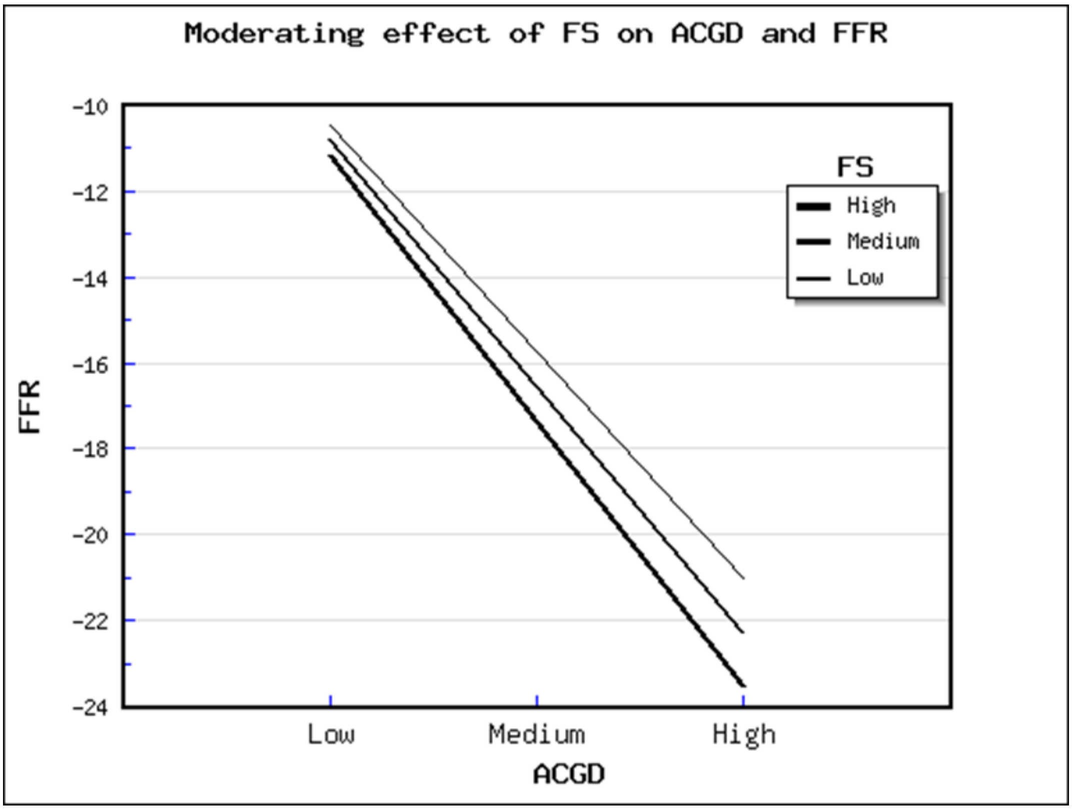

Figure 4. 1: Moderating effect of firm size on the relationship between audit committee gender diversity and fraudulent financial reporting

The interaction term of audit committee gender diversity and firm size (ACGD_FS) had a negative effect on FFR. This finding may be explained by the monitoring role of women, the critical mass hypothesis and the political cost theory. Firm size can influence the number of women on corporate boards and ultimately those who sit in audit committee. For instance, large firms will have more board members compared to small firms. Lefebvre and Vieider (2013) reported that larger corporate boards enhance managerial oversight, hence mitigating excessive risk-taking and positively influencing company performance. Larger corporate boards possess greater ability, competence, knowledge, and a diverse skill set to oversee managers, which is ideal for large companies. Moreover, due to stringent regulations and reputational issues, large firms typically exhibit a higher representation of women in board and managerial roles. likewise, owing to increased oversight from analysts and investors, larger corporations typically exhibit greater gender diversity on their boards. Likewise, the heightened complexity of large organisations may necessitate enhanced monitoring, which can be accomplished by increasing female representation in audit committees. In support of this argument, Adams and Ferreira (2009) claim that women possess superior monitoring abilities compared to male.

H05b Stated that*: Firm size does not moderate the relationship between audit committee frequency of meeting and the likelihood of fraudulent financial reporting*.

The interaction term of audit committee frequency of meeting and the likelihood of fraudulent financial reporting reported a beta coefficient β= -2.840 and ρ < 0.05. Therefore, the null hypothesis was rejected. Based on these findings, one unit interaction between firm size and audit committee frequency of meeting will likely reduce fraudulent financial reporting by 2.840 units.

