AN EVALUATION OF AUDIT COMMITTEE CHARACTERISTICS AND PERFORMANCE OF MANUFACTURING AND ALLIED FIRMS LISTED ON NAIROBI SECURITIES EXCHANGE, KENYA

BY

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DECLARATION AND APPROVAL

DECLARATION BY THE CANDIDATE

I certify that this project report is my original work and it has not been presented for a degree in any other University.

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APPROVAL BY THE SUPERVSOR

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DEDICATION

I dedicate to my Father Festus Wanyanga, My Mother Fhylice Wanyanga, wife, siblings and my entire family for their support and understanding they gave me during the entire period of my studies.

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I thank the Almighty God for the love mercy and grace of life and knowledge that he gave me. I acknowledge my Supervisor Dr. Robert K. Mule, who guided me throughout the research project and the entire lectures of Maseno University, and the inspiration in my scholar. The Management and staff of Nairobi Securities Exchange for availing the necessary data making this project a success God blesses you.

ABSTRACT

Despite the fact that the manufacturing and allied firms provide important component to economic growth and development to Kenyan economy, evidence showing a clear link between audit committee size, independence, gender diversity, and experience on performance of firms is lacking. Studies have argued that a more experienced and active audit committee is expected to provide a mechanism for effective oversight of the company while those studies assessing the relative impact of audit committee size, audit committee independence, audit committee gender diversity and audit committee experience on performance are limited. The purpose of the study was to evaluate audit committee characteristics and performance of manufacturing & allied firms listed on the NSE. Specific objectives were to; establish the relationship between audit committee size and performance, ascertain the relationship between audit committee independence and performance, determine the relationship between audit committee gender diversity and performance, and establish the relationship between audit committee experience and professional and performance of manufacturing & allied firms listed at the NSE. The study utilized a correlational research design targeting all the 9 listed manufacturing and allied firms on NSE for the period 2006 to 2013 collected annually yielding 63 data points. Primary data was collected through interview with the CEOs. Secondary data was collected through desk analysis using a data collection sheet. Data analysis was done using statistical techniques including, Pearson's product moment correlation and multiple regression analyses. Results indicated that audit committee gender diversity (β_2= -1.165, t= 3.809 $\rho<0.001$) meaning that a firm whose audit committee is gender not diversity is less likely to perform as compared to one that is diversity. Audit committee independence (β_3= 0.814, t= 4.426 $\rho<0.001$) meaning firms with independent audit committee members is more likely to perform than that without audit committee independent, were significant predictors of firm performance for audit committee gender diversity and independence. Audit committee experience and firm performance shows (r =0.502, p= 0.000) there was, significant positive correlation between audit committee experience and performance, on performance and audit committee size shows (r=-0.131, p= 0.0318) was not significant with firm performance. The study concludes that committee size has no significant relationship with firm performance while audit committee independence, audit committee gender diversity and audit committee experience has significant relationship with firm performance. The study recommends that the firms should not concentrate on audit committee size since it does not greatly influence performance, firms should invest more in ensuring audit committee independence, audit committee gender diversity and ensuring thorough audit committee experience as they significantly influence firm performance.

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ABBREVIATIONS AND ACRONYMS

AICPA	American Institute of Certified Public Accountants
AIMS	Alternative Investment Market Segment
ATS	Automated Trading System
BRC	Blue Ribbon Commission
CEO	Chief Executive Officer
CMA	Capital Markets Authority
DAC	Discretionary Accruals
GDP	Gross Domestic Product
GoK	Government of Kenya
MIMS	Main Investment Market segment
NSE	Nairobi Securities Exchange
PCAOB	Public Company Accounting Oversight Board
SEC	Securities & Exchange Commission
U.S.A	United States of America
MALF	Manufacturing and allied firms

OPERATIONAL DEFINITION OF TERMS USED IN THE STUDY

Audit Committee	Is an independent body answerable directly to the Board of Directors and is responsible for verifying that the operations of the, organization has been conducted according to the financial regulations and its books kept in a proper manner. It provides independent review and oversight of company financial reporting system.
Audit Committee Characteristics	Refers to audit committee attributes namely audit committee size, audit committee independence, audit committee gender diversity and audit committee experience.
Performance:	Refers to the best practice in implementing financial activities and production of financial reports, constant review of the quality in preparation of accounting and financial data and use of accounting and financial guiding principles. This was measured in terms of net profit after tax.
Manufacturing firms	Refers to any entity business that uses components, parts or raw materials to make finished goods. These goods can be sold directly to consumers or to manufacturing business.

CHAPTER ONE

INTRODUCTION

This chapter sets the background to the study, statement of the research problem, study objectives, research hypothesis scope, justification of the study and the conceptual framework.

1.1 Background of the Study

In the contemporary capital market environment, Brigham and Houston (2001) notes that intense competitive forces have exerted pressure on companies to devise means of enhancing their performance and stakeholder's satisfaction. Often, as pointed out by Copeland (2005), firms have recognized the significance of ensuring an effective audit board composition and characteristics play a pivotal role in maximizing the financial performance.

An Audit Committee is an independent body answerable directly to the Board Of directors and is responsible for verifying that the financial, operations are conducted according to the financial regulations and its books kept in a proper manner Pandey (2006). Often, as noted by Coleman (2007) the primary function of the audit committee is to assist the board in fulfilling its oversight responsibilities to ensure the integrity of the Company's financial statements, Company's compliance with legal and regulatory requirements, the independent auditor's qualifications, independence and performance of the Company's internal audit functions.

The reports of the Audit Committee on the results of its work during the preceding year are sent to the Board of Governors together with the annual report of the Board of Directors. The Audit Committee is composed of at least six members, appointed by the board of directors for a non-renewable term office of six consecutive financial years Coleman (2007). The decision on the audit committee characteristics is fundamental for listed manufacturing company due to the need to maximize returns to the various stakeholders Pandey (2006).

Firm performance implies measuring the results of a firm's Policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, and value added. Performance differences in firms are often the subject of academic research and government analysis (Verreynne and Meyer (2008). According to Naser and Mokhtar (2004) financial performance has implications to organization's health and ultimately its survival. As observed by Iswatia, and Anshoria (2007), company's performance is very essential to management and other stakeholders such as shareholders, debt holders, general public and the government. Globally, theoretical literature links audit committee characteristics and firm Performance positively Tettamanzi, (2006), Burgess and Tharenou (2002). However, empirical studies on the relationship between audit committee characteristics and performance have posted inconclusive results Abbott, *and* Xie 2003 and Carcello, (2002).They emphasize on the need for audit committees to be comprised of members who are independent and should possess financial expertise, Bronson *(*2009), Chan and Li, (2008), Abbott (2004) and Carcello and Neal *(*2002). Hence the need to carry out research on manufacturing and allied firms.

According to Wakaba (2014) forecast on all listed firms on NSE audit committee significant affect firm performance however there was no relationship between audit committee independence and firm performance. Manufacturing and allied sector contribute immense towards economy growth and development therefore the need to carry out the research to this sector and fill the glaring gap. However evidence is lacking showing a clear link between audit committee size and performance of manufacturing and allied firms listed at NSE (Kenya).

Other studies seem to concentrate on audit committee diligence, which refers to the frequency in which audit committees meet, and these have been shown to have a potentially positive impact on firm performance Sharma, (2009), Raghunandan & Rama,(2007) and Abbott (2004). According to Abbott (2004), audit committees that meet at least twice a year may decrease the potentiality of misleading and fraudulent reporting of the financial information. Few studies have considered the number of independent auditors (Harrast & Olsen (2007), Conyon and He, (2004), Raghunandan & Rama, (2004), Abbott (2000 and Carcello and Neal, (1999).

For example, Abbott (2000) in USA studied the audit committee characteristics and restatements and found that firms with audit committees which are composed of independent directors and which meet at least twice per year are less likely to be sanctioned for fraudulent or misleading reporting, and affect both companies' earnings management and investors' perceptions. Globally, studies on audit committee gender diversity and performance are scanty Bernardi (2005), Dennis and Kunkel, 2004, Li and Wearing, (2004) and Wood, (2003).The dominant theme amongst these studies is that they viewed masculine characteristics as the standard in male styles of leadership and management, while feminine styles of leadership and communication such as supportiveness, attentiveness, and collaboration, are marginalized.

