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Effect of Audit Committee Diversity on Quality of Financial Reporting in Non-Commercial State Corporations in Kenya

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ABSTRACT
The purpose of this study was to establish the effect of audit committee diversity on quality of financial reporting in non-commercial state corporations in Kenya. All the non-commercial state corporations that existed in 2005 were studied. The study was founded on stewardship theory, policeman theory, lending credibility theory and stakeholder theory. The study adopted descriptive research design and the target population of the study was the seventy two non-commercial state corporations that existed subsequent to the introduction of Treasury guidelines in 2005 on formation and operationalization of audit committees in the public sector. The study used a census survey on all 72 state corporations. The study employed stratified purposive sampling to select the respondents from the target population. The study used primary and secondary data. Primary data was obtained from administration of the questionnaires and the secondary data obtained from the Kenya National Audit Office annual reports, Audited Financial statements of state corporations and Finance Bills of the respective financial years. Descriptive statistics used were frequencies, mean and standard deviation, while inferential statistics used are correlation and regression analysis. Regression analysis was employed to measure relationships between dependent and independent variables. The findings from both correlation and regression analysis revealed that audit committee diversity had statistically significant relationship with the quality of financial reporting. This study recommended that when constituting audit committees in state corporations, consideration should be put on diversity. Diversity of audit committees should be evaluated based on gender, age, geographical orientation and tenure. Audit committees should consist of diversified members. This because demographic diversity of audit committee enhances the quality of firm's financial reporting.
Keywords: Quality of Financial Reporting, Audit Committee diversity

INTRODUCTION

Background of the Study

The Sarbanes Oxley Act of the United States defines an audit committee as "a committee established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer" (United States of America, 2002). It forms part of the governance structure of an entity and is arguably the most important and challenging sub-committee of any board of directors. Cadbury's committee report on the financial aspects of corporate governance concluded that an audit committee has the potential to improve the quality of financial reporting by reviewing the financial statements on behalf of the board (Cadbury Committee Report, 1992).

Literature has indicated that female members on the audit committee can strengthen corporate governance by their conservative and ethical qualities. Huse and Solberg (2006) found that female directors are better prepared for board meetings than male directors which results in improved board behaviour and effectiveness. These benefits should also be realized by audit committees with female membership.

The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making (IASB, 2008). Providing high quality financial reporting information is important because it will positively influence capital providers and other stakeholders in making investment, credit, and similar resource allocation decisions enhancing overall market efficiency (IASB, 2008). The accounting scandals of the early 2000s (Catanach and Rhoades 2003) clearly demonstrate the importance of quality of financial reporting. However, the interpretation of quality of financial reporting remains problematic due to different financial reporting environments, regulations, procedures, and understandings. One good definition on aspects of quality issues in financial accounting is from the corporate report of the Accounting Standards Steering Committee, Institute of Chartered Accountants in England and Wales (ICAEW 1975), which identifies seven qualitative characteristics viewed as desirable for the fulfilment of their fundamental objective of communicating decision-useful measurements: relevance, understandability, reliability, completeness, objectivity, comparability, and timeliness.

In the UK, the response was the establishment of the Smith Review (Smith Committee 2003) which provided a detailed set of recommendations for improving the governance role of audit committees which were subsequently included in the revised version of the Combined Code published in 2003. Subsequent revisions of the Combined Code in 2006 and 2008 as well as the UK Corporate Governance Code (Financial Reporting Council 2010) have essentially carried forward the existing recommendations for audit committees as suggested by the Smith Report (Smith Committee, 2003). Similar regulatory initiatives were introduced in many other countries for example, Australia, New Zealand, Spain, Singapore and China (Fichtner, 2010).

The aim of setting up audit committees in the public sector is to improve public governance (Kamolsakulchai, 2015). As a sub-committee of the governing body, an audit committee aims to provide assurance on financial and compliance issues through increased scrutiny, accountability, and the efficient use of resources. An audit committee may also serve an advisory function aimed at performance improvement within the organisation.