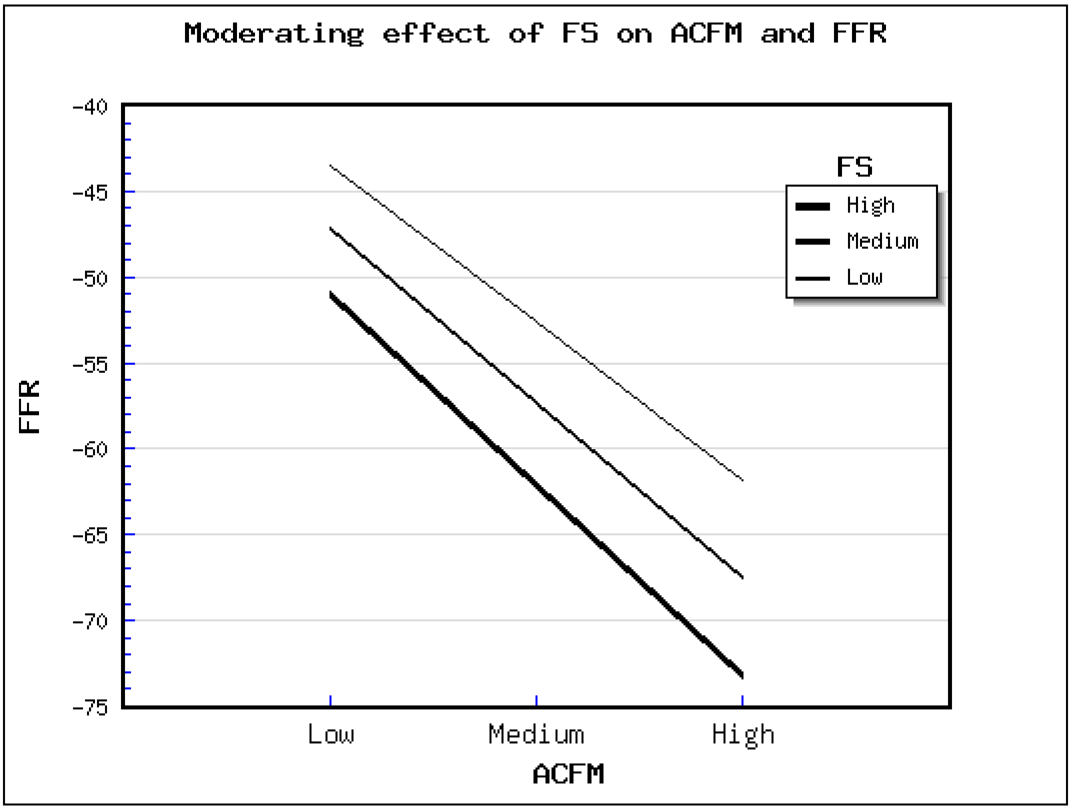

Figure 4. 2: Moderating effect of firm size on the relationship between audit committee frequency of meeting and fraudulent financial reporting

The modgraph further shows that with low firm size and low audit committee frequency of meeting, the listed firms are less likely to engage in fraudulent financial reporting. As for the frequency of meetings (ACFM_FS), our findings point at the need for more meeting for larger firms, and a specific agenda for AC to discuss matters related to financial reporting. However, given that the CEO is tasked with organizing the meeting and setting the agenda, the limited time available to outside directors (who make up the AC) and the significant amount of time spent on routine duties, it should be noted that increasing the frequency of meetings may not inherently enhance oversight (De Andrés et al., 2005). In the same vein, Lipton and Lorsch (1992) assert that the main challenge directors encounter is scarcity of time to fulfill their responsibilities. Hence, it can be observed that the relationship between the frequency of meetings and FFR is complex. Consequently, our research suggests it would be valuable to include questions regarding the "quality of meetings," particularly the amount of time allocated to routine tasks compared to substantive issue

H05c Stated that: Firm size does not moderate the relationship between audit financial expertise and the likelihood of fraudulent financial reporting.

The interaction term of audit committee financial expertise and the likelihood of fraudulent financial reporting reported a beta coefficient β= -3.015 and ρ < 0.05. Therefore, the null hypothesis was rejected. Based on these findings, one unit interaction between firm size and audit committee financial expertise will likely reduce fraudulent financial reporting by 3.015 units.

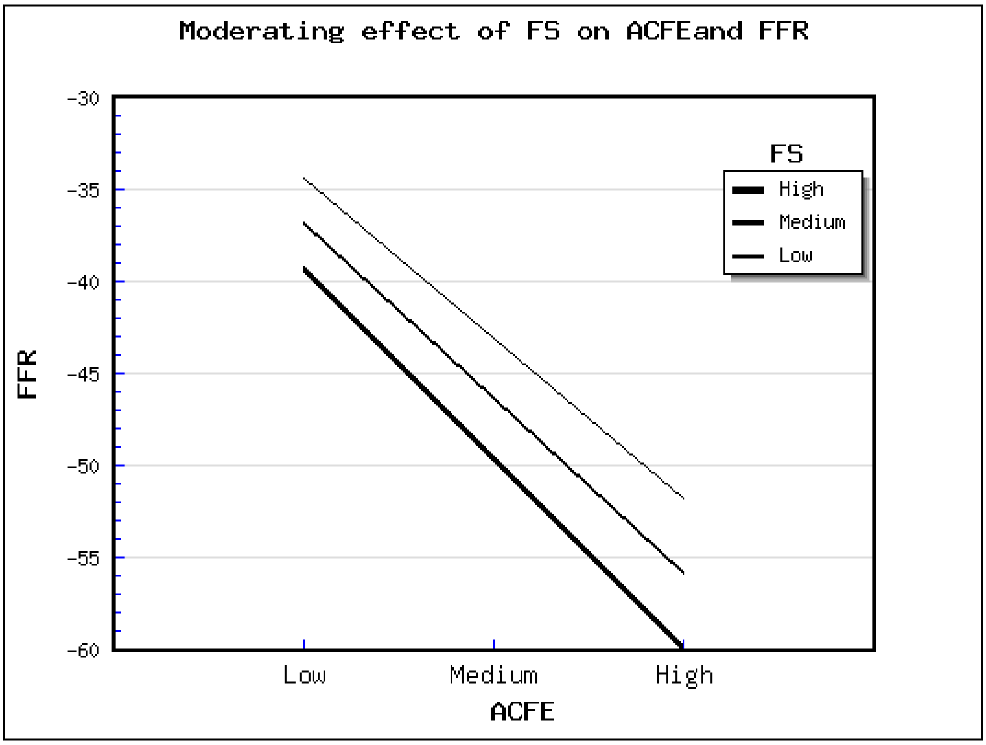

Figure 4. 3: Moderating effect of firm size on the relationship between audit committee expertise and fraudulent financial reporting