Some of these studies document that female nonexecutive directors are at a disadvantage in gaining promotions to positions such as chair of the audit committee. Audit committees with one or more female directors would function differently than that with all male directors. However, none has examined the effect of gender differences on manufacturing firm performance, hence the need to fill in this glaring gap in the literature review.

1.2 Statement of the Problem

Manufacturing & allied firms listed on NSE provide investment component for economic growth and development to Kenyan economy. Studies have argued that a more experienced audit committee is expected to provide a mechanism for effective oversight of the company. These issues have been seldom addressed within the context of manufacturing and allied firms but continue to face numerous challenges notably weak corporate governance mechanisms corporate failures, financial scandals and accounting errors.

The reviewed study used managerial finance, financial mismanagement, banking performance and earning quality as a measure of performance and corporate governance, audit committee financial expert and audit committee as independent variables.

Most firms listed on Nairobi Securities Exchange have put in place audit committee as a measure of ensuring enhanced performance and investor confidence. Despite all these, a number of the listed firms still face numerous performance challenges with even some going under. Though literature links audit committee characteristics to firm performance, not much from the reviewed literature has been done to evaluate their relationship. This study therefore was designed to conduct an evaluation of audit committee characteristics and performance of manufacturing & allied firms listed at the NSE Kenya.

1.3 Objectives of the Study

The general objective of the study was to evaluate the relationship between audit committee characteristics and performance of manufacturing & allied firms listed on the Nairobi Securities Exchange, Kenya.

Specifically, the study sought to:

1. Establish the relationship between audit committee size and performance of manufacturing & allied firms listed on the Nairobi Securities Exchange, Kenya.
2. Ascertain the relationship between audit committee independence and performance of manufacturing & allied firms listed on the Nairobi Securities Exchange, Kenya.
3. Determine the relationship between audit committee gender diversity and performance of manufacturing & allied firms listed on the Nairobi Securities Exchange, Kenya.
4. Establish the relationship between audit committee experience and performance of manufacturing & allied firms listed on the Nairobi Securities Exchange, Kenya.

1.4 Research Hypothesis

H_{o1} **Audit** committee size has no significant relationship with performance of manufacturing firm Listed on the Nairobi securities exchange.

H_{A1} **Audit** committee size has significant relationship with performance of Manufacturing and allied firms Listed on the Nairobi securities exchange.

H_{o2} Audit committee independence has no significant relationship with performance and manufacturing and allied firms listed on the Nairobi Securities Exchange.

H_{A2} Audit committee independence has significant relationship with performance of manufacturing and allied firms listed on the Nairobi Securities Exchange.

H_{o3} Audit committee gender diversity has no significant relationship with performance and manufacturing and allied firms listed on the Nairobi Securities Exchange.

H_{A3} Audit committee gender diversity has significant relationship with performance and manufacturing and allied firms listed on the Nairobi Securities Exchange.

H_{o4} Audit committee experience has no significant relationship with performance and manufacturing and allied firms listed on the Nairobi Securities Exchange.

H_{A4} Audit committee performance experience has significant relationship with and manufacturing and allied firms listed on the Nairobi Securities Exchange.

1.5 Scope of the Study

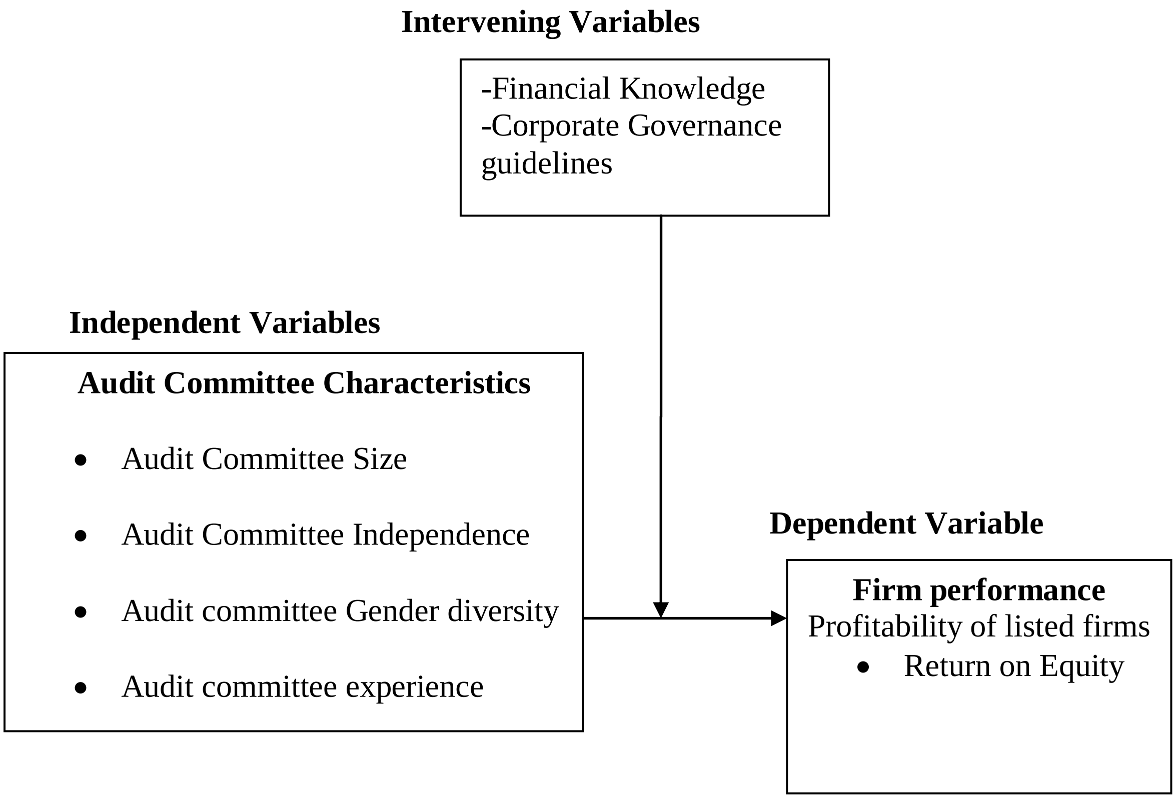
The study specifically focused on an evaluation of the relationship between audit committee characteristics and performance of manufacturing and allied firms listed on the Nairobi Securities Exchange. The specific audit committee characteristics constructed under study included evaluation of characteristics namely audit committee size, audit committee independence, audit committee gender diversity and audit committee experience and performance as practiced by manufacturing and allied firms listed on Nairobi Security Exchange NSE (Kenya). The study was conducted on nine (9) manufacturing and allied firms listed on the NSE (K) for the period ranging from 2006 to 2013.

1.6 Justification of the Study

Majority of studies have focused on the relationship between independent auditors and quality of financial reporting in developed countries like USA, Europe and Asian countries. In Kenya, guidelines on audit committees especially number of independent auditors were issued in 2000 by the Capital Markets Authority; it is not clear how the independence of audit committee members may affect performance of manufacturing firms listed in Kenya.

Despite the importance of these issues, assessing the relative impact of audit committee size, audit committee independence, audit committee gender diversity and audit committee experience on performance has received scant empirical study. These issues have only been seldom addressed within the context of NSE firms. Therefore, the study was expected to provide useful insight into improving audit quality and firm performance. This study contributed to the audit literature as it provided additional empirical evidence on the impact on audit committee size, audit committee independence, audit committee gender diversity and audit committee experience on manufacturing firm performance. This study was useful to stakeholders on Nairobi Securities Exchange (NSE) and other firms as it provided evidence on the relationship between audit committee characteristics and the reform instituted by them in formulating the Corporate Governance Guidelines for listed companies in Kenya.

