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Audit Committee Independence and Financial Reporting Quality of Licensed Microfinance Institutions in Kenya

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Abstract
Financial institutions in Kenya have in the past decade collapsed or faced difficult financial times, among them five financial institutions which were not placed under liquidation before collapse, and two banks placed under receivership by the central bank of Kenya, these could have been identified by auditors and corrected in due time, if quality financial reports were given and acted upon. In this study, the purpose of this study was to determine the effect of audit committee independenceon financial reporting quality of licensed microfinance institutions in Kenya. The study was anchored on the stewardship theory and the accountability theory. A descriptive and cross-sectional research designs were used. Thirteen (13) licensed microfinance institutions with a population of 169 staff formed the target population. Data was collected from 119 respondents using structured questionnaire, and analyzed using both descriptive and inferential statistics. The study findings demonstrated that audit committee independence (β= 0.456, t = 10.09, p=0.000 <0.05)had positive and statistically significant influence on the quality of financial reporting in Microfinance institutions in Kenya.It was concluded that for the audit committee to be independent then the audit committee must be composed of non-executive members, audit committee members should be well grounded in financial training of the audit committee members, skills and knowledge on accounting matters and financial experience. The study therefore recommended thatthe regulatory bodies such as the institute of Certified Public Accountants (ICPAK) and the Central Bank of Kenya should ensure that the microfinance institutions have independent audit committees in order to protect the stakeholders of the microfinance institutions.Audit committees should ensure that they meet regularly and discuss relevant agenda exhaustively so that they produce quality reports in order to give a true picture of the financial position of the microfinance institutions. This research would be of value to the state to enable it make informed decisions on how the microfinance banks can improve on their financial performance, thus leading to an improvement in the quality of the financial statements.

Key Words: Audit Committee Independence, Financial Reporting Quality, Licensed Microfinance Institutions in Kenya

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I. Background Of The Study

In the field of accounting the knowing the financial potential and the financial health of an organization are crucial and critical to the managers and employees of any organization. Financial information provides a useful tool for the monitoring and evaluation of the financial performance and standing of organizations. Usually financial information contained in the annual financial reports provides shareholders with vital data necessary for decision making. These include the written records that show the business performance and economic activities of the organization in the specified period, detailed in the company's financial statement that is usually scrutinized by a team of experts hired by the company to test the validity and consistency of the data. The rigorous preparation of the financial statement is to enable investors, creditors, and independent analysts to determine the potential for growth, financial sustainability and stability and thus make informed business decisions on the organization (Szydelko&Biadacz, 2016).

The audit committee of an organization is crucial in safeguarding the interests of the shareholders of any company and serve to represent them. The information validated by the audit committee and is used by the stakeholders of the company such as customers, investors, and creditors in making informed business decisions on matters regarding the company.it is therefore critical and ethical for the audit committees to decrease the audit risk and uphold high quality in their financial reporting by coming up with verifiable standards. For

instance, the owner can identify the financial loss of the company and what exactly is causing financial loss. To ensure quality financial reporting the board has to have expertise in finance, the boards committee on Audit is essential in limiting and controlling the powers of the managers to manipulate the susceptible financial records of a given organization for personal gains and instead ensure the corporate benefit of the company is achieved. The audit team is tasked with the responsibility of enhancing the company's performance with the intention to achieve the desired outcomes. A competent audit committee is involved in the optimization of the shareholder's wealth and limits managers' chances of focusing on their interests at the company's expense (Tugman&Leka, 2019)

For the audit committees to be effective the governing boards should grant them cooperate governance powers. Some of the vital skills to the audit committee include supervision and overseeing the company's internal control, financial reporting, disclosure, as well as external and internal audit, ensuring compliance of the regulatory rules, and risk management activities. The board of directors should also receive regular advice and report from the audit committee regarding corporate governance. Some of the information that need to be included are: the company's progress in regulatory compliance, the financial statement is accurate, and the compensation plan allocated to the company's employees is reliable. The knowledge of the audit committee is an available asset to any organization; therefore, the board of directors is concerned with hiring competent auditors because it reflects the excellent performance of the organization.(Crisan&Fulop, 2014)