The modgraph further shows that with low firm size and low audit committee expertise, the listed firms are less likely to engage in fraudulent financial reporting. The results revealed that the interaction term of AC expertise and firm size (ACFE_FS) had a negative and significant effect on FFR. Members of the audit committee are tasked with addressing intricate accounting matters, where those with accounting experience may be more critical than those lacking such knowledge (DeFond et al., 2005). They possess a superior understanding and supervision of the financial reporting process and environment, and are more adept at overseeing and limiting management's endeavours to manipulate earnings. Their function embodies the principles of agency theory and the necessity to oversee management to guarantee that it utilises a company's resources in alignment with shareholders' best interests (Beasley e al., 2009). Large corporations necessitate robust corporate governance owing to complex operations and higher risks. This necessitates rigorous monitoring and internal controls This indicates that large firms are subject to more extensive auditing, necessitating a more effective AC. However, it is essential to have a sufficient number of AC members who possess expertise in finance and accounting to improve financial reporting quality, the benefits of financial expertise only accrue to firms that already have a relatively strong governance environment, particularly in the case of large firms that may have complex and face governance issues (DeFond & Francis 2005; Karamanou & Vafeas 2005). Ben Amar (2014) argues that financial expertise is not enough to limit the extent of accounting manipulation, members of ACs should also be independent

H05d Stated that: Firm size does not moderate the relationship between audit committee size and the likelihood of fraudulent financial reporting.

The interaction term of audit committee size and the likelihood of fraudulent financial reporting reported a beta coefficient (β= -1.664 and ρ < 0.05). Therefore, the null hypothesis was rejected. Based on these findings, one unit interaction between firm size and audit committee size will likely decrease fraudulent financial reporting by 1.664 units.

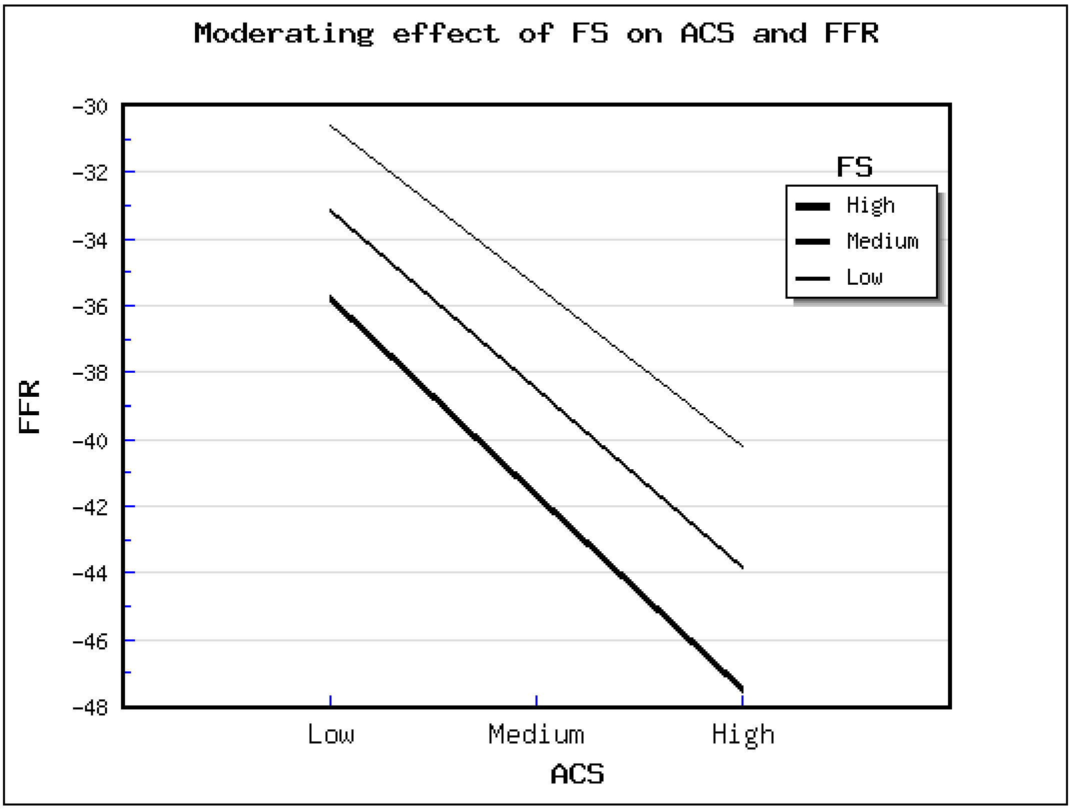

Figure 4. 4: Moderating effect of firm size on the relationship between audit committee size and fraudulent financial reporting

The modgraph further shows that with high firm size and high audit committee size, the listed firms are less likely to engage in fraudulent financial reporting. Further, findings revealed that the interaction between AC size and firm size (ACS_FS) had a negative effect on FFR. Consequently, large AC may help mitigate corporate misreporting in large corporations. This can be attributed to the fact that these large entities are complex and comprehensive auditing. Consistent with resource dependency theory and human capital theories, the large AC combines an invaluable pool of human capital possessing a varied array of skills, including finance, accounting, and law. In addition, a large AC offers an opportunity for more incorporation of women in ACs. This may improve the committee's effectiveness in exercising oversight, and ultimately reduce FFR. However, agency theory posits that large AC may compromise group cohesion and increase the risk of opportunistic actions. This may impede the development of a unified mindset and deter participation from certain members, potentially undermining the audit committee's capacity to achieve consensus on decisions concerning the oversight of financial reporting and audit activities (Jensen & Tang, 1993), thus compromising financial reporting quality