1.7 Conceptual Framework



Source: Adapted from Coleman (2007)

Figure. 1.1: Audit Committee Characteristics and Firm Performance Relationship

The above conceptual framework showed the relationship between audit committee characteristics and performance of manufacturing and allied firms listed in NSE (K). In the conceptual framework, the independent variables were the audit committee characteristics namely audit committee size, Audit committee independence, audit committee gender diversity and audit committee experience. The dependent variable was the firm performance which was measured in terms of Return on Equity. In addition, there existed two intervening variables which included; financial knowledge and corporate governance guidelines It was assumed that there was a relationship between the independent and dependent variables, independent and intervening variables and independent, intervening and dependent variables.

CHAPTER TWO

LITERATURE REVIEW

The chapter presents both theoretical and empirical literature from different sources on the study's thematic areas. The areas reviewed include audit committee size, audit committee independence, audit committee gender diversity, audit committee experience, and review of past studies.

2.1 Theoretical Literature

2.1.1 The Agency Theory

Agency theory is defined as the relationship between the principals, such as shareholders and agents of the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hires the agents to perform the work. Principals delegate the running of business to the directors or managers, who are the shareholder’s agents (Clarke, 2004). Agency theory suggests that employees or managers in organizations can be self-interested. The agency theory shareholders expect the agents to act and make decisions in the principal’s best interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals Padilla, (2000). The agent may succumbed to self-interest, opportunistic behavior and falling short of congruence between the aspirations of the principal and the agent’s pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008).

The agents are controlled by principal-made rules, with the aim of maximizing shareholders value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there is a separation, the agency model will be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and are bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976).

The separation of ownership and control in modern business creates conflicts of interest between managers and shareholders. Following this conflict between the principal and the agent, companies are obliged to use control mechanisms to reduce agency costs and information asymmetry like the audit committees (Kalbers, 1998). Similarly Pincus (1989) argues that audit committees are used primarily in situations where agency costs are high to improve the quality of information flows from the agent to the principal. According to the agency theory, to ensure the effectiveness of an audit committee, managers are encouraged to prepare financial statements adequately to specify the return generated by the companies (Abbott 2003, Xie 2003 & Carcello 2002). They emphasize on the need for audit committees to be comprised of members who are independent and should possess financial and professional expertise and experience, (Bronson 2009, Chan and Li, 2008 Abbott 2004 and Carcello 2002). Firms listed on NSE continue to face financial scandals hence need for research on manufacturing and allied firms.

Beasley (1996) and Felo (2003) based on the agency theory provide for the existence of a positive and significant relationship between the presence of an audit committee and the quality of financial statements. Similarly Mc Mullen, (1996), based on the agency theory, finds a positive relationship between the existence of an audit committee and the reliability of financial statements. The agency theory states that the presence of an audit committee within the board of directors is sufficient to ensure the reliability of financial statements. However, Beasley (1996) concluded that the mere presence of an audit committee does not necessarily mean that this committee is effective in performing its oversight role. There is need to review manufacturing and allied firms listed on NSE. According to Abbott (2004), audit committees that meet at least twice a year may decrease the potentiality of misleading and fraudulent reporting of the financial information. Few studies have considered the number of independent auditors Harrast & Olsen (2007), Conyon and He (2004), however evidence is lacking showing a clear link between audit committee size and performance of manufacturing and allied firms listed at NSE (Kenya), hence the need to carry out the research on manufacturing and allied firm on NSE.

The role directors play in providing and securing essential resources to an organization through their linkages to the external environment. Indeed, Johnson *(*1996) concurs that resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example outside directors who are partners to a law firm provide legal advice, either in board, research has been carried out and agency theory highlighted in detailed but still firms continue to face misappropriation of finance hence the need for this research.

2.1.5 The Institutional Theory

The institutional theory is an approach to understanding the organization and management practice as the product of social rather than the economic pressure as (Scott 1995 & Zaman 2002). The theory defines the fact that an organization is based on cultural, social and symbolic that constitutes its broader institutional environment (DiMaggio 1983). The operation of audit committees were highlighted based on the extent it note that the audit committee helps to ensure management can directed by directors or agents (Zaman 2002). Similarly Zaman (2002) states that, this perspective can enhance the role of professional bodies and, the promotion of regulating audit committees.

In this regard to better perform the function of monitoring and control efficiently, which some authors Klein (2002) and Bryan (2004) have stressed the importance of certain characteristics related to the members that form the audit committee. According to CMA Report stakeholders have raised concerns about the audit committee independence and suggested that this was lowering the quality of audits. However, evidence is lacking showing a clear link between audit committee size and performance of manufacturing firm listed at NSE (Kenya).

According to Abbott and, Xie (2003) and Carcello (2002).They emphasize on the need for audit committees to be comprised of members who are independent and should possess financial expertise and experience, hence the need to carry out research on manufacturing and allied firms. The institutional theory state that an organization that is based on cultural, social and symbolic that constitutes its broader environment DiMaggio (1983). It doesn’t show a link between audit committee characteristics and firm performance of manufacturing and allied firms.

The report of Vienot (1995) state that the audit committee’s main objective is to ensure reliance and consistency of the accounting policies and procedures adopted for the consolidated financial statements. Some of these studies document that female nonexecutive directors are at a disadvantage in gaining promotions to positions such as chair of the audit committee. Audit committees with one or more female directors would function differently than that with all male directors.

However, none has examined the effect of gender differences on manufacturing and allied firms' performance. The audit committee should ensure the company abide by internal accounting and auditing standards and adopt internal control procedures. Based on the above findings it's vital to evaluate audit committee characteristics and performance of manufacturing and allies firms NSE. Spira (2003) states that the audit committee provides independent review and oversight of company's financial reporting process internal control, independent audit and safeguard shareholders interest.

2.2 The Concept of Audit Committee Characteristics

Pandey (2006) defines an Audit Committee as an independent body answerable directly to the Board of Directors and is responsible for verifying that the operations of the, organization has been conducted according to the financial regulations and its books kept in a proper manner. Often, as noted by Coleman, (2007) the primary function of the audit committee is to assist the board in fulfilling its oversight responsibilities to ensure the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements.

The independent auditor's qualifications, independence and performance and the performance of the Company's internal audit functions. At the time of approval of the financial statements by the Board of Directors, the Audit Committee issues its statements thereon. The reports of the Audit Committee on the results of its work during the preceding year are sent to the Board of Governors together with the annual report of the Board of Directors. The Audit Committee is composed of at least six members, appointed by the board of directors for a non-renewable term of office of six consecutive financial years (Coleman, 2007).

The decision on the audit committee characteristics is fundamental for any listed company due to the need to maximize returns to the various stakeholders and also because of the fact that such a decision has great impact on the firm's ability to satisfy its various stakeholders (Pandey, 2006). According to Coleman (2007), the audit committee characteristics entails: audit committee size, audit committee independence, audit committee gender diversity and their experience these issues have continued to be addressed but still they continue to face challenges promoting the research to be conducted to address these issues. According to

CMA act (2002, firms listed in Nairobi security exchange are required to establish audit committee (Capital Market Authority, 2002).

2.3 The Concept of Firm Performance

Firm performance implies measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on equity, investment, return on assets, value added, etc. Performance differences in firms are often the subject of academic research and government analysis Verreynne & Meyer (2008). According to Naser & Mokhtar (2004) financial performance has implications to organization's health and ultimately its survival. In effect, the firms' management effectiveness and efficiency in making use of company's resources is highly reflected by high financial performance and this in turn contributes to the country's economy at large (Ibid).

As observed by Iswatia & Anshoria (2007), company's performance is very essential to management and other stakeholders such as shareholders, debt holders, general public and the government as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethics. Profit is the ultimate goal of business enterprises. All the strategies designed and activities performed thereof are meant to realize this grand objective.

However, this does not mean that listed enterprises have no other goals. Listed firms could also have additional social and economic goals. However, the intention of this study is related to firm performance of listed firms. To measure the profitability of listed firms there are variety of ratios used of which Return on Equity and net profit after tax are the major ones Murthy and Sree, (2003); Alexandru, (2008). This study will use net profit after tax in line with previous studies (Iswatia & Anshoria, 2007).