The concept of microfinance has gained popularity worldwide; it is seen as a key component in the reduction of poverty. These institutions make credit more accessible to the public compared to conventional banks. The Grameen bank of Bangladesh provides a perfect example of how a platform that provides soft loans to the population can spur growth and development in a vulnerable community. The idea of microfinance can be traced back into the 1800s, where the infamous theorist Lsander Spooner, brought into light various benefits of according small loans to small business owners and farmers. The move was essential in boosting small entrepreneurs to grow their business ideas. The modern concept of microfinance has its root all the back to the 1970s, Mohammad Yunus, offered small loans to basket weavers, providing a platform to provide soft loans to population and later founding the Grameen bank. The idea soon spread to other nations because it had a direct impact on poverty reduction. Microfinance concepts have since then evolved, where it is perceived as a mechanism of offering loans to those who cannot get access to loans from the traditional financial institutions. It has been identified as financing sectors that deal with the most vulnerable members of the community (Hulme& Moore, 2008).

Organizational performance is affected by the accountability in the organization, the link this two is an efficient audit committee. Thus for proper internal governance the audit committee should be independent of the leadership and management in order to avoid intimidation, and persuasion to serve selfish interests. In situations where the audit committee violates financial regulations, the overall output of the company is negatively affected. It is therefore critical that the audit committees serve as internal monitoring and decision making tools within the organization. In the microfinance industry the audit committees must therefore carry out activities to meet the needs of the lenders as well as improve the economic efficiency and stakeholder's confidence in the organizations mission(Sulaiman *et al*., 2014). The organizational mission and desired goals can only be achieved if the audit committee has the needed independence to function, this cannot be over emphasized, the committee must be able to have meetings as frequently as needed, be equipped with sufficient financial knowledge and needed data, understand the market trends and the current economic situation for them to be effective (Ogoun&Perelayefa, 2020; Sharma et al., 2009).

An effective audit committee should be able to deliver quality financial reports within stipulated timelines, for this to be achieved then the audit committee must have a structure that allows for efficiency and effectiveness(Nabar & Boonlert-U-Thai, 2007). An effective governance structure should have independence from the managerial board, have an appropriate size with preferable an odd number of members, have a mix of members in terms of gender and professionand other key characteristics needed in the mission of the organization, be independent from the leadership, have a clearly delineated job from the top management. With a good governance structure the audit status will influence quality earnings and accrural (Fodio et al., 2013 and Ugbede et al., 2013).

Sharma *et al*., (2009) report that companies that hire or promote internal staff to head their audit committees have often experiences lower freedoms in the audit committees; therefore such companies loose the independence of the audit committees and consequently decision making. However, it's crucial that the audit committee be independent because their decisions should eliminate the controlling need for debt holders, especially when the leverage is low. The presence of executive members in the audit committees usually raises concerns among the stakeholders especially the debt holders resulting in increased monitoring. The governance mechanisms adopted by financial institutions has a correlation to the independence of the audit committees and the existence of alternative monitoring committees (Habbash*et al*., 2013; Lorca et al., 2011).

Quality financial reports are necessary in reducing informational biases as well as in maintaining efficient business and marketing models. However, quality financial reports, that are credible and reliable, can only obtained by the proper analysis of data by an audit committee. The financial reports should entail information on the firm liquidity, leverage, growth potential, firm size, ownership and profitability which give a picture of the quality of the firm's eranings (Farouk & Hassan, 2014). The qualities of financial reports have been significantly affected negatively by multiple directorships. However audit firm rotation has proved to significantly improve the quality of audit reports. Furthermore, to improve audit quality, regulatory authorities should ensure the same firm does not offer audit services while at the same time also offer management advisories to the same company simultaneously. Audit companies should also be given audit tenures (Adeyemi et al., (2012).

Audit committees serve the significant role of protecting the interests of the stake holders the key performance measures they can use are the return on equity (ROE) the return on asset (ROA) and the return on capital employed (ROCE). These measures have been found to have a significant relationship with the independence and expertise of the audit committees(Aanu et al., 2014). Amer (2014) describes additional measures that can be used by audit committees these include: capital adequacy, asset quality, management efficiency, earnings, liquidity, and sensitivity to market risksin addition to macroeconomic variables. These are also influential in the running of microfinance institutions and should be assessed by the audit commitees(Amer, 2021)

According to the communications authority of Kenya report 2012 some of the best and microfinance institutions in the country have been rated some of the most innovative and developed in the African continent. The state of Kenyan microfinance institutions can be attributed to the policy framework provided for by the finance act of 2010. The platform that M-Pesa provides to this microfinance institutions also couple with a well-developed credit reference system have also increased the effectiveness of these institutions as well as made customers as well as services more accessible (communications Authority of Kenya, 2013).