Table 4.8: Summary moderation table

FSCORE	Model 1 Coef.	Model 2 Coef.	Model 3 Coef.	Model 4 Coef.	Model 5 Coef.	Model 6 Coef.	Model 7 Coef.
CONSTANT	-2.329(0.405)**	-11.466(1.735)**	-3.842(2.692)	-6.454(2.894)**	-5.785(2.964)	-6.234(3.105)**	-6.613(3.288)**
FA	0.573(0.808)	.770(1.083)	.260(1.067)	.048(1.129)	.460(1.158)	.668(1.282)	.809(1.268)
LEV	1.834(0.529)**	2.302(0.645)**	2.827(0.687)**	3.305(0.758)**	2.854(0.798)**	3.414(0.866)**	3.292(0.878)**
ACGD		-2.714(0.549**	-2.741(0.584)**	-2.382(0.597)**	-2.472(0.609)**	-2.504(0.617)**	-2.297(0.637)**
ACFM		3.712(0.914)**	3.566 (0.946)**	3.234(1.032)**	2.850(1.107)**	3.2497(1.168)**	3.661(1.208)**
ACFE		-2.539(0.470)**	-2.293(0.480)**	-2.678(0.519)**	-2.352(0.525)**	-1.831(0.559)**	-1.685(0.566)**
ACS		4.191(0.739)**	4.137(0.753)**	4.247(0.791)**	4.180(0.814)**	3.772(0.828)**	3.325(0.879)**
FS			-.577(0.165)**	-.377(0.174)**	-.394(0.181)**	-.419(0.198)**	-.394(0.209)
ACGD_FS				-3.715(0.953)**	-2.902(0.979)**	-3.457(0.995)**	-3.506(1.098)**
ACFM_FS					-3.035(0.836)**	-2.422(0.866)**	-2.840(0.897)**
ACFE_FS						-3.307(0.871)**	-3.015(0.901)**
ACS_FS							-1.664(0.656)**
LR chi2	12.85	127.79	141.02	159.21	172.78	188.42	195.81
Prob > chi2	0.002	0.000	0.000	0.000	0.000	0.000	0.00
Pseudo R2	0.032	0.3144	0.3470	0.3918	0.4252	0.4632	0.4818

Note(s) **P<0.05, Standard error (Std. Err.) in parentheses. ACGD, audit committee gender diversity; ACFM, audit committee frequency of meeting; ACFE, audit committee financial expertise: ACS, audit committee size; FA, firm size; FS, firm age; LEV, leverage

Source: Field data, 2024

Table 4.9: Summary of hypothesis

Hypotheses	B	P<5%	Decision
$H_{01:}$ Audit committee gender diversity has no significant effect on fraudulent financial reporting	-2.177	0.001	Rejected
$H_{02:}$ Audit committee frequency of meeting has no significant effect on fraudulent financial reporting	3.951	0.001	Rejected
$H_{03:}$ Audit committee expertise has no significant effect on fraudulent financial reporting	-2.961	0.000	Rejected
$H_{04:}$ Audit committee size has no significant effect on fraudulent financial reporting	1.620	0.022	Rejected
$H_{05a:}$ Firm size does not moderate the relationship between audit committee gender diversity and fraudulent financial reporting	-3.506	0.004	Rejected
$H_{05b:}$ Firm size does not moderate the relationship between audit committee frequency of meeting and fraudulent financial reporting	-2.840	0.009	Rejected
$H_{05c:}$ Firm size does not moderate the relationship between audit committee expertise and fraudulent financial reporting	-3.015	0.001	Rejected
$H_{05d:}$ Firm size does not moderate the relationship between audit committee size and fraudulent financial reporting	-1.664	0.000	Rejected

Source: Researcher (2024)

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the findings obtained from the analysis, the conclusions, and the recommendations for policy, managerial, theory, and future research.

5.1 Summary of the findings

5.1.1 Effect of audit committee gender diversity on the Likelihood of fraudulent financial reporting

The first hypothesis (H01) proposed that there is no significant effect between audit committee gender diversity and the likelihood of fraudulent financial reporting among listed firms in East Africa. The study's findings, however, revealed a negative and significant relationship ($\beta = -2.177$, $\rho = 0.001$) between audit committee gender diversity and the likelihood of fraudulent financial reporting, leading to the rejection of H01. Supporting studies indicate that gender-diverse audit committees tend to be more diligent and ethical, contributing to better oversight and reduced incidences of financial fraud. For example, Gavious et al. (2012) found that gender diversity in audit committees leads to fewer cases of earnings management and financial manipulation, while Srinidhi *et al*., (2011) highlighted that female director enhance financial reporting quality through unique perspectives and cognitive diversity. Similarly, Huang and Kisgen (2013) observed that gender-diverse boards adopt more conservative financial practices, further reducing the risk of fraudulent reporting.