2.4 Link between Audit Committee Characteristics and Firm Performance

Formation of audit committee can enhance the company performance. As a subcommittee in the cooperation, an audit committee aims to supply an assurance on financial and compliance issues through increased analysis, accountability, and the capable use of resources. An audit committee may also supply an advisory task focusing on performance improvement within the organization. Unfortunately, for audit committees as well, the empirical findings of their influence on performance are mixed. Audit Committee if it is formed by independent individuals it can have benefits necessary to increase the reliability system of internal controls (Tettamanzi, 2006).

The role of audit committee is of much interest to regulators & the public in corporate governance. Earlier, the function of the audit committee was to oversee corporate financial reporting and disclosure for public companies

Due to a number of corporate accounting scandals, the Sarbanes-Oxley Act of 2002 (SOX), also known as the Public Company Accounting Reform and Investor Protection Act of 2002 has stressed the importance of audit committee's responsibility by increasing the requirements in terms of audit committee membership and composition.SOX had included a number of BRC's recommendations in order to increase the operational efficiency, effectiveness and independence of the audit committee. The BRC recommendations require audit committees to be responsible for the appointment, compensation, and oversight of the external auditor.

Currently, the audit committee of a publicly traded company in the U.S. must be comprised of independent and outside directors referred to as non-executive directors and the SEC's Final Rule requires that the public companies need to disclose whether at least one of the audit committee members is a financial expert; and if there is no financial expert in the audit committee, then the public company must give justifiable explanations for the absence of a financial expert. In addition, the audit committee has to monitor regulatory compliance and risk assessments besides ensuring the quality of the financial statement in the post-SOX period (Burgess & Tharenou, 2002).

Herdman, (2002), the chief accountant of Securities and Exchange Commission (SEC), indicated the importance of audit committee in the post-SOX period that the role of the audit committee is central to ensuring the integrity of published financial statements on which investors rely, and which are central to the efficiency of our capital market. Furthermore, the American Institute of Certified Public Accountants (AICPA) addressed fraud prevention in audit committee guidance, that the guidance outlines specific steps to identify the risk of management overriding established internal safeguards. Audit committees in the U.S. are expected to operate more efficiently in fraud prevention after the enactment of SOX related requirements.

The examination of audit committee characteristics and their influences on firm performance is of relevant importance to the current regulators, legislator and public investors; hence the purpose of this study was to investigate whether audit committee characteristics effectively improve the fairness of financial reporting and disclosure, which results in fewer fraudulent financial reporting events in the post SOX period (Carcello, 2006).

2.5 Empirical Review

2.5.1 Audit Committee Size and Firm Performance

Abbott *(*2004) expressed the opinion to show that the audit committee with at least three directors has a better quality in monitoring and is associated with a lower incidence of restatement. However, after the satisfaction, individual members may not exert enough effort in the work of the committee. Conversely, the smaller teams can often pursue their tasks more effectively hence high performance of the firm.

Anderson (2004) found that smaller boards are associated with higher quality monitoring. He shows that companies with smaller boards could shape the CEO for a better more disciplined in the case of poor performance, to give executives a lower level of total compensation, and is also associated with higher market valuation.

Similarly, the expectation that the problem cannot be prevented; increased the effective function of the large audit committee to spot potential problems in financial reporting. In addition, if the size of a team is large, individual members may be more vulnerable to the pressures and more subject to follow the others' opinion without giving another argument. In this case, the audit committee members are not likely willing to question the potential errors in the accounting reports of the internal review process, which in turn can lead to a greater chance of presenting it later.

Wakaba (2014) effect of audit committee characteristics on performance of companies listed at the Nairobi securities exchange findings were that audit committee with experience, gender diversity positively affect firm performance. Audit committee independent and size negatively and significant affect firm performance, recommendations audit committee experience is positively associated with firm performance its necessary to elect members with experience they bring prudent financial management and enhance performance. Conversely, a small team will facilitate the exchange of information in the firm and a better discussion between members, to assist management to identify potential errors in financial reporting and reduce the incidence of restatement of the minimum size requirements, a large committee may suffer from the problem of free riders, In previous studies, the size of the audit committee was determined by the amount of the number of audit committee. These variables have been tested in previous studies conducted by (Xie, 2003).

The results showed that the size of the audit committee to devote more resources is more likely to oversee financial reporting and internal control systems within a firm hence high performance Anderson, (2004.) and facilitate discussions between the audit committee members (DeZoort a& Salterio, 2001). Empirical evidence shows that companies with greater audit committee size are more likely to have lower costs of debt Anderson (2004.). Since the exchange, the effect now requires their registrants to have at least three directors on the audit committee, hence a strong relationship between audit committee size and firm performance.

The first category of AC characteristics focuses on the size and meeting frequency of the AC which is interrelated attributes. The number of meetings increases as the size of Board and AC increases (Raghunandan & Rama 2007). This increase in meeting frequency and number of members is argued to provide more effective monitoring and hence improve firm performance. Large audit committees can also lead to inefficient governance, thus yielding more frequent AC meetings Vafeas. (1999), Sharma (2009) find evidence that the number of AC meetings is negatively associated with multiple directorships, audit committee independence and an independent AC chair.

Raghunandan & Rama (2007) found that a positive association between the higher risk of financial misreporting and AC size, institutional and managerial ownership, financial expertise and independence of the board. Hence it is argued that the number of members on the audit committee and number of meetings can potentially have a positive impact on firm performance.

Bedard *(*2004) argued that it is important to increase the number of members of the audit committee to ensure more effective control of accounting and financial processes. Anderson (2004) found that large size audit committees can protect and control the process of accounting and finance with respect to small committees by introducing greater transparency with respect shareholders and creditors which has a positive impact on the financial performance of the company.

Audit committee size has not addressed how it affects the performance. In this case, the audit committee members are not likely willing to question the potential errors in the accounting reports of the internal review process, which in turn can lead to a greater chance of presenting it later.

2.5.2 Audit Committee Independence and Firm Performance

Independence of audit committee is determined by two definitions; first definition of independence is classified if director is a non-executive director, but it's a feeble definition because even though they are not involved directly, non-executive directors may have another relationship through the previous employment or in business relationship that crack the meaning of independence (Vafeas2001).

A study done by the Carcello & Neal (1999), found that the likelihood of financial distress a company received with the going concern opinion from the auditors is lower when the percentage of outside director is bigger in the formation of audit committee, it means that the independence of the audit committee can help the external auditor to maintain their fiduciary duty without influence from the director.

Further, they found that a positive relationship between independence of audit committee and financial reporting quality; suggested that having the independence of director in audit committee can enhance the firm performance example, as a brother, a company lawyer, accountant, or consultant, they may feel a strong sense of duty towards the top management, who they should, depends on obtaining and renewing the contract agreement (Core, 1999). The success of the audit committee is also influenced by the independence of the committee. Previous literature that stated that if the board or executive committee members tend to form a coalition with the top management, it is likely to be small because they are very cautious in all matters affecting the shareholders as they have a responsibility to protect the interests of shareholders (Conyon & He, 2004).

In addition, if the board or committee members have business relations or other relationships with the company or members of the committee, for often, the associate members may be more reluctant to challenge the top management, and are less likely to look for potential errors in financial reporting. As a result, we expect that the companies have audit committees composed entirely of independent directors that must hold better quality and to identify potential fraud in financial reporting and further reduce the possibility of profit restatement. There is relationship between audit committee independence and firm performance

The topic of audit committee independence has been widely investigated during the pre-SOX period. Abbott (2000) show that firms with audit committees which are composed of independent directors and which meet at least twice per year are less likely to be sanctioned for fraudulent or misleading reporting. Audit committee independence affects both companies' earnings management and also investors' perceptions. Klein, (2002) indicates that reductions in audit committee independence are accompanied by large increases in abnormal accruals. Raghunandan & Rama (2004) document that good audit committees can affect shareholder perceptions related to the auditor, particularly in those situations where shareholders might perceive an increased threat to auditor independence. However, the issue of audit committee independence is no longer popular today because the new stock exchange rules now require that all members of the audit committee be independent (SEC, 2002).