Despite the achievements of the microfinance industry in Kenya financial institutions have experienced major accounting failures, that have seen a number of institutions collapse and stake holders suffer massive losses. The failures can be attributed to the use of flawed financial reporting systems as well as insider lending. Banks such as Euro Bank, Trust, Capital Finance Limited, Continental Credit Finance Limited, and Continental Bank of Kenya Limited to fail according tocanbe listed as some of the failed financial institutions (Gathaiya, 2017). Another case in perspective is the case of CMC motors that had inaccurate financial statements leading to company failure. The board and the leadership of CMC Motors conspired to fleece the corporation by having money wired in secret accounts that they had opened offshores according to Matundura, (2011),

When the management at the company was changed, it came to be known that there were major challenges with the financial statements of CMC Motors. The case in perspective revealed that the independent audit company, Deloitte, had abetted the management in creating the financial inaccuracies after investigation by the Capital Markets Authority. Deloitte was formally accused of not capturing the interest payments for credit sales, aiding in the recording of undelivered sales as revenue, nondisclosure of the firm's South Sudan subsidiary annual reports, and non-recognizance of losses that the company made from its damaged assets. These practices were found to have contravened the accounting standards that the government has put in place through the institutional accounting framework. In another case, the management of the collapsing Imperial Bank Limited (IBKL) was transferred to Kenya Deposit Insurance Corporation, a decision that was made by the Central Bank of Kenya on 13th October 2015 soon after the regulatory institution found "unsafe and unsound business conditions" at IBKL Mwaniki, (2012).

A study of the Kenyan banks failures reveals that there is a correlation between the financial performance and the internal audit department. The internal audit department's strengths are determined by factors such as the competency of the audit team, the professionalism of the audit team, the standard operating procedures of the financial institution, internal audit independence and internal controls. In order to reduce the risks of the financial institution then credible financial statements must be produced by the audit committees(Gathongo, 2018; Ondieki, 2013).when the factors are taken into consideration it results in positive cooperate governance that is key in strengthening the financial position of the organization. To further strengthen the structure then an external audit committee can be used to supplement the findings of the internal audit committee and act as an oversight to the internal audit committee (Changwony& Rotich, 2015; Ngujiri, 2018).

There exists limited empirical evidence of the effect of various properties of audit committees and the financial reporting quality in Kenya despite previous literature showing that the externally feasible information about companies can only be sourced from financial reports. This means that there is much that needs to be addressed in as much as the audit committees are concerned in improving all aspects of corporate governance. On that note, the research will focus on how the characteristics of the Audit Committee's finance reporting quality influence the performance of Kenyan microfinance banks.

STATEMENT OF THE PROBLEM

Corporate bodies collapsing or being placed under the statutory management has been frequenting headlines in the last decade. In Kenya, the cases of chase bank and imperial bank were some of the major financial institutions witnessed in the last decade, other institutions like the Kenya finance cooperation, and Charter house were not under liquidation. The collapses of these financial institutions leads to questions, given these banks had internal audit teams and external audit teams and were supervised by regulatory bodies.

In Kenya, the soft loans offered by the various microfinance companies in the country for addressing the issue of poverty there are several microfinance institutions offering diverse products to meet the diverse client needs in the country. These needs are often based on professionalism, size, commercial orientation, visibility, and geographical coverage. The key aim of the microfinance institutions is poverty reduction, therefore the financial assets of the clients' needs to be protected as this is a vulnerable group. Therefore it is important for these institutions to have credible audit committees to safeguard the kind of clients this institutions benefit (Banerjee & Jackson, 2017; Lessambo, 2014).

The high number of microfinance institutions in the country has created an opportunity for increased competition in the sector. The competition level then escalates because of the presence of the commercial banks who offer similar services. However, the rise in the exemption levels creates the risk of unethical practice, such as those on loan pricing among the microfinance companies. The probability makes it essential for the creation and empowerment of the audit committees. Sadly in 2013, the financial institutions in the country lost about Ksh1.6 billion in nine months (Mwega, 2014).