Audits serve a vital economic purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting by reducing the agency problem between citizens and government (Loft, Humphrey & Turley, 2006). In the literature available, auditors serve as "watchdogs" of the executive and the bureaucracy to improve transparency, fight misappropriation, fraud, corruption, wasteful usage of public funds, and general inefficiencies (Schelker, 2008). The focus of this study was to establish the influence of audit committee diversity on quality of financial reporting in in non-commercial state corporations in Kenya.

The study may also provide empirical findings that may be of importance to researchers and students in the areas of Finance, Accounting and Audit. These findings may be used to improve understanding of the concept of audit committees in the public sector and suggest various ways of improving their effectiveness in their roles of vetting the quality and integrity of financial statements of State Corporations. The study findings may also be an addition to existing literature on audit committees in Kenya as well as give comparison to similar past studies conducted in developed and developing economies on audit particularly for public sector entities. This study expounded on the utility of the theories adopted. The study expounded the use of agency theory, stewardship theory, the policeman theory, lending credibility theory, theory of inspired confidence and stakeholder theory to explaining the relationship between audit committees characteristics and quality of financial reporting in non-commercial state corporations in Kenya.

LITERATURE REVIEW

Theoretical Background

Stewardship theory has its roots from psychology and sociology and it stresses on the role of top management being as stewards, integrating their goals as part of the organization as opposed to the agency theory perspective (Argyris & Schon, 1974). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory also holds that managers do have similar interests to the corporation, in that the careers of each are linked to the attainment of organisational objectives, and their reputations are interwoven with the firm's performance and shareholder returns (Mattor & Cheng, 2015).

The policeman theory claims that the audit and assurance process is responsible for searching, discovering and preventing fraud. This was the case in the early 20th century. However, more recently the main focus of this process has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud and manipulation of financial information. This was the most widely held theory on auditing until the 1940s (Hayes, Schilder, Dassen & Wallage, 1999).

The lending credibility theory suggests that the primary function of the audit process is to add credibility to the financial statements. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management. The users' are perceived to gain benefits from the increased credibility and these benefits are typically considered to be that the quality of investment decisions improve when they are based on quality and reliable information (Hayes et al., 1999). This theory also known as the theory of rational expectations was developed in the late 1920s by Dutch professor Theodore Limperg (Hayes et al., 1999). It was advanced to address both the demand and the supply for audit services.
Stakeholder Theory suggests that stakeholders of an entity demand accountability from the management, in return for their investments. Accountability is realized through the issuance of periodic financial reports which are subjected to independent opinion of the external auditor. Solomon (2007) contended that a basis for stakeholder theory is that companies are so large, and their impact on the society is so pervasive, that they should discharge accountability to many more sectors of the society than solely their shareholders; they should include employees, suppliers, customers, creditors, communities in the vicinity of the company's operations, and the general public. Creditors have an interest in getting their loans repaid on schedule; suppliers have an interest in securing fair prices and dependable buyers; customers have a stake in getting value for money. Basically, this theory is used to help understand the groups and individuals that can affect, and are affected by, the achievement of an organization's purpose, and those effects may be economic, regulatory, technological, social, political and managerial.

Empirical Literature Review
Wakaba (2014) investigated the effect of audit committee characteristics on financial performance of companies listed at the Nairobi securities exchange. The research was aimed at establishing the effect of audit committee characteristics on firm performance among listed firms in Nairobi securities exchange, Kenya. The study utilized data from 46 companies as the other 14 companies had either been recently listed or had inconsistently traded in the NSE. Research findings showed that audit committee experience, committee gender diversity, audit committee size and number of independent auditors has a significant effect on firm performance. Huang, Yan, Fornaro and Elshahat (2011) also conducted a study on the market reactions to audit committee director's gender with evidence from US-traded foreign firms. The study hypothesized that female members on the audit committee can strengthen corporate governance by their conservative and ethical qualities. The study found that the appointment of female audit committee members had significant positive cumulative abnormal returns compared to the appointment of male audit committee members.