5.1.2 Effect of audit committee frequency of meeting on the Likelihood of fraudulent financial reporting

The second hypothesis (H02) proposed that there is no significant effect between audit committee frequency of meetings and the likelihood of fraudulent financial reporting among listed firms in East Africa. However, the study found a positive and significant relationship ($\beta = 3.951$, $\rho = 0.001$) between the frequency of audit committee meetings and the likelihood of fraudulent financial reporting, leading to the rejection of H02. This suggests that more frequent meetings may correlate with higher instances of financial fraud. Previous studies, such as those by Lary and Taylor (2012), indicate that increased meeting frequency might be a reactive measure rather than a proactive one, often occurring in response to existing financial irregularities. Furthermore, Zalata et al. (2018) argue that firms with higher risks or ongoing issues tend to hold more frequent meetings to manage these problems. Additionally, Goh (2009) highlights that an overwhelmed or ineffective audit committee, despite meeting frequently, may struggle with complex financial issues, thereby increasing the likelihood of fraud. Abbott *et al.,* (2004) also emphasize that the quality of discussions and actions in meetings is crucial for effective oversight.

5.1.3 Effect of audit committee expertise on the Likelihood of fraudulent financial reporting

The third hypothesis (H03) proposed that there is no significant effect between audit committee expertise and the likelihood of fraudulent financial reporting among listed firms in East Africa. However, the results showed a negative and significant relationship ($\beta = -2.961$, $\rho = 0.000$), leading to the rejection of H03. This indicates that audit committee expertise reduces the likelihood of fraudulent financial reporting. Studies support these findings, showing that audit committee members with financial expertise are better equipped to detect financial irregularities, understand complex accounting standards, and critically evaluate financial statements (Hoitash *et al.*, 2008; DeZoort & Salterio, 2001). Furthermore, financial experts on audit committees foster a culture of accountability and diligence, engage in thorough discussions with management and auditors, and contribute to the development of robust internal controls and risk management mechanisms (Carcello *et al*., 2002; Beasley *et al*., 2000).

5.1.4 Effect of audit committee size on the Likelihood of fraudulent financial reporting

The fourth hypothesis (H04) posited that there is no significant effect between audit committee size and the likelihood of financial statement fraud among firms listed on the securities exchanges in East Africa. However, the results indicated a positive and significant relationship (β = 1.620, ρ = 0.022), leading to the rejection of H04. This suggests that larger audit committees may face coordination and communication challenges, leading to less effective monitoring. Studies by Lara, García Osma, and Penalva (2016) support this finding, highlighting that larger committees can struggle with consensus, diluted responsibility, and social loafing, where individual accountability diminishes as group size increases. Tanyi and Smith (2015) also noted reduced efficiency and slower decision-making in larger committees. Additionally, issues such as member attendance, engagement, and qualifications can further impair the effectiveness of larger audit committees (Lin et al., 2009; Krishnan & Visvanathan, 2009). Larger committees may also be more susceptible to management influence, undermining their independence and oversight capabilities (Klein, 2002).

5.1.5 Moderating effect of firm size

The interaction term of audit committee gender diversity and the likelihood of fraudulent financial reporting reported a beta coefficient (β) of -3.506 with a p-value

(ρ) less than 0.05, leading to the rejection of the null hypothesis. This indicates that a one-unit interaction between firm size and audit committee gender diversity is likely to reduce fraudulent financial reporting by 3.506 units. Similarly, the interaction term of audit committee frequency of meeting reported a beta coefficient (β) of -2.840 and $\rho < 0.05$, also rejecting the null hypothesis, suggesting that a one-unit interaction between firm size and audit committee meeting frequency reduce fraudulent reporting by 2.840 units. For audit committee financial expertise, the interaction term reported a beta coefficient (β) of -3.015 and $\rho < 0.05$, indicating that a one-unit interaction between firm size and audit committee financial expertise reduce fraudulent reporting by 3.015 units. In contrast, the interaction term of audit committee size reported a beta coefficient (β) of 1.602 and $\rho < 0.05$, which means a one-unit interaction between firm size and audit committee size decreases fraudulent financial reporting by 1.602 units. Therefore, all null hypotheses were rejected for these interactions.

5.2 Conclusion

The study demonstrates that audit committee gender diversity significantly reduces the likelihood of fraudulent financial reporting among listed firms in East Africa. The findings are supported by various studies, which suggest that female directors are more risk-averse and ethical, enhancing the audit committee's effectiveness in monitoring and controlling financial reporting practices. This aligns with broader corporate governance literature advocating for diversity in leadership roles to improve oversight and reduce the incidence of financial fraud. Therefore, promoting gender diversity within audit committees is essential for fostering higher-quality financial reporting and reducing the likelihood of fraudulent activities.

In conclusion, the study demonstrates that an increased frequency of audit committee meetings is associated with a higher likelihood of fraudulent financial reporting among listed firms in East Africa. This finding suggests that frequent meetings may be a response to underlying financial issues rather than a measure of proactive oversight. It highlights the importance of not only the frequency but also the quality and effectiveness of audit committee meetings in preventing financial fraud. Ensuring that audit committees are equipped with the necessary expertise, resources, and support from the board is essential for effective financial oversight and reducing the incidence of financial fraud.

Based on the findings, audit committee expertise significantly reduces the likelihood of fraudulent financial reporting among listed firms in East Africa. This underscores the critical role of financial experts in enhancing the effectiveness of audit committees through their knowledge, skills, and proactive oversight. By fostering a culture of diligence and accountability, engaging in meaningful dialogue with auditors, and contributing to robust internal controls, audit committee experts play a vital role in mitigating the risk of financial fraud. These findings highlight the importance of having financially knowledgeable members on audit committees to ensure transparency and integrity in financial reporting.