Audit committee members need to communicate the accounting problems with managers, and internal and external auditors on time. In the post-SOX period, agenda control and diligence has become the key quality factors of audit committees (Security exchange commission 2002). Mustafa and Meier (2006) in their study show that the percentage of independent members in audit committees and the average tenure of audit committee members are significantly and negatively related to the incidence of misappropriation of assets in publicly held companies in both the random and the matched models while the number of audit committee meetings is not significant.

Harrast & Olsen (2007) indicate that the audit committees gain significant clout under SOX and have greater power to participate in the financial reporting process if they are independent. Raghunandan & Rama (2007) show that there are more audit committee meetings in firms that are larger, have high outsider block-holdings, are in litigious industries, or have more board meetings and greater independence in their work.

Firms operating with non-independent audit committees seem more likely to tip over the edge into fraud if there are fewer outsiders on the audit committee and outside directors appear overcommitted hence is inversely poor performance. Crutchley (2007), Owens-Jackson, (2009) state that the likelihood of fraudulent financial reporting, given a totally independent audit committee related to the level of managerial ownership and the number of audit committee meetings. Based on the above literature, we expect that increase in audit committee meetings and audit committee members; greater oversight on the company's financial reporting.

Audit committee independence may be compromised if the board or committee members have business relations or other relationships with the company or members of the committee, for example, as a brother, a company lawyer, accountant, or consultant, they may feel a strong sense of duty towards the top management, who they should, depends on obtaining and renewing the contract agreement (Core 1999).

2.5.3 Audit Committee Gender Diversity and Firm Performance

The issue of gender is another topic of interest in audit committee characteristics that influence firm performance. Wood, (2003) indicates that masculine characteristics may be viewed as the standard in male styles of leadership and management, while feminine styles of leadership and communication such as supportiveness, attentiveness, and collaboration, are marginalized. Li & Wearing (2004) document that female nonexecutive directors in the audit committee are at a disadvantage in gaining promotions to positions such as chair of the audit committee. It is likely that audit committees with one or more female directors would function differently than audit committees with all male directors. However, few studies have examined the impact of gender differences on audit committee characteristics.

Dennis & Kunkel (2004) argue that female audit committee members in general are more competent, active/potent, emotionally stable, rational, independent, and less hostile than are male managers. For this reason, a female audit committee member may be more sensitive for firm's potential fraudulent financial reporting. Bernardi, (2002, 2010) examined various issues associated with female audit committee members. Bernardi, (2002, 2005) found that corporations were more likely to include pictures of the board in their annual reports when the membership of their audit committee board included women. Bernardi (2002, 2005) also found that corporations with higher percentages of women on their boards were more likely to be on 100 best companies to work for and most ethical companies lists; have a higher percentage of female executives and, engage in activities demonstrating corporate social responsibility hence high firm performance.

While the number of women on corporate boards has increased by approximately 28 women per year between 1977 and 2001 Bernardi, (2006), it is still relatively low at 832 female directors of 5,613 directors on Fortune500 boards Bernardi (2009). Stakeholders with legitimate interests Donaldson and Preston, (1995) have lost billions of dollars due to recent corporate scandals. Following the corporate scandals in 2002 and new regulatory actions, it is surprising to find that the percent of women on boards has not increased substantially. While women directors made up 11.9 percent of Fortune 500 boards in 2002, they now make up 14.4 percent (Bernardi, 2009). The 2.5 percent increase represents an additional 156 female directors of approximately 5,600 directors.

Gender diversity on the audit committee boards associates with financial performance Carter, (2008), reduction in the inherent risk Ittonen, (2007), positive market reactions Defond ,(2005), and positive cumulative abnormal returns (Huang, 2011).

The need for organizations to become better corporate citizens and improve their levels of corporate social responsibility has become increasingly evident. Overall, gender-diverse audit committee boards have increased levels of boardroom involvement and corporate oversight Adams & Ferreira, (2009); audit committee boards with a greater female presence have higher levels of meeting attendance. The primary way in which boards operate and conduct business is through meetings and thus, attendance is a crucial factor of a successful audit committee board (Adams & Ferreira, 2009).

These authors note that women were less likely to have attendance problems and that having females on audit committee boards results in better attendance by male directors. Clearly, the female influence in this area is quite important; increasing attendance should result in better audit committee boardroom discussion and higher levels of effectiveness. An increased membership of female directors in the audit committee positively associated enhanced corporate reputation and therefore high firm performance (Bear, 2010).

While the number of women on corporate boards has increased by approximately 28% women per year between 1977, and 2001 (Bernardi, 2006). Stakeholders with legitimate interests Donaldson and Preston, (1995) have lost billions of dollars due to recent corporate scandals. Following the corporate scandals in 2002 and new regulatory actions, it is surprising to find that the percent of women on boards has not increased substantially. It is likely that audit committees with one or more female directors would function differently than audit committees with all male directors. However, few studies have examined the relationship audit committee gender and performance of manufacturing and allied firms..

2.5.4 Audit Committee Experience and Firm Performance

A more experienced and active audit committee is expected to provide a mechanism for effective oversight of the company. Since, the level of experience reflects the audit committee of good government; an experienced audit committee should improve the reliability of financial reporting within a firm hence high performance. Manual of Corporate Governance states that the provision of an institutionalized forum audit committee encourages external auditors to take a troublesome issue in the early stages.

As a best practice, audit committee meetings should be conducted at least once a year without the presence of members of the executive board to avoid interference in the issues arising. However, the number of meetings depends on the requirements of reference and operating complexity. At least three or four meetings should be planned to coincide with the audit cycle and the annual report issued in addition to the other meeting held in response to the incurred during the fiscal year (Code on Corporate Governance, 2000).

The study of Anderson, *(*2004) showed that the cost of debt is reduced while increasing audit committee experience; shown to improve the performance of the company to reduce debt. Xie (2003) found that the number of negative audit meetings related to discretionary accruals (DAC) the topic of audit committee financial expertise has been widely discussed by accounting researchers. Questions were also raised by public investors whether the exchange requirements of financial reporting and financial expertise of audit committee members have been well addressed (Security exchange commission, 2002). Raghunandan, (2001) find that committees comprised of at least one member having an accounting or finance background are more likely to have longer meetings with the chief internal auditor; provide private access to the chief internal auditor; and review internal audit proposals and results of internal auditing. The financial expertise of audit committee may also affect audit services. Audit committee considers audit fee as a way to monitor whether the scope of fieldwork is sufficient (Security exchange commission 2002).

In recent years many organization have attempted to manage organization performance using the balance score card methodology where performance is tracked and measured in multiple dimension such as financial performance, customer service, social responsibility and employee steward. The presence of audit committee financial expertise could help the company in fraud prevention and therefore improve firm performance. One of audit committee characteristics that influences performance relate to financial expertise which consists of both experience and education. Expertise is specifically recognized by regulators with a minimum of one AC member required to be a financial expert under SOX (Abbott 2004).

In Australia, the ACGPR explicitly requires that the AC include members who are all financially literate in that they are able to read and understand financial statements and at least one member should have relevant experience and education qualifications (i.e. qualified accountant or another finance professional with experience of financial and accounting matters) and that some members should have an understanding of the firm's industry (Australian Securities Exchange Corporate Governance Council, 2007). Recent research confirms that accounting expertise within boards that are characterized by strong governance contributes to greater monitoring by the AC and leads to enhanced conservatism (Krishnan & Visvanathan, 2008).

The literature separates managerial experience from governance experience i.e. serving on other ACs or boards. Having experienced members on the AC contributes to significantly less misreporting and more effective monitoring Raghunandan & Rama (2007). Greater independence of directors' experience and audit knowledge results in more reliable reports DeZoort , (1998). The empirical evidence indicates that markets react more positively to the appointment of a new AC member who is an expert (Davidson 2004, DeFond. 2005). Within the AC, the chair fulfills a key leadership role and hence should be the most qualified person on the AC. Where the AC chair has sufficient auditing background, it is very likely that the

AC chair and the CFO will form a good working relationship. Although it is recognized that the chair of AC should have experience, Vafeas, (2003) finds contrary evidence that 76% of AC chair's do not have any auditing experience. While experience arguably contributes to AC effectiveness, when AC members have multiple directorships they can be overstretched and will not fulfill their fiduciary duties effectively. Often AC effectiveness is negatively impacted the more directorships AC members hold Vafeas, (2003). Experience alone may not be sufficient to establish financial expertise and high firm performance. Both experience and education are needed to become a financial expert (Giacomino, 2009).