Ittonen, Miettinen and Vahamaa (2009) found evidence that firms with female representation on the audit committee reduces the inherent risk of misstatements. Their results have implications for external auditing since they also find that gender diversity is associated with lower audit fees. Huse and Solberg (2006) found that female directors are better prepared for board meetings than male directors which results in improved board behaviour and effectiveness. These benefits should also be realized by audit committees with female membership.

RESEARCH METHODOLOGY

The study adopted a positivism philosophy. Positivists believe that reality is stable and that it can be described from an objective viewpoint, without interfering with the phenomena being studied. The study further employed descriptive research design. This study comprised of seventy two (72) state corporations that existed in 2006/2007 financial year from which the target population was drawn. The respondents comprised of top and middle level employees in the audit department of the non-commercial state corporations. These categories were chosen because of their expected proximity to confidential information about audit committee members qualifications and experience as well as general operations of the audit committee. Stratified purposive sampling was used in selecting the sample respondents.
A sample of one (1) employee from every non-commercial state corporation was selected to be the respondents. Stratified purposive sampling was applied to select the head of audit department to represent top level management in each state corporation who were issued with a questionnaire to respond to research statements. Questionnaires were used to obtain primary data of the study variables. Annual budgets and value of queried transactions were obtained from the Finance Bill and the annual report of the Auditor General respectively of the respective financial years. These two sets of secondary data were used to compute ratio of queried transactions to annual budget of the state corporations. The models were tested on how well they fit the data and at the same time the significance of each independent variable was tested using Fischer distribution test, F-test and beta coefficient at 95% confidence level.

ANALYSIS, FINDINGS AND DISCUSSIONS

Respondents Background Information

The background information sought included education level, respondent work experience and professional qualification of the respondents. The information was intended to ascertain the credibility of the respondents to provide the information necessary for this study.

Table 1: Respondents Background Information

Demographic Characteristics		**Percent (%)**
Highest level of education	Polytechnic / College level	17.4
	University level	34.8
	Post graduate level	47.8
	Total	**100**
Work Experience of the respondents	Less than 2 years	4.3
	3 to 5 years	47.8
	Over 5 years	47.8
	Total	**100**

The results indicated that majority of the respondents had post graduate level of education while those who had university level were the second largest and finally those with polytechnic/college level were the least. The findings imply that all the respondents had post-secondary education which justifies why they hold top management positions in their respectively entities. The study findings show that majority of the respondents had worked for between 3 and 5 years and over 5 years with an equal percentage of 47.8%. Those who had worked for less than 2 years were the least with a percentage of 4.3%. The results imply that the respondents had stayed longer enough to provide the information required for the study. The respondents of this study included the heads of internal audit which were privy to the detailed and confidential information about audit committee members by the virtue of being the secretary to the committee (Aryan, 2015).

Data Normality Test

The assumption of linear regression requires that the data should be normally distributed. Therefore to test the normality of the dependent variable, Ratio of Queried Transactions to Annual Budget, a One-Sample Kolmogorov-Smirnov Test (KS) was conducted. The Kolmogorov-Smirnov test (also known as the K-S test or one sample Kolmogorov-Smirnov test) is a non-parametric procedure that determines whether a sample of data comes from a specific distribution, i.e., normal, uniform, Poisson, or exponential distribution. It is mostly used for evaluating the assumption of univariate normality by taking the observed cumulative distribution of scores and comparing them to the theoretical cumulative distribution for a normally distributed variable. The null and alternative hypotheses are stated below.

H_o: The data is normally distributed

H_1: The data is not normally distributed

The rule is that if the p-value is greater than 0.05, H_o is accepted and H_1 is rejected, if the p - value is less than 0.05, H_o is rejected and H_1 is accepted.

Table 2: One-Sample Kolmogorov-Smirnov Test

		Ratio Queried Transactions to Annual Budget	AC Diversity
N		46	46
Normal Parameters a,b	Mean	1.232139	4.1141
	Std. Deviation	3.22507	0.7865
Most Extreme Differences	Absolute	0.351	0.308
	Positive	0.348	0.144
	Negative	-0.351	-0.308
Kolmogorov-Smirnov Z		0.382	0.087
Asymp. Sig. (2-tailed)		0.621	0.213

a Test distribution is Normal.

b Calculated from data.