In conclusion, the study found that larger audit committees are associated with an increased likelihood of financial statement fraud, contradicting the hypothesis that size would mitigate such risks. While larger committees might seem advantageous due to the diversity of viewpoints, the associated coordination challenges, diluted accountability, and potential for reduced member engagement can diminish their effectiveness. Ensuring that audit committees are not only adequately sized but also composed of committed and qualified members is crucial for maintaining robust oversight and preventing financial statement fraud. The findings underscore the importance of balancing committee size with efficiency, expertise, and independence to enhance their effectiveness in monitoring and preventing fraudulent activities

5.3 Recommendations

5.3.1 Policy Recommendations

Regulatory bodies should encourage listed firms to adopt gender diversity policies for their audit committees. This can be achieved through mandatory disclosure requirements regarding the composition of audit committees, including gender diversity metrics. Moreover, incentivizing firms that demonstrate exemplary gender diversity in their audit committees through tax benefits or recognition programs can further encourage compliance. Collaborating with industry associations and advocacy groups to raise awareness about the importance of gender diversity in governance structures can also foster cultural shifts within organizations.

Regulators should establish guidelines for audit committee meeting frequency and agenda setting to ensure consistency and effectiveness. These guidelines should take into account the size and complexity of firms, as well as industry-specific risks. Mandating regular reporting on audit committee activities and the outcomes of meetings can provide transparency and accountability. Additionally, facilitating knowledge-sharing platforms and peer-learning networks among audit committee members can help disseminate best practices and promote continuous improvement in meeting effectiveness.

Regulators should introduce minimum competency requirements for audit committee members, particularly in terms of financial literacy and industry knowledge. This can be achieved through certification programs or professional development courses tailored to the needs of audit committee members. Collaborating with educational institutions and professional associations to develop standardized training programs can ensure accessibility and consistency in learning opportunities. Furthermore, regulators should mandate periodic assessments of audit committee member competencies to identify gaps and facilitate targeted development initiatives.

Regulators should provide clear guidance on the optimal size of audit committees based on firm size, complexity, and industry dynamics. This can involve setting maximum limits to prevent overly large committees that may face coordination challenges. Additionally, encouraging firms to appoint independent directors to audit committees can enhance objectivity and effectiveness. Regulators should periodically review and update size regulations to reflect evolving governance best practices and regulatory requirements.

5.3.2 Managerial implication

Firstly, enhancing gender diversity in audit committees is critical. The study indicates that gender-diverse audit committees significantly reduce the likelihood of fraudulent financial reporting. Therefore, firms should actively recruit more women to join their audit committees. This inclusion brings diverse perspectives and promotes ethical decision-making. Additionally, companies should foster an inclusive environment where female members feel encouraged to contribute actively. Providing diversity training can further emphasize the benefits and importance of having a gender-diverse committee, thereby strengthening the committee's overall effectiveness.

Secondly, the frequency of audit committee meetings needs careful optimization. The results suggest that more frequent meetings can sometimes increase the likelihood of fraud, possibly due to reactionary rather than proactive measures. To address this, firms should schedule meetings strategically, aligning them with key financial reporting periods and risk assessment cycles. The focus should be on improving the quality of these meetings by providing comprehensive agendas and necessary background materials in advance. Ensuring effective follow-up on decisions made during meetings is also crucial to address any potential issues proactively and prevent fraudulent activities.

Thirdly, ensuring that audit committee members possess relevant expertise is essential for effective oversight. The presence of financial experts on the audit committee is associated with a reduced likelihood of fraudulent reporting. Firms should prioritize recruiting individuals with strong financial backgrounds and industry-specific experience. Continuous education and professional development opportunities should be provided to keep committee members updated on the latest accounting standards and regulatory changes. Additionally, engaging external consultants when necessary can provide further insights and support, particularly for complex financial issues, enhancing the committee's ability to detect and prevent fraud.

Furthermore, optimizing the size of the audit committee is necessary to balance diversity of thought with effective coordination and decision-making. While larger audit committees can bring varied perspectives, they may also face challenges related to communication and coordination. Firms should aim for a balanced committee size that ensures diverse viewpoints without overwhelming the decision-making process. Clearly defining roles and responsibilities for each member can prevent the diffusion of responsibility and ensure that every member is accountable. Effective communication channels within the committee should also be fostered to enhance coordination and ensure timely and decisive actions.

Finally, considering the firm's size in designing governance strategies is crucial. Larger firms often face more complex governance challenges, which can increase the risk of fraudulent reporting. Implementing scalable internal controls and governance practices that can adapt to the firm's growth and complexity is essential. Tailoring audit committee practices to meet the specific needs and risks of larger firms can help maintain robust oversight as the firm expands. Leveraging advanced audit and compliance technologies can also enhance monitoring and detection capabilities, helping to manage the complexities associated with larger organizational structures.

5.3.3 Theoretical implication

Agency theory posits that conflicts of interest may arise between principals (shareholders) and agents (management), leading to agency costs and potential opportunistic behavior by agents. Audit committees should be incentivized to act in the best interests of shareholders by aligning their compensation and performance metrics with firm performance and financial integrity. This can be achieved through the adoption of performance-based compensation structures tied to metrics such as the detection and prevention of financial fraud. Additionally, ensuring that a significant portion of audit committee members' compensation is provided in the form of equity or equity-linked instruments can further align their interests with long-term shareholder value creation.