Regulators recognize this and require all audit committee members to be able to read and understand the financial reports. However, there is limited research on this topic in part due to low incentives to disclose information on backgrounds and careers of directors prior to the post-Enron governance regulatory boom. The study by Bedard, (2004) states that there are three aspects to the expertise of the members of audit committees namely: financial expertise, the expertise of government and finally the specific expertise in of the firm Similarly, Deport, (2001) have found that the amount of experience of audit committee members as well as their knowledge of auditing is positively associated with the likelihood that members support the listener in the discussion of the managerial firm.

Braiotta, (1999) provides that members of the audit committee must have some skills in accounting and related fields. Likewise Price Waterhouse indicates that the expertise of the members of the Audit Committee in the field of accounting and finance is a key element of the effectiveness of this committee. Similarly Dezoort, *(*2002) require that audit committees consist of at least three independent members whose one of them has a high level of expertise in accounting and finance. Audit committee financial expertise has been widely discussed by accounting researchers. Questions were also raised by public investors whether the exchange requirements of financial reporting and financial expertise of audit committee members have been well addressed. Regulators recognize this and require all audit committee members to be able to read and understand the financial reports. However, there is limited research on this topic in part due to low incentives to disclose information on backgrounds and careers of directors prior to the post-Enron governance regulatory boom.

2.6 Summary of Literature and Knowledge Gaps

Most reviewed studies used managerial finance, financial misstatement, banking performance and earnings quality as measures of performance while this study concentrated on Return on Equity as a measure of performance. Studies used code of corporate governance, audit committee financial experts and audit committee as independent variables.

While the current study used audit committee characteristics namely audit committee size, audit committee independence, audit committee gender diversity, and audit committee experience as a measure of the independent variables. Moreover, the reviewed studies used correlation analysis, descriptive analysis while the present study utilized multiple linear regression analysis.

Most studies audit committee size has not addressed how it affect firm performance and audit members are not likely to question the potential errors in accounting reports of internal review process thus the need to carry out research on manufacturing and allied firms.

Studies on audit committee independence has been widely addressed and is no longer popular today because of new stock exchange rules that require all members to be independent firms have still faced financial mismanagement, the need to carry out research on manufacturing and allied firms.

According to Denis and Kunke (2004) female audit committee members are general competent, active / potent and stable than male counterparts yet firms continue to perform dismay the need to carry out research on manufacturing and allied firms.

Audit committee experience has been widely research but questions keep rising by public investors whether the requirement of audit experience has been well addressed, the need to carry out research on manufacturing and allied firms.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter covered the research design, target population, data collection, and data analysis and presentation.

3.1 Research Design

This study adopted a correlational research design. It is a quantitative method of research in which you have 2 or more quantitative variables from the same group of subjects, and you are trying to determine if there is a relationship (or co variation) between the 2 variables.

3.2 Study Area

The study was conducted in Nairobi City which is the capital city of Kenya. It is a commercial and industrial hub. The city and its surrounding area form the Nairobi County. It had a population of about 3,038,553 (GoK, 2008) and an area of 684 km^2. The study targeted all the (9) nine listed manufacturing companies on Nairobi Securities Exchange since these companies are considered a representative sample of manufacturing firms in Kenya. According to CMA act 2002 firms listed on Nairobi Security Exchange are required to establish audit committee (CMA, 2000).

3.3 The Target Population

The study targeted all the 9 manufacturing and allied firms listed at the Nairobi Securities Exchange (NSE Handbook, 2013). These companies were chosen for this study because they had clear audit committee structures and performance reporting system, aspects that were pertinent to this research.

3.4 Sampling Frame

Primary data was collected from 9 CEOs for the 9 listed MALF, this being a census study no sampling was required (Saunders 2007; Sekaran, 2000).

Inclusion/Exclusion criteria

The firms should have traded actively and consistently (not suspended) for at least three (3) years.

3.5 Data Collection Instrument and Procedure

A document analysis guide was prepared to enable and guide collection of data on firm and audit committee characteristics of all listed firms. 63 data points were used 9 firms for 7 years which was collected annually from financial reports. Primary data (gender diversity and audit committee independence) was collected through an interview with the CEO's of the respective Manufacturing and allied firms. Document analysis guide was used because data being collected is secondary pooled data in nature.

This study utilized secondary data which was collected by use of content analysis which was obtained from the annual financial statement reports of listed firms, annual investors' reports, magazine and articles related to the financial performance of listed firms. Desk analysis consisted of analyzing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which were spoken or printed (Kothari, 2004).

For the researcher to get systematic information documentary guide was used. Content analysis was selected for this study because its widely used in empirical studies and accounting research, in corporate governance disclosure studies (Berreta & Bozzolan 2004; Mohobbot 2005; Hussainey & Elzahar, 2012). It is a research technique for making replicable and valid inferences from texts (or other meaningful matter) to the contexts of their use Krippendorff, (2004) as cited by (Nan Jiang, 2009). Further, content analysis is a rich source of data as it can establish relationships that are difficult to be revealed and replicated (Linsley & Shrives 2006).

3.6 Data Analysis and Presentation

Data was entered in a spreadsheet prepared in Microsoft excel it was later exported into SPSS V.20 for analysis. Descriptive statistics (mean and standard deviation was used to summarize the data. Pearson product moment correlation was used to assess for significant association between Audit committee size, Audit committee independence auditors Audit committee gender diversity, Audit committee experience, and firm performance. Multiple linear regression analysis was used to identify significant predictors of firm performance controlling for confounders Significance level was set at 95% findings are presented in form of tables and charts.

3.6.1 Model Specification

To reveal the evaluation relationship between audit committee characteristics and performance of manufacturing and allied firms, the estimation procedure used by Coleman, (2007) was adopted and modified as:

$$Y_{it} = \beta_o + \beta_{1it} X_{1it} + \beta_{2it} X_{2it} + \beta_{3it} X_{3it} + \beta_{4it} X_{4it} + \varepsilon$$

Y_i = the dependent variable (firm performance)

β_0 = β_1, β_2, β_3, β_4, will be the regression coefficients in Y by each variable of X

X_1 = Audit committee experience

Constant

X_2 = Audit committee gender diversity

X_3 = Audit committee independence auditors

X_4 = Audit committee size

ε = Error term

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis results and discusses the findings on evaluation of the relationship between audit committee characteristics and performance of manufacturing & allied firms listed at the Nairobi Securities Exchange Kenya. The source of information of this study was annual financial statement reports of listed firms, magazine and articles related to the financial performance of manufacturing and allied firms. The findings are presented according to the specific objectives. The data are presented by using tables and charts.

Results in Table 4.1 indicate that the mean audit committee experience in years was 9.5 (SD) 4. Audit Committee mean number of independent auditors was 3.3 (SD) 1.1. The average audit committee size was 9.6 (SD3.5) and the mean performance was 3.3(SD 2.2.)