The results obtained indicate that Kolmogorov-Smirnov Z statistic for all the variables was greater than 0.05, the null hypothesis was accepted and concluded that the data for all the variables was normally distributed and therefore fit for linear regression analysis.

Trend in Male Members in Audit Committee in Non-Commercial State Corporations

The study intended to establish the level of gender diversity in non-commercial state corporations in Kenya.

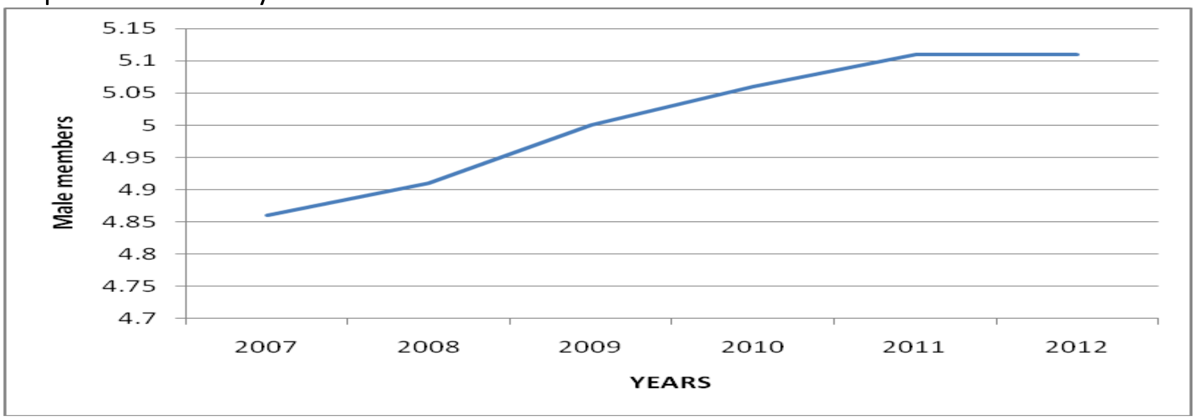

Figure 1: Trends in Male Members in Audit Committee

The study analysed the trends in the male members in audit committees from 2007 to 2012. The results of trend analysis revealed that the male members in audit committee in non-commercial state corporations in Kenya had been increasing steadily from 2007 to 2012. The findings implied that male members have continued to dominate audit committees in non-commercial state corporations in Kenya. Ruegger and King (1992) also found out that male members are mostly over represented in audit committee compared to female.

Trend in Female members in Audit committee in non-commercial state corporations

The study further sought to find out the trend in the female members in Audit committee in non-commercial state corporations in Kenya. The result showed that there was an increasing trend in the number of female members in audit committee in non-commercial state corporations in Kenya.