The magnitude of loses in microfinance institutions shows that the financial statements of these institutions lack credibility. Analyzing the situation of various parastatals in Kenya,portrays that the essential characteristics of Audit Committees are the different directorships and Audit committee tenure. These elements useful in the reduction of the financial inaccuracies on the financial statement, proper audit committee characteristics is therefore required for quality financial reports (Ruto, 2015)

There are a limited number of recent researches who research on the impact that audit committee characteristics on the reliability of the financial statements in the various microfinance institutions in the country. The study sought to investigate the effect of the audit committee independence on the quality of financial reporting of licensed Microfinance Institutions in Kenya.

PURPOSE OF THE STUDY

The purpose of this studywas to investigate the effect of the audit committee independence on the quality of financial reporting of licensed Microfinance Institutions in Kenya.

THEORETICAL REVIEW

The study was anchored on the two theories: the stewardship theory and the accountability theory.

Accountability Theory

For any business to be successful there must be a culture of accountability and taking responsibility in the organization. Accountability comes into play when a given individual or a department assumes total responsibility for the execution of a given operation, referred to as "accountability based accounting". With accountability, comes the accountability theory that establishes the premise that for accountability to exist one has to be accountable to another person who is in position to pass judgment (Dillard &Vinnari, 2019).Vance et al., (2015) perfectly capture the concept of accountability theory defining it as a system where an individual is required to explain the actions taken to his superior who is then required to assess whether or not the actions taken by the individual meet expected parameters. What stands out here is the fact that there would always be someone in power to determine whether or not the individual actions taken within the organization are acceptable. It also goes without saying that when individuals are aware of the fact that their actions would be judged, they tend to respond by ensuring that they will have justified reasons before taking a certain action. In the process, individuals would always take into account all stipulated procedures before making the procedural behaviors(Frink&Klimoski, 2004).

Even more importantly, the accountability theory operates in two fundamental ways; as a mechanism and as a virtue. It is when accountability is used as a mechanism that individuals understand that they have an obligation to prove their actions against another player that has the power to approve or disprove those actions. Using this approach, individuals are fully aware that there are always consequences to all the actions that they take. When used as a virtue, individuals are in a position to understand that they bear the full responsibility of a given actions which means that they have to be willing to accept the consequences of their actions(Makrygiannakis& Jack, 2016; Vance et al., 2015).

Conversely, accountability affects both individual performance and departmental performance within an organization. Accountability comes in as being a useful of solving problems and making critical decisions,

especially within a team. This is the case as individual will be full of confidence knowing that they have the power to take actions that they know will produce quality and desired results at the end of the day (Never &Leon, 2017). Additionally, accountability can typically be implicit in social normative expectations as well as being explicit in organizational practices and policies. It is very important to note that accountability has a direct influence on individual behavior as the individuals will always be aware of the fact there exist a punishment and reward system based on their actions The individuals will also be aware of the fact that the system govern by the agent in charge of them will be used to make them justify, defend, or answer for their actions (Vosselman, 2016).

The accountability theory does not however explain how accountability would translate into the quality of services and consequently the improvement in the financial indicators of an organization. It has also been associated with the increase in employees accounting for resources even where they have not been utilized in the right way so as to avoid punishments (Vosselman, 2016)

Stewardship Theory

The theory of stewardship is yet another important theory, especially when it comes to determining microfinance institutions quality of reports. The stewardship theory holds the premise that the main goal of organizations is to maximize and protect the shareholders wealth through utmost performance by the company. The stewards are the individuals who directly have the interests of the shareholders at heart which means that they tend to keep the shareholders happy by making profits. Their only goal is to make the shareholders happy which can only be realized through firm performances and profits (Menyah, 2013). They put much pressure on the employees and other staff members to maximize their output as well as act autonomously so that the invested capital of the shareholders can be maximized at the end of the day. In return, employees would be required to take full responsibility of the jobs they undertake making them to work honestly and diligently in the process (Glinkowska&Kaczmarek, 2015).