Consistent with agency theory, audit committees serve as monitoring mechanisms to oversee management and mitigate agency conflicts. To enhance their effectiveness, audit committees should be empowered with greater autonomy, resources, and authority to conduct independent investigations and challenge management decisions. Regulators should mandate regular evaluations of audit committee performance and independence, with a focus on ensuring robust oversight and accountability.

The fraud pentagon theory identifies five key elements—pressure, opportunity, rationalization, capability, and attitude—that contribute to the likelihood of fraudulent behavior within organizations. Audit committees should focus on identifying and addressing factors that create opportunities for fraudulent financial reporting within the organization. This includes implementing robust internal controls, segregation of duties, and whistleblower mechanisms to deter and detect fraudulent activities. Moreover, audit committees should regularly assess the effectiveness of these controls and take proactive measures to address any identified weaknesses or vulnerabilities.

Audit committees play a critical role in shaping the ethical culture of the organization by promoting integrity, transparency, and accountability. Through their oversight functions, audit committees should actively promote ethical behavior and discourage misconduct. This involves setting clear expectations regarding ethical conduct, providing ethical training and education to employees, and leading by example through their own adherence to ethical principles.

5.4 Limitations of the Study

Although the contributions of this study, there are certain limitations that do not undermine the generalizability of our research results. Initially, the study assessed the probability of financial statement fraud by employing the F-score, a metric that relies on financial statement ratios. An inherent constraint of the model is its inapplicability to financial institutions or its inability to accurately estimate the organizations involved in fraudulent activities. Hence, the conclusions may lack generalizability to financial institutions. Future research should examine companies registered as fraudulent by the appropriate regulatory authorities. Furthermore, this study exclusively examined four aspects of audit committee characteristics. Considering the several aspects of the audit committee that impact its efficiency, future research ought to investigate further characteristics. Furthermore, although the survey examined the four aspects of audit committee structure, namely the frequency of meetings, financial expertise, independence, and size of the committee, there are additional design elements of the committee that can reduce the probability of financial statement fraud. Therefore, another study can be conducted to investigate how other factors, such as the length of time that an audit committee has been in office and the gender of the committee, and their impact on the probability of financial statement fraud, might provide more insight.

5.5 Areas for Further Studies Future

Based on publicly available financial information, the research variables were objectively quantified. Future research efforts have to contemplate employing primary data, as it might provide a comprehensive comprehension of the diverse qualities of audit committees.

Firm size was used as a moderator variable in the study. Other moderating factors including the gender of the CEO, their age, tenure, and financial expertise may be taken into account in future studies. Mediating variables might also be used in future research. More control variables, including institutional ownership, should be taken into account by other studies as well, since they may indicate the possibility of financial statement fraud. Subsequent research efforts may focus on companies not publicly traded on the stock exchange. Corporate governance principles should be followed by both listed and non-listed companies as a best practice, which makes them extremely significant.

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APPENDICES

Appendix I: Data Collection Schedule

			Years from 2012-2023										
Company	**Variable**	**Indicator**											
	Fraudulent financial reporting	F-Score Model											
	Audit Committee gender diversity	No. female in the AC											
		Total No. members in the AC											
	Audit Committee Frequency of Meetings	No. of meetings held by the audit committee											
	Audit Committee Expertise	No. of members with expertise in the AC											
		Total No. members in the AC											
	Audit Committee Size	The total number of members in the AC											
	Firm size	Natural logarithm of Total assets											
	Firm age	Period of time in years the firm has served since incorporation											
	Firm Leverage	Debt/Equity ratio											

Appendix II: Listed Firms in the East Africa Community Exchange

Appendix II; Target Population: Firms Listed in East Africa

Appendix II (a); Nairobi Security exchange

No.	Company	Sector	Year listed
1	Eaagads Limited	Agriculture	1972
2	Kakuzi Limited	Agriculture	1951
3	Kapchorua Tea Factory Limited	Agriculture	1972
4	Limuru Tea Kenya Limited	Agriculture	1967
5	Sasini Limited	Agriculture	1965
6	Williamson Tea Kenya Limited	Agriculture	1972
7	Rea Vipingo Plantations Limited	Agriculture	1998
8	Car and General (Kenya) Limited	Automobiles and Accessories	1950
9	Sameer Africa	Automobiles and Accessories	1994
10	Marshalls (E.A) Limited	Automobiles and Accessories	1987
11	Barclays Bank of Kenya Limited	Banking	1986
12	CFC Stanbic of Kenya Holdings Limited	Banking	1970
13	Diamond Trust Bank of Kenya Limited	Banking	1972
14	Equity Group Holdings Limited	Banking	2006
15	Housing Finance Group Limited	Banking	1992
16	I&M Holdings Limited	Banking	2013
17	KCB Group Limited	Banking	1989
18	National Bank of Kenya Limited	Banking	1994
19	NIC Group PLC	Banking	1971