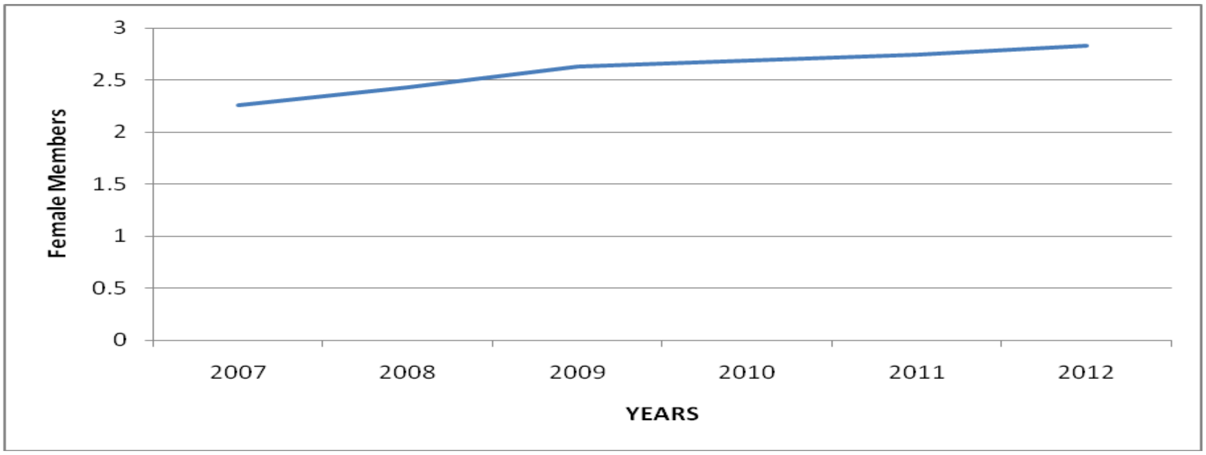

Figure 2: Trends in Female members in Audit committee

The results implied that as the number of audit committee increases, the number of female members have also been increasing. Huang, Yan, Fornaro and Elshahat (2011) also conducted a study on the market reactions to audit committee director's gender with evidence from US-traded foreign firms. The study hypothesized that female members on the audit committee can strengthen corporate governance by their conservative and ethical qualities. Huse and Solberg (2006) found that female directors are better prepared for board meetings than male directors which results in improved board behaviour and effectiveness. These benefits should also be realized by audit committees with female membership.

Trend in Members with similar tenure in Audit committees of state corporations

To assess the level of diversity and independence, the study analysed the trend in the audit committee members with a similar tenure in non-commercial state corporations in Kenya.

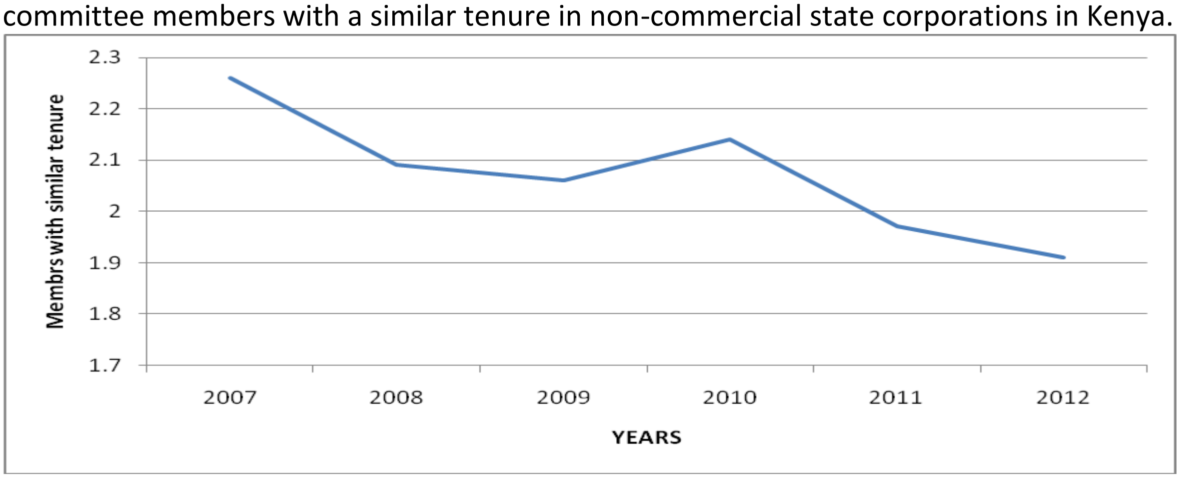

Figure 3: Trends in Members with Similar Tenure in Audit Committee

The result showed that there was decreasing trend in the number of members with similar tenure in audit committee in non-commercial state corporations from 2007 to 2009 before increasing up to 2010. This was followed by a decrease in members with similar tenure in audit committee in state corporations from 2010 to 2012. The year 2007 had the highest number of members with similar tenure in audit committee in state corporations while 2012 had the lowest number. The study by ICPAK (2015) also established that sixty seven percent (67%) of the respondents had no succession provisions given that the tenure for all members of Boards came to an end at the same time.

4.6.9 Trend in Age Diversity of Audit committee in state corporations

The study further assessed the trend in age diversity of audit committee in state corporations. The trend analysis results showed the highest number of members between ages 20-35 years in audit committee in non-commercial state corporations in 2009 and lowest number in 2007. The year 2010 and 2011 had the same number of members aged between 20-35 years.