What is unique about the Stewardship approach to corporate management is the fact that it has been coined as being a tool that can effectively shape the behaviors of the employees(Hernandez, 2012). That is the main reason why the stewardship theory is applied in family-oriented businesses as it has been established that it tends to assist towards the attainment of greater achievement in almost all the undertaking of the family business operations (Davis et al., 2007). Even the employees themselves can act as the stewards of the company by ensuring that all their actions are meant to increase the output and overall performance of the company. As Hernandez, (2012) had pointed out, whenever employees ensure that they work at the abilities, their action would translate to increase overall performance in the organization. With increased performance of the organization come increased revenues which will be a sure way of keeping the shareholders happy.

The role of internal auditors in an organization is to ensure the well-being of the company and the shareholders by triggering all the important variables in the company. Even when external auditors will be called to do an audit of the company, the internal auditors would have ensured that the company got everything right and that all their inventories and balance sheet would balance (Schepers et al., 2012; Subramanian, 2018). That way, everyone would be happy including the employees and the shareholders alike. That is a fact that will ensure as people would be motivated to ultimately do their respective jobs due to the reward that they attain by effectively accomplishing them.

II. Literature On Audit Committee Independence

To verify that the information on finances and reports that a given company sends out are legit, independent audits are required. The board of directors always has one goal in mind, and that is what the financial position of the organization is. It then means that an audit committee must be formulated to assess the company’s financial disclosures and reporting it is a requirement that all public-traded companies in Kenya, just like in many countries, should have an effective and qualified audit committee for them to be listed in the stock exchange market. One criterion must be met and that is the fact the audit committee members must all be independent outside personnel.

Myers &Ziegenfuss, (2006) pointed out that, an audit committee works by keeping in touch with a company’s financial controller and the chief finance Officer where they even have the mandate of carrying out investigations if they feel something is amiss with the company’s financial reporting. But even more importantly, an internal auditor would assist the committee with error detection process which means that he/she may point them in the wrong direction or intentionally ensure that certain information do not come to their attention. Therefore, the audit committee must always maintain its independence to ensure that it will not be disturbed under any circumstances. It is also very paramount that the audit committee should take its duties very seriously as the financial compliance, financial reporting, and risk management of companies are all subject to a number of risks especially when it comes to big companies(Larasati et al., 2019). Additionally, the duties of overseeing the company’s financial reporting and other operational matters such as information technology risks

like threats from cyber-attack falls under their jurisdiction which makes their work even harder. Lastly, the audit committee should also be able to maintain their independence by having full authority of their own budgets and other external auditors, as that is the only way that investors and stakeholders can trust all the financial disclosures that they end up making.

Audit committees work better when given more independence; this is due to the fact that a free committee id in a position to make important decisions without the influence of interested parties. It is therefore important for the committee to have external directors who many not necessarily have an interest in the company. Audit committee that is fully composed of independent directors is more than often linked with quality financial disclosures and less fraudulent activities This is very important as the investors need to trust to the financial disclosures of the company that they invest in so as to be sure that they are getting value for their money(Kallamu&Saat, 2015).

The independence of audit committees goes a long way in increasing the financial strength of the entity. Accurate capture of the financial operations of the organization serves as motivation to the employee of the company. It also builds the confidence of investors and clients in the operations of the entity thus creating a working team for the staff, investors, clients and other stakeholders in the company (Yeh et al., 2011). Furthermore, the audit committee independence is also linked to economic factors in such a way that the audit committee independence increases with the size of the managerial board as well as its opportunities for growth in the organization and the financial strength (Klein, 2002)

Carcello& Neal, (2003) while looking at distressed companies noted a significant positive correlation between the percentage directors affiliated to the audit committee and the declining quality of financial reports. There is a positive correlation between the quality of financial disclosure and the independence of audit committees. However, the information is available give a picture of what happens across the globe but a gap exists on what happens in Kenya, especially in the microfinance institutions. This study will proceed to make the tabled hypothesis:

CONCEPTUAL FRAMEWORK

The theoretical framework is the master plan of any study that lays the foundation for the conceptual framework which is the path taken to arrive at a given hypothesis. Conceptual framework is the map that guides all aspects of the research (Mugenda, 2008; Rycroft-Malone et al., 2002). The adopted Figure 1 provided the conceptual framework of this research.