Table 4.1: Descriptive statistics between audit committee characteristics experience, size, gender diversity, independence, and performance of manufacturing and allied firms

Indicator	Minimum	Maximum	Mean	SD
Audit committee size	3	16	9.6	3.5
Audit committee experience	3	16	9.5	4.0
Audit committee independence	2	5	3.3	1.1
Audit committee performance	0.4	14	3.3	2.2

Source: Field Data, 2016

Of the 9 firms studied, 4(43.3%) were gender diverse while 5(56.7%) were not as indicated in Figure 4.1

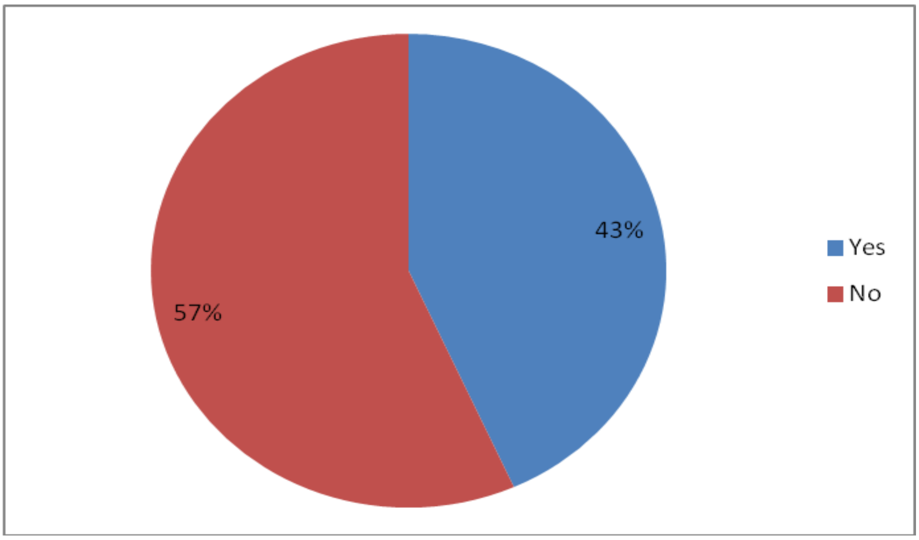


Figure 4.1: Audit committee gender diverse

4.2 Evaluation between audit committee characteristics and performance

To conduct an evaluation of audit committee characteristics and performance, the following results were obtained.

Table 4.2.1 Correlation between Audit committee characteristics experience, size, independence and performance of manufacturing & allied firms

	Performance	Experience	size	Independence
Performance	1			
Experience	$r = 0.502$ $p < 0.001$	1		
Size	$r = 0.131$ $p < 0.1319$	$r = 0.157$ $p < 0.232$	1	
Independence	$r = 0.577$ $p < 0.001$	$r = 0.313$ $p < 0.015$	$r = 0.049$ $p < 0.708$	1

4.2.2 Establish the relationship between audit committee size and performance of manufacturing & allied firms listed on the NSE

The first object set out to establish the relationship between audit committee size on performance of firms listed at the NSE as indicated in Table 4.2.1, the audit commit size was negatively correlated with firm performance ($r=-0.131$, $p=0.319$). This implies that when the firm has a large size of audit committees members it is not positively proportionate to firm performance.

The audit committee size has no correlation with firm performance. The finding is contrary to that by Xie (2003) who founded that the firm performance of audit committee characteristics was determined by size of audit committee. Similarly, Sharma (2009) found out that the number of members on the audit committee can potentially have a positive impact on firm performance. Anderson (2004) states that large audit committee size can protect the interest of shareholders and creditors leading to improved firm performance.

4.2.3 Ascertain the relationship between audit committee independence and performance of manufacturing & allied firms listed on the NSE.

The second objective sought to ascertain the evaluation relationship between audit committee independence and performance of manufacturing & allied firms listed at the NSE. The results, indicated that there was a significant positive correlation between audit committee independence and firm performance ($r=0.577$, $p<0.001$) as in Table 4.2.1. This means that the more the independent audit committee members the higher the firm performance. This is similar to the findings, of Abbott (2000) who stated that firms with independent directors on the board are less likely to be involved in financial misreporting hence establishes positive investor perception and improved firm performance. Carcello &Neal (1999) reported that the presence of independent auditors reduces the chances of financial distress of firms leading to going concern theory. Hence the independence of the audit committee is able to help the external auditor to maintain their fiduciary function without influence from the directors.

4.2.4 Determine the relationship between audit committee gender diversity and performance of manufacturing & allied firms listed at NSE

Table 4.2.3: Mean difference in firm performance by gender diversity

Factor	Mean	SD	t-value	P-value
Gender diverse				
Yes	4.78	2.3	5.386	<0.001
No	2.23	1.3		

Objective 3 analysis that gender diversity is categorical

The third objective was to determine the effect of audit committee gender diversity on performance of firms listed at the NSE. From the findings, there was a significant difference in performance between audit committees that were gender diversity compared to those that were not ($t=5.386$, $p<0.05$). This mean that those that were gender diversity had a higher mean of firm performance as compared to those that were not gender diversity.

The findings are similar to those found by Bear (2010) that an increase in female directors on the board is positively associated with enhanced corporate reputation and therefore high firm performance. Also Dennis & Kunkel (2004) are of the opinion that female audit committee members tend to be more competent, active/potent, emotionally stable, rational, independent, and less hostile than are male managers and as such they may be more sensitive for firm's false financial reporting.

In addition Bernardi (2006) reported that corporations with high number of women on their board were more likely to be the best companies to work for. Further Carter (2008) states that gender diversity of audit committee is positively associated with the firm financial performance.

4.2.5. Establish the relationship between audit committee experience and performance of manufacturing & allied firms listed at the NSE.

The results from Table 4.2.1 explain the forth objective that sought to establish the relationship between audit committee experience and performance of manufacturing & allied firms listed at the NSE. From the results, there was a significant positive correlation between audit committee experience (in years) and firm performance ($r=0.502$, $p<0.05$). This indicates that the more experienced the audit committee members, the higher the company's performance and vice versa.

This finding is contrary to those by Abbott (2003) who stated that audit committee financial expertise is positively and significantly associated with firm performance. However the findings showed a positive correlation similar to those by Anderson (2004) who showed that an increase in audit committee experience leads to reduction in the cost of debt and improve firm performance. Archambeault (2008) states the presence of audit committee and financial expertise reduces the chances of fraud and improves firm performance. This is because having experienced members on the board of audit committee reduces the chances of misreporting and enhances effective monitoring (Raghunandan & Rama (2007).

4.3 Multiple linear regression

As indicated in the model summary (Table 4.3.1) audit committee size, audit committee experience, audit committee gender diversity and audit committee independence explained 53.7 % variation of firm performance. This shows that there are other factors accounting for 46.37% variation in firm performance that were not captured in the current study.

Table 4.3.1 Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.749	0.560	0.537	1.50170

a. Independent variables: audit committee size, audit committee independence, audit committee gender diversity, and audit committee experience.

Table 4.3.2: ANOVA Table

	Sum of Squares	Df	Mean Square	F	P-value
Regression	161.038	3	53.679	23.804	<0.001
Residual	126.285	56	2.255		
Total	287.323	59			

a Dependent Variable: firm performance (ROE)

Results in table 4.3.2 indicated F value of 23.804, with $p<0.05$. This implies that audit committee experience, gender diversity and independence significantly predict firm performance.

Table 4.3.3: Multiple linear regression analysis

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
2 (Constant)	50.526	7.681		6.578	.000		
Audit Committee experience	0.109	0.056	0.110	1.957	0.055	0.756	1.323
Audit Committee independence	0.814	0.184	0.814	4.426	0.001	0.885	1.129
Not gender diverse	1.684	0.442	-1.165	3.809	0.001	0.783	1.277
	0.998						
Audit Committee Size		0.351	0.792	2.843	0.001	0.778	1.232

a Dependent Variable: firm performance (ROE)

b Predictors: (Constant), Audit committee experience, Audit Committee gender diversity, and Audit committee independence.

Source: Research data, 2015

As indicated by the regression analysis results in Table 4.3.3 the results shows,

Objective 1,

Audit committee size and firm performance showed negatively correlation with firm performance (β_1 =0.792, t=2.843, $p<0.05$) it shows audit committee size has negative correlation effect with firm performance hence do not affect performance from the findings attained.

Objective 2

Audit Committee independence showed a positive and significant effect on firm performance (β_3= 0.814, t= 4.426 $\rho<0.05$). Firms with audit committee members who are independent are more likely to perform than those without audit committee who are independence.

Objective 3

Audit committee not gender diverse showed a negative and significant effect on firm performance (β_2= -1.165, t= 3.809, $\rho<0.05$). A firm whose audit committee is gender not diverse is less likely to performance compared to one that is diverse.