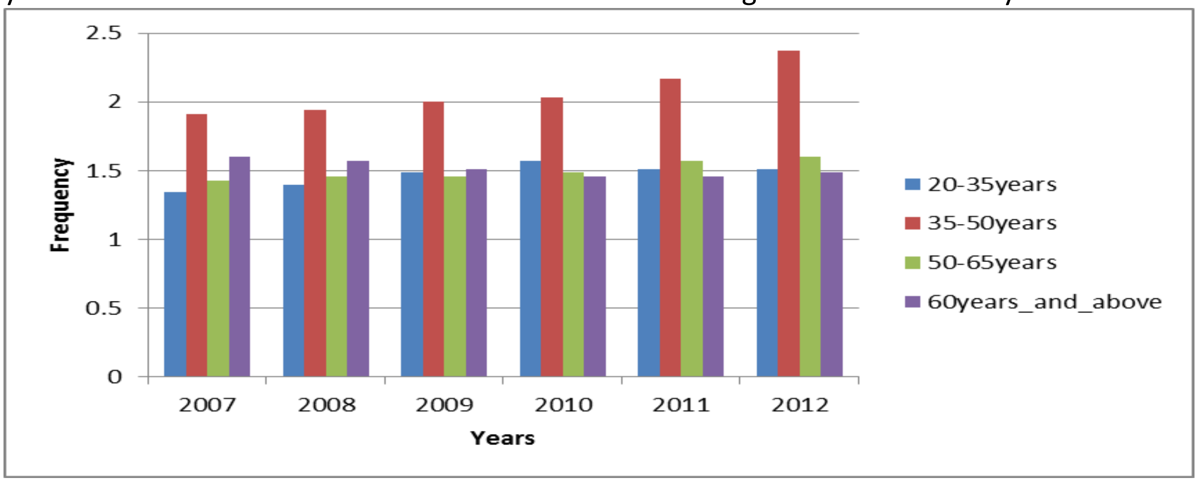

Figure 4: Trends in Age Diversity in Audit Committee

The trend analysis results revealed that there was an increasing trend in members between the ages of 36-50 years in audit committee in non-commercial state corporations. The year 2011 had the highest number of members between the ages of 36-50 in audit committees in state corporations with 2007 recording the lowest number. The results revealed an increase in the number of members between the ages of 51-65 years in audit committee in state corporations from the year 2009 to 2012. The year 2007 had the lowest number of members between the ages of 51-65 years in audit committee in state corporations. Trend analysis results showed that the year 2007 had the highest number of members of age 66 years and above in the audit committee in state corporations. The year 2010 and 2011 recorded the same number of members before increasing in 2012.

Miller and Del-Carmen (2009) noted that age diversity is an often overlooked element in the boardrooms. Board members tend to be older, as many boards equate age with experience. Deloitte (2014) board practices report found marginal evidence of generational diversity in boardrooms, with so-called “younger” directors being in their fifties. The report suggested that while older directors do provide a wealth of knowledge, having younger directors introduces a fresh perspective into the boardroom which should not be underestimated.

Descriptive Analysis for Audit Committee Diversity

The study also sought to establish the effect of audit committee diversity on quality of financial reporting in non-commercial state corporations in Kenya. The result on the statement was used to measure the diversity of audit committees in non-commercial state corporations.

Table 3: Descriptive Results for Audit Committee Diversity

Statements	SD	D	N	A	SA	Mean	Std dev	CoV
Our audit committee has members of different age groups	4.3%	4.3%	4.3%	34.8%	52.2%	4.3	1.0	0.24
Our audit committee has diversified regional representation	8.7%	2.2%	4.3%	41.3%	43.5%	4.1	1.2	0.29
Audit committee members have different office tenure	6.5%	8.7%	4.3%	39.1%	41.3%	4.0	1.2	0.30
Our audit committee have fair representation of both male and female members	4.3%	4.3%	4.3%	50.0%	37.0%	4.1	1.0	0.24