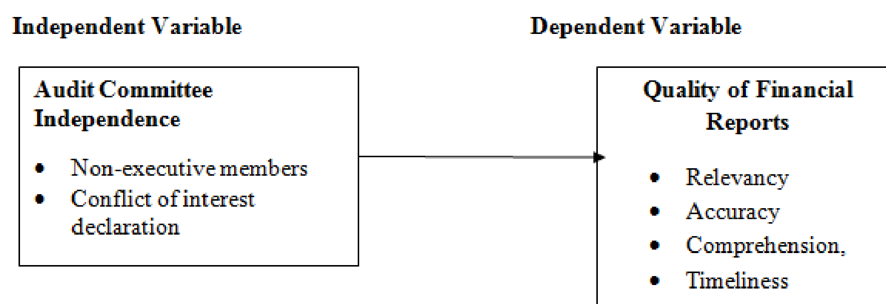

Figure 1: Conceptual Framework
Source: Researcher's Own Conceptualization

III. Research Methodology

The research designs were descriptive and cross-sectional designs that best described the interactions of various variable giving excellent results with regards to validity and reliability. The target population of this study was the top managers and mid-level managers involved in auditing and financial reporting from the 13 Microfinance institutions listed licensed to operate in Kenya. Purposive sampling and stratified random techniques were used. The Yamane's formula was then be used to calculate the sample size by making used of the finite population as posed in 1967. This formula is a methodical approach to the determination of sample sizes and has been used in research. The calculation was made using 95% level of confidence that generated an alpha number of 0.05. The sample size arrived at was 119 respondents from 169 respondents.

For this study, data was generated from primary sources. Primary data was collected directly from the employees using questionnaires. The study made use of structured questionnaires as another method of collecting data. The construct validity was used in quantitative research. The reliability of a measure is defined as its consistency over time, items and across different researchers. Pilot study was conducted in two (2) Micro Finance Institutions using a total of 12 respondents (10% of micro-finance institutions and 119 sample size) and

their findings were excluded from the main study. Reliability analysis was conducted on the two sets of data obtained after a period of two weeks. Reliability analysis results were obtained after subjecting collected data during pilot study to an analysis using Statistical Package for the Social Sciences (SPSS) software tools. The acceptable reliability coefficient was 0.7 and above (Carmines & Zeller, 1997) however in this study, a threshold of 0.70 was used to enhance reliability. Reliability analysis results gave an alpha value of 0.7802, signifying that the instruments were reliable.Primary data was analyzed using descriptive statistics like the mean and median. The causal effect between dependent and independent variables was measured using multiple regressions of the data (Mugwe, 2010; Muthinji, 2009). The study used multiple regressions to determine whether or not independent variables have any effect on the dependent variable. The regression model used was as follows:

$Y = a + \beta_1 X_1 + e$

Where:

Y= Quality of financial reporting

a = Constant

X1 is given as the independence of Audit Committee with

e = error term

IV. Research Findings

Descriptive Statistics of Quality of Financial Reporting

Table 1: Descriptive Statistics of Quality of Financial Reporting

Statement	SD	D	N	A	SA	Mean	Std. dev.
Financial statement has helped in forming expectations and predictions concerning thefuture of the company	6 5.0%	40 33.6%	11 9.2%	7 5.9%	55 46.2%	3.55	1.47
Company uses fair value instead of historical cost	5 4.2%	36 30.3%	6 5.0%	11 9.2%	61 51.3%	3.73	1.45
Annual financial results highlight the positive events as well as the negative events	6 5.0%	35 29.4%	7 5.9%	10 8.4%	61 51.3%	3.71	1.46
Company provides information on corporate governance	37 31.1%	11 9.2%	11 9.2%	16 13.4%	44 36.9%	3.14	1.72
The notes to the balance sheet and the income statement are sufficiently	15 12.6%	2 1.7%	15 12.6%	19 16.0%	68 57.1%	4.03	1.38
The company provides acomparison of the results ofcurrent accounting period with previous accounting periods	35 29.4%	11 9.2%	10 8.4%	19 16.0%	44 37.0%	3.22	1.70

Quality of Financial Reporting	Mean(%Mean)	Std. Dev.	Minimum	Maximum
	3.56(71.2%)	1.53	1.0	5.0

5= Strongly Agree (SA), 4= Agree (A), 3= Neutral (N), 2=Disagree (D), 1=Strongly Disagree (SD), Std dev. =Standard deviation