20	Standard Chatered Bank Kenya Limited	Banking	1988
21	The cooperative Bank of Kenya Limited	Banking	2008
22	Atlas African Industries Limited	Commercial and Service	2014
23	Express Kenya Limited	Commercial and Service	1978
24	Kenya Airways Limited	Commercial and Service	1996
25	Longhorn Publishers Limited	Commercial and Service	2012
26	Nairobi Business Ventures Limited	Commercial and Service	2016
27	National Media Group Limited	Commercial and Service	1973
28	Standard Group Limited	Commercial and Service	1954
29	TPS Eastern Africa Limited	Commercial and Service	1997
30	Uchumi Supermarket Limited	Commercial and Service	1992
31	WPP Scan Group Limited	Commercial and Service	2006
32	Deacons East Africa PLC	Commercial and Service	2016
33	Hutchings Biemer Limited	Commercial and Service	1993
34	Athi River Mining Cement Limited	Construction &Allied	1997
35	Bamburi Cement Limited	Construction &Allied	1951
36	Crown Paints Kenya Limited	Construction &Allied	1992
37	E.A Cables Limited	Construction &Allied	1973
38	E.A Portland Cement Company Limited	Construction &Allied	1972
39	Ken Gen Company Limited	Energy and Petroleum	2006
40	Kenol Kobil Limited	Energy and Petroleum	1959
41	Kenya Power &Lighting Company Limited	Energy and Petroleum	1954
42	Total Kenya Limited	Energy and Petroleum	1988
43	Umeme Limited	Energy and Petroleum	2012

44	Britam Holdings Limited	Insurance	2011
45	CIC Insurance Group Limited	Insurance	2012
46	Jubilee Holdings Limited	Insurance	1984
47	Kenya Reinsurance Corporation Limited	Insurance	2006
48	Liberty Kenya Holdings Limited	Insurance	2007
49	Pan Africa Insurance Holdings Limited	Insurance	1963
50	Centum Investment Company Limited	Investment	1977
51	Home Afrika Limited	Investment	2013
52	Kurwitu Ventures Limited	Investment	2014
53	Olympia Capital Holdings Limited	Investment	1974
54	Trans-Century Limited	Investment	2011
55	Nairobi Securities Exchange Limited	Investment Services	2014
56	B.O.C Kenya Limited	Manufacturing and allied	1969
57	British American Tobacco Kenya Limited	Manufacturing and allied	1969
58	Carbacid Investments Limited	Manufacturing and allied	1972
59	East African Breweries Limited	Manufacturing and allied	1972
60	Eveready East Africa Limited	Manufacturing and allied	2006
61	Flame Tree Group Holdings Limited	Manufacturing and allied	2015
62	Kenya Orchards Limited	Manufacturing and allied	1959
63	Mumias Sugar Company Limited	Manufacturing and allied	2001
64	Baumann Company limited	Manufacturing and allied	1976
65	Unga Group Limited	Manufacturing and allied	1971

66	Safaricom Limited	Telecommunication and Technology	2008
67	Stanlib Fahari I-Reit	Real Estate Investment Trust	2015

Appendix II (b); Uganda Security Exchange

No.	Company	**Sector**	**Year**
1	BAT Uganda Ltd	Consumer Goods	2000
2	East African Breweries Ltd	Consumer Goods	2001
3	Kenya Airways	Consumer Services	2002
4	Nation Media Group	Consumer Services	2010
5	Uchumi Supermarkets	Consumer Services	2013
6	Vision Group	Consumer Services	2004
7	Bank of Baroda (Uganda) Ltd	Banking	2002
8	Centum Investment	Investment	2011
9	DFCU Ltd	Banking	2004
10	Equity Group	Banking	2009
11	Jubilee Holdings Ltd	Insurance	2006
12	Kenya Commercial Bank Ltd	Banking	2008
13	NIC Holdings	Banking	2010
14	Stanbic Bank Uganda Ltd	Banking	2007
15	Cipla Quality Chemical Industries Ltd	Health Care	2018
16	Uganda Clays Ltd	Industrials	2000
17	Umeme Ltd	Utilities	2012

Appendix II (c); Tanzania Security Exchange

No.	Company	Sector	Year
1	TOL Gases	Basic Materials	1998
2	East African Breweries	Consumer Goods	2005
3	Jatu	Consumer Goods	2020
4	Tanzania Breweries	Consumer Goods	1998
5	Tanzania Cigarette Company	Consumer Goods	2000
6	Tanzania Tea Packers (TATEPA)	Consumer Goods	1999
7	Kenya Airways	Consumer Services	2004
8	Nation Media Group	Consumer Services	2011
9	Precision Air Services	Consumer Services	2011
10	Uchumi Supermarket	Consumer Services	2014
11	CRDB Bank	Banking	2009
12	Dar es Salaam Commercial Bank	Banking	2008
13	KCB Group	Banking	2008
14	Maendeleo Bank	Banking	2013
15	Mkombozi Commercial Bank	Banking	2015
16	Mucoba Bank	Banking	2016
17	Mwalimu Commercial Bank	Banking	2015
18	National Microfinance Bank Plc	Banking	2008
19	Yetu Microfinance	Banking	2016
20	Jubilee Holdings	Insurance	2006
21	National Investments Company (NICOL)	Mutual Fund	2018
22	TCCIA Investment	Mutual Fund	2018
23	Dar es Salaam Stock Exchange	Stock Exchange	2016
24	Swissport Tanzania	Industrials	2003
25	Tanga Cement Company	Industrials	2002
26	Tanzania Portland Cement Company	Industrials	2006
27	Swala Oil and Gas (Tanzania)	Oil & Gas	2014
28	Vodacom Tanzania	Telecom	2017

Appendix II (d); Rwanda Security Exchange

No.	Company	Sector
1	Bralirwa	Consumer Goods
2	Nation Media Group	Consumer Services
3	Uchumi Supermarkets	Consumer Services
4	BK Group	Financials
5	Equity Group	Financials
6	I&M Bank Rwanda	Financials
7	KCB Group	Financials
8	RH Bophelo	Health Care
9	CIMERWA	Industrials
10	Crystal Telecom	Telecommunications

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