The study intended to find out whether audit committees in non-commercial state corporations in Kenya had members of different age groups, the results showed that 52.2% and 34.8% strongly agreed and agreed with the statement. The statement on age diversity had a mean of 4.3 which confirmed that majority of the respondents agreed that audit committees had members of different age groups. The result also revealed a standard deviation of 1.06 and coefficient of variation of 0.52 which indicated that majority of the respondents disagreed and slight variation in the response. The findings however appear to contradict what other authors have reported on the issue of age group representation in the boards. For instance, Miller and Del-Carmen (2009) noted that age diversity is an often overlooked element in the boardrooms since most board members tend to be older, as many boards equate age with experience. Deloitte (2014) report on board practices report found marginal evidence of generational diversity in boardrooms, with so-called “younger” directors being in their fifties. The reported suggested that while older directors do provide a wealth of knowledge, having younger directors introduces a fresh perspective into the boardroom which should not be underestimated.

State corporations in general have the mandate to provide services to all citizens in a country therefore the aspects of regional representation in the boards and other sub committees such as audit committees is key to regional penetration. The study was interested in finding out whether the audit committees in state corporations had regional diversity. In the result presented in table 10, it indicated that the statement had a mean of 4.1, a standard deviation of 1.2 and a coefficient of variation of 0.29. These findings implied that majority of the respondents agreed that audit committees in the non-commercial state corporation had regional representation. Audit committees in most cases had membership of about 7 hence achieving regional diversity was highly likely.

The study further sought to find out whether audit committee members in non-commercial state corporations had different office tenure, 41.3% strongly agreed, 39.1% agreed those who disagreed were 15.2%. The findings further showed that the statement had a mean of 4.0, a standard deviation of 1.2 and a coefficient of variation of 0.30. These findings implied that majority of the respondents agreed that audit committees in the non-commercial state corporations had different office tenure. These findings however contradicted the study by ICPAK (2015) that established that sixty seven percent (67%) of all members of Boards in state corporations had tenure that would come to an end at the same time.

Finally, the study sought to find out whether audit committees in non-commercial state corporations had fair representation of both male and female members. The findings revealed that 50% of the respondents agreed, 37% strongly agreed, strongly disagree, disagree and neutral had equal proportion of 4.3% of the respondents. The findings showed that all the statement had a mean of 4.1 which implied that majority of the respondents' agreed with the statements in the questionnaire. The standard deviation and coefficient of variation of the statement was 1 and 0.24 respectively implying that the responses varied slightly from the mean. The finding implied that the respondents felt that the audit committees in non-commercial state corporations were diversified in terms of gender.

Diversity in an audit committee is an important characteristic in enhancing the quality of financial reporting. For instance, different genders have different attitudes and ethical conduct in performing their duties. Bilic & Sustic (2011) found that women are more ethical in performing their duties than men. The presence of women on the board enhances the ability of the business to run healthily and a female presence is considered as a compliment to the male directors. Huang *et al*. (2011) argues that women are more sensitive to establishing communications and helping others, hence, are less likely to do unethical actions such as manipulation of earnings, timeliness lag in reporting financial information, withholding vital information and reporting over ambitious income. Huang & Thiruvadi, (2010) found that audit committees that have at least one female director function differently than male dominated audit committees.

Correlation Results
The objective of this study aimed at establishing the effects of audit committee's diversity on quality of financial reporting in non-commercial state corporations in Kenya.

Table 4: Correlation Results for Audit Committee Diversity and Ratio of Queried Transactions

		Ratio of Queried Transactions to Annual Budget	Audit committee Diversity
Ratio of Queried Transactions to Annual Budget	Pearson Correlation	1	-0.392**
	Sig. (2-tailed)		.004
	N	46	46
Audit committee Diversity	Pearson Correlation	-0.392**	1
	Sig. (1-tailed)	.004	
	N	46	46