The findings of Table 1 shows that an average of 71.2% of quality of financial reporting with a mean of 3.56 (Std. dev. = 1.53) was realized from the analyzed data from Microfinance institutions in Kenya. Moreover, 52.1% of respondents felt that financial statement has helped in forming expectations and predictions concerning the future of the company as also indicated by mean of 3.55 (Std. dev. = 1.47). Majority of the respondents, (60.5%) were of the opinion that the company uses fair value instead of historical cost with an average mean of 3.73 (Std. dev. = 1.45). Results from the question asked on whether the annual financial results highlight the positive events as well as the negative events had a mean score of 3.71 (Std. dev. = 1.46) where most of the respondents agreed (59.7%). The question on the company provides information on corporate governance was rated as fair with a mean score of 3.14 (Std. dev. = 1.72) where a number of the respondents (50.3%) were in agreement. On whether the notes to the balance sheet and the income statement were sufficiently, 73.1% of respondents were in agreement with a mean score of 4.03 (Std. dev. = 1.38). Lastly on whether the company provides a comparison of the results of current accounting period with previous accounting periods, 53% of respondents agreed with a mean score of 3.22 (Std. dev. = 1.7). From these results, the quality of services offered in Microfinance institutions in Kenya was fairly good.

Table 2: Descriptive Statistics of Audit Committee Independence

Indicators	**SD**	**D**	**N**	**A**	**SA**	**Mean**	**Std. dev.**
The responsible audit committee is made up of non-executive members	10	41	9	14	45	3.36	1.48
	8.4%	34.5%	7.6%	11.8%	37.8%		
The audit committee chairperson is selected in a transparent manner	6	40	6	21	46	3.51	1.42
	5.0%	33.6%	5.0%	17.6%	38.7%		
Member appointment to the committee is open and clear	11	35	15	8	50	3.43	1.50
	9.2%	29.4%	12.6%	6.7%	42.0%		
The committee members are not related to top management	5	29	9	16	60	3.82	1.38
	4.2%	24.4%	7.6%	13.4%	50.4%		

	Mean(%Mean)	**Std. Dev.**	**Minimum**	**Maximum**
Audit Committee Independence	3.53(70.6%)	1.41	1	1

5= Strongly Agree (SA), 4= Agree (A), 3= Neutral (N), 2=Disagree (D), 1=Strongly Disagree (SD).

The variable on Audit Committee Independence hadfour (4) items. Results of Table 2 illustrate that 49.6% of the respondents agreed that the responsible audit committee is made up of non-executive members. This had the mean of 3.36 and Std. dev. = 1.48. It was also realized that 56.3% of respondents were of the views that the audit committee chairperson was selected in a transparent mannerwith a mean of 3.51 and Std. dev. = 1.42. Forty eight point seven percent (48.7%) of respondents agreed that member appointment to the committee was open and clear, with the mean of 3.43 and Std. dev. = 1.50. On whether the committee members were not related to top management, 63.8%) of the respondents agreed while 28.6% disagreed with the mean of 3.82 and Std. dev. = 1.38. On average, the overall Audit Committee Independence in Microfinance institutions in Kenya stood at 70.6% with a mean of 3.53 and Std. dev. = 1.45. This meant that the majority of the customers in Microfinance institutions in Kenya were aware about the composition and roles of Audit Committee Independence in Microfinance institutions in Kenya.

Linear Regression Results

The objective of the study was to evaluate audit committee independence on the quality of financial reporting in Microfinance institutions in Kenya. The findings are as shown in Table 3.To achieve this, the study sought to test for the following first null hypothesis:

$H_0$1: Audit committee independence has no statistical significance on quality of financial reporting in Microfinance institutions in Kenya.

Table 3 ANOVA test findings showed that F-Statistic is significant, $F(1, 117) = 101.815$, p-value = 0.000< 0.05; the results showed an indication that the model was found to be a good fit to modeling the linear relationship between audit committee independence and the quality of financial reporting in Microfinance institutions in Kenya.