Objective 4

Audit committee experience showed there was significant positive correlation with firm performance ($\beta_{4=}$ 0.792, t= 2.843, $\rho>0.05$). A firm with experience audit committee members' leads to higher performance as compared to that without experience board members.

From the above findings audit committee experience, audit Committee gender diversity and audit committee independence significantly predicts firm performance ($p<0.05$). The variance inflation factor (VIF) for all parameters were less than 3 signifying lack of multi-Collinearity.

CHAPTER FIVE

SUMMARY OF FINDINGS,CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study was carried out to conduct an evaluation between audit committee characteristics and performance of manufacturing & allied firms listed firm in Nairobi securities exchange.

Objective one sought to establish the relationship between audit committee size and performance of manufacturing & allied firms listed at the Nairobi Securities Exchange, Kenya, it was revealed that audit committee size has no positive significantly correlation with firm performance.

Objective two sought to ascertain the relationship between audit committee independence and performance of manufacturing & allied firms listed at the Nairobi Securities Exchange, Kenya. The study revealed that audit committee independence significantly and positively affects firm performance.

Objective three sought to determine the relationship between audit committee gender diversity and performance of manufacturing & allied firms listed at the Nairobi Securities Exchange, Kenya. The study revealed that gender diversity leads to a higher firm performance as they were found to be positively correlated.

Objective four sought to establish the relationship between audit committee experience and performance of manufacturing & allied firms listed at the Nairobi Securities Exchange, Kenya. The study revealed that audit committee experience has moderate positive relationship with firm performance.

5.2 Conclusion of the study

Based on the finding of objective one that audit committee size had a weak negative correlation with firm performance, it was concluded that committee size has no significant relationship with performance of manufacturing firm listed on NSE.

The study found that there was positive significant between audit committee gender diversity and firm performance as compared to those not gender diversity. Those that were gender diverse had higher mean firm performance as compared to those not.

5.3 Recommendations of the study

Based on the conclusion of objective one that committee size has no significant relationship with performance of manufacturing and allied firms listed on NSE the study recommends that the firms should not concentrate on committee size since it does not greatly influence performance. Further research should be conducted to other audit committee characteristics that affect firm performance and period of time extended. The study should be replicate to other sectors that affect firm performance the research to other sectors of economy include in other research to evaluate relationship between audit committee characteristics and firm performance.

Future research should examine the relationship between specific BOD characteristics and firm financial performance over a longer period. A study covering longer period is necessary so as to have a better view on the relationship between BOD characteristics and financial performance. Also by concentrating on one BOD characteristic it is possible to get conclusive results on its effect on firm financial performance. There is also need to replicate this research to the other sectors of the NSE so as to establish if the relationship between board characteristics and firm financial performance measures is the same for all sectors of the NSE.

5.4 Limitation of the study

There are various factors that limit the financial performance and reporting that the study did not capture. It was limited to manufacturing and allied sector for 9 firms covering 7 years while Kenya economy is agricultural sector driven. The research was limited to 4 audit committee characteristics, data collection, time, analysis and scope while there are various variables factors affecting firm performance like corporate governance which need to be researched. The validation of the study might not be true for financial and other non- listed companies and corporate governance features ownership, audit committee process.

5.5. Suggestions for further studies

Future researchers are advised to carry out research in the same area using different methodologies

Future researchers can widen their study scope outside the manufacturing and allied firms.

There is need to investigate the impact of audit committee quality assurance and information technology on firm performance.

The researchers should examine other characteristics that affect firm performance that were not captured and widen the time frame for future research.

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APPENDICES

APPENDIX 1: SAMPLE COVER LETTER TO RESPONDENTS

8 th September, 2014

To:……………………

Dear Sir/Madam,

<u>RE: LETTER OF INTRODUCTION- JOB O. WANYANGA PG/MBA/021/2013</u>

The above named person is a Master of Business Administration student at the Department of Accounting and Finance, School of Business and Economics. The title of his study is: **<u>An evaluation of Audit Committee Characteristics and Performance of Manufacturing and allied Firms Listed on the NSE (K).”</u>**

The research instrument attached asks questions about audit committee composition and performance of listed firms in Kenya. The information obtained will be used for academic purposes only and will be treated with utmost confidentiality. In case you may be interested, we can send you the abstract of the research findings on request.

Thank you,

Job O. Wanyanga

PG/MBA/021/2013

University Supervisor:

Dr. Robert K. Mule, PhD.

Department of Accounting and Finance

School of Business and Economics

MASENO UNIVERSITY.

APPENDIX II: POPULATION OF THE STUDY ANALYSIS GUIDE

List of companies listed at Nairobi Securities Exchange NSE (Kenya)

AGRICULTURAL
Eaagads Ltd
Kapchorua Tea Co. Ltd
Kakuzi Ltd
Limuru Tea Co. Ltd
Rea Vipingo Plantations Ltd
Sasini Ltd
Williamson Tea Kenya Ltd
COMMERCIAL AND SERVICES
Express Ltd
Kenya Airways Ltd
Nation Media Group Ord.
Standard Group Ltd
TPS Eastern Africa (Serena) Ltd
13.Scangroup Ltd
Uchumi Supermarket Ltd
Hutchings Biemer Ltd
Longhorn Kenya Ltd
TELECOMMUNICATION AND TECHNOLOGY
Safaricom Ltd
AUTOMOBILES & ACCESSORIES
Car and General (K) Ltd
CMC Holdings Ltd
Sameer Africa Ltd
Marshalls (E.A.) Ltd
BANKING
Barclays Bank Ltd
CFC Stanbic Holdings Ltd
I&M Holdings Ltd

Diamond Trust Bank Kenya Ltd
Housing Finance Co Ltd
Kenya Commercial Bank Ltd
National Bank of Kenya Ltd
NIC Bank Ltd 0rd
Standard Chartered Bank Ltd
Equity Bank Ltd
The Co-operative Bank of Kenya Ltd
INSURANCE
Jubilee Holdings Ltd
Pan Africa Insurance Holdings Ltd
Kenya Re-Insurance Corporation Ltd
Liberty Kenya Holdings Ltd
British-American Investments Company (K) Ltd
CIC Insurance Group Ltd
INVESTMENT
Olympia Capital Holdings ltd
Centum Investment Co Ltd
Trans-Century Ltd
MANUFACTURING AND ALLIED
B.O.C Kenya Ltd
British American Tobacco Kenya Ltd
Carbacid Investments Ltd
East African Breweries Ltd
Mumias Sugar Co. Ltd
Unga Group Ltd
Eveready East Africa Ltd
Kenya Orchards Ltd
A. Baumann CO Ltd
CONSTRUCTION AND ALLIED
Athi River Mining
Bamburi Cement Ltd

Crown Berger Ltd
E. A. Cables Ltd
E. A. Portland Cement Ltd
ENERGY AND PETROLEUM
Kenol Kobil Ltd Ord
. Total Kenya Ltd
Kengen Ltd Ord
Kenya Power & Lighting Co Ltd
Meme Ltd

APPENDIX II: DOCUMENT ANALYSIS GUIDE

AN EVALUATION OF AUDIT COMMITTEE CHARACTERISTICS AND PERPORMAMCE OF MANAUFACTURING AND ALLIED FIRMS LISTED ON NAIROBI SECURITIES NSE (K)

LIST OF MANUFACTURING AND ALLIED FIRMS NSE (K)

This documentary analysis guide was used to guide the researcher while analyzing companies document and from the companies themselves.

YEAR 2006-2013	**Audit committee size**	**Audit committee independence**	**Audit committee gender diversity**	**Audit committee experience years**	**Performance Return on Equity**
MANUFACTURING AND ALLIED					
B.O.C Kenya Ltd					
British American Tobacco Kenya Ltd					
Carbacid Investments Ltd					
East African Breweries Ltd					
Mumias Sugar Co. Ltd					
Unga Group Ltd					
Eveready East Africa Ltd					
Kenya Orchards Ltd					
A. Baumann CO Ltd					