The findings showed that audit committee diversity had a negative and significant ($r=-0.392$, $p=0.004$) association with quality of financial reporting measured by the ratio of queried transactions to annual budget. Increasing diversity was found to have positive effects with quality of financial reporting since it reduced the ratio of queried transactions to annual budget. The findings of this study therefore implied that having audit committee with generational diversity, regional representation diversity, tenure diversity and gender diversity would assist in improving the quality of financial reporting by non-commercial state corporations.
Huse and Solberg (2006) also found that female directors are better prepared for board meetings than male directors which results in improved board behaviour and effectiveness. Deloitte (2014) reported suggested that while older directors do provide a wealth of knowledge, having younger directors introduces a fresh perspective into the boardroom which should not be underestimated. Huang and Thiruvadi, (2010) found that Audit committees that have at least one female director function differently than all male audit committees.

Regression Analysis Results
A regression model was fitted with audit committee diversity as the independent variable while ratio of queried transactions to annual budget as the dependent variable. The model summary result indicated that audit committee diversity explained 15.3% of the variation in the ratio of queried transactions to annual budget ($R^2=0.153$) while the remaining percentage of 84.7% was explained by other variables not in this model.

Table 5: Model Summary for Audit Committee Diversity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.392[a]	.153	.134	3.0010855170

F-test was further carried out to test the null hypothesis that there is no significant impact of audit committee diversity and quality of financial reporting (ratio of queried transactions to annual budget) of non-commercial state corporations in Kenya. The results of ANOVA test show that the F value was 7.968 with a significance of p value = 0.007 which was less than 0.05, meaning that null hypothesis was rejected and concluded that there is a relationship between audit committee diversity and quality of financial reporting (ratio of queried transactions to annual budget) of non-commercial state corporations in Kenya.

Table 6: ANOVA for Audit Committee Diversity

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	71.762	1	71.762	7.968	.007[b]
	Residual	396.287	44	9.007		
	Total	468.048	45			

To further test the significance of regression relationship between audit committee diversity and quality of financial reporting (ratio of queried transactions to annual budget), the regression coefficients (β), the intercept (α), and the significance of all coefficients in the model were subjected to the t-test to test the null hypothesis that the coefficients are zero.

Table 7: Regression Coefficients for Audit Committee Diversity

	B	Std. Error	Beta	t	Sig.
(Constant)	2.46	1.381		1.781	0.082
Audit committee Diversity	-1.117	0.396	-0.392	-2.823	0.007

The results on the beta coefficient of the resulting model showed that the constant α = 2.46 was significantly different from 0, but statistically insignificant since the p- value = 0.082 was greater than 0.05. The coefficient *β* = -1.117 was significantly different from 0 with a p-value=0.007 which was less than 0.05. The results imply that a unit change in audit committee diversity will result in -1.117 units change in ratio of queried transactions to annual budget. This confirmed that there was a significant negative linear relationship between audit committee diversity and ratio of queried transactions to annual budget of non-commercial state corporations in Kenya. The reduction in the ratio of queried transactions to annual budget implies improved quality of financial reporting therefore these findings further implied that increase in audit committee diversity was found to result to increase in quality of financial reporting. Huse and Solberg (2006) also found that female directors are better prepared for board meetings than male directors which results in improved board behaviour and effectiveness. These benefits should also be realized by audit committees with female membership. Similarly, Huang *et al*. (2011) argued that women are more sensitive to establishing communications and helping others, hence, are less likely to do unethical actions such manipulation of earnings, timeliness lag in reporting financial information, withholding vital information and reporting over ambitious income. Huang and Thiruvadi, (2010) found that Audit committees that have gender diversity function differently than all male audit committees.

Conclusion

From the findings, the study concluded that audit committees must have audit committee diversity in order to execute their roles and mandate effectively. This will enhance the quality of their financial reporting. The primary objective of financial reporting is to provide high-quality financial reporting information concerning economic entities, primarily financial in nature, useful for economic decision making.

Recommendations

This study also recommended that when constituting audit committees in state corporations, consideration should be put on diversity. Diversity of audit committees should be evaluated based on gender, age, geographical orientation and tenure. Audit committees should consist of diversified members. This is because demographic diversity of audit committee influences the quality of firm‘s financial reporting.

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