Table 3: Linear Regression Results of Audit Committee Independence on the Quality of Financial Reporting

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.682[a]	.465	.461	.52235	.465	101.815	1	117	.000

a. Predictors: (Constant), Audit Committee Independence
Dependent Variable Quality of Financial Reporting

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.780	1	27.780	101.815	.000[b]
	Residual	31.923	117	.273		
	Total	59.703	118			

Coefficients'

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	Beta		
(Constant)	1.956	.167		11.745	.000
Strategy Formulation	.456	.045	.682	10.090	.000

a. Dependent Variable: Quality of financial reporting

The model (audit committee independence) explained 46.5% (R-squared =0.465) of variation in the quality of financial reporting in Microfinance institutions in Kenya as indicated by the adjusted r-square = 0.461 (See Table 3).

The findings of the regression coefficient showed that the unstandardized beta coefficient for the audit committee independence variable was significant: β= 0.456, t = 10.09, p=0.000 <0.05; therefore, the study rejected the null hypothesis and concluded that audit committee independence had a statistically significant influence on the quality of financial reportingin Microfinance institutions in Kenya.Audit committee independence had a positive standardized beta coefficient value of 0.682 as shown in the coefficients results of Table 4.8; these findings indicate that a unit improvement in the audit committee independence is likely to improve quality of financial reportingin Microfinance institutions in Kenyaby 68.2%. The model was found to be statistically significant; β=.1.956, t = 11.745, p=0.000 <0.05 (see Table 4.8). This finding suggests that, in addition to the audit committee independence in the model, there are other factors not captured in the model that had a significant effect on the quality of financial reporting inMicrofinance institutions in Kenya. The following model was used to predict the quality of financial reporting inMicrofinance institutions in Kenya when the level of audit committee independence is high;

Performance= 1.956+0.456audit committee independence

These study findings are consistent with the findings by Yeh*et al*. (2011), (Klein, 2002) and Carcello& Neal, (2003) who observed that the independence of audit committees goes a long way in increasing the financial strength of the entity. Accurate capture of the financial operations of the organization serves as motivation to the employee of the company. It also builds the confidence of investors and clients in the operations of the entity thus creating a working team for the staff, investors, clients and other stakeholders in the company Furthermore, the audit committee independence is also linked to economic factors in such a way that the audit committee independence increases with the size of the managerial board as well as its opportunities for growth in the organization and the financial strength (Klein, 2002). A positive and significant correlation was established between the percentage directors affiliated to the audit committee and the declining quality of financial reports. There is a positive correlation between the quality of financial disclosure and the independence of audit committees.

V. Conclusions

Audit committee independence had a statistically significant influence on the quality of financial reporting in Microfinance institutions in Kenya.It was concluded that for the audit committee to be independent then the audit committee must be composed of non-executive members, the chairperson must be selected in a transparent manner, members' appointment should be clear and open and there should be no relationship between the members of the audit committee and the top management of the microfinance institution. If these are adhered to then the finance committee will have independence and this would positively improve the quality of financial reports in microfinance institutions.

VI. Recommendations

The regulatory bodies such as the institute of Certified Public Accountants (ICPAK) and the Central Bank of Kenya should ensure that the microfinance institutions have independent audit committees in order to protect the stakeholders of the microfinance institutions.The microfinance institutions should ensure that the sizes and composition of their audit committees are proportional to the size of the company and the complexity of their operations in order to get quality financial reports.

SUGGESTIONS FOR FURTHER RESEARCH

i) This study therefore recommends large samples drawn from large finance institutions like commercial banks and sugar manufacturing firms in order to have generalizability of the research findings.

ii) It is also suggested to include a moderating variable on the relationship between Audit committee independence on quality of financial reporting in financial institutions in Kenya.

AUTHOR CONTRIBUTIONS

Kidiga Humphrey Liyayisought for the study authorization from the relevant government institutions like Graduate School of Kibabii University and National Commission for Science, Technology and Innovation. He developed the study methodology that comprised of research instruments that were used in data collection. He further analyzed, interpreted and discussed the data. He undertook a literature review that included the background information on the study concepts and the theoretical context. He trained and supervised the research assistants as well as coordinated primary data collection. He also coded the collected questionnaires and thereafter undertook data entry and analysis using SPSS software. Dr. Rashid Fwamba and Prof. Alala B. Ondiek ensured that the published article conformed to the journal's formatting guidelines.

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CONFLICT OF INTEREST

The authors declare that there are no conflicts of interest regarding the publication of this Manuscript. In addition, the ethical issues; including plagiarism, informed consent, misconduct, data fabrication and/ or falsification, double publication and/or submission, redundancy has been completely observed by the authors.

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