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Board Audit Committee Dimensions and Financial Reporting Quality in Kenyan Commercial Banks

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Abstract

This study examines the relationships between four board audit committee (BAC) characteristics—financial expertise, meeting frequency, independence, and size—and financial reporting quality (FRQ) in Kenyan commercial banks. The practical problem is that bank reporting depends on judgement-intensive loan-loss provisions, while formal governance structures do not necessarily guarantee effective monitoring. The analysis uses a balanced panel of 33 eligible Kenyan commercial banks and 330 bank-year observations over 2015–2024. FRQ is operationalised as the negative absolute value of discretionary loan-loss provisions estimated from a bank-specific provisioning model. Bank fixed-effects regression is the baseline approach, with a dynamic System Generalised Method of Moments (System GMM) model reported as a robustness analysis. The baseline specification includes bank fixed effects and year effects, with bank size and bank age as controls. In the reported fixed-effects model, financial expertise (β = 0.023), meeting frequency (β = 0.017), independence (β = 0.043), and committee size (β = 0.014) are positively associated with FRQ at the 5% significance level. The reported System GMM coefficients are also positive and statistically significant for the four committee characteristics. Bank age is negatively associated with FRQ in the fixed-effects model, while the System GMM estimate is not statistically significant. These results are associations and should not be interpreted as proof of causal effects. The study adds Kenyan banking-sector evidence using a bank-specific provisioning proxy and a longitudinal design that distinguishes four committee characteristics. It also compares static fixed-effects estimates with dynamic panel estimates. The findings indicate that governance policy should consider both formal committee composition and the practical capacity to scrutinise judgement-intensive reporting estimates.

Keywords: Audit committee; financial reporting quality; loan-loss provisions; commercial banks; Kenya; fixed effects; System GMM.

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Introduction

Financial reporting quality (FRQ) is important in banking because financial statements inform shareholders, depositors, creditors, prudential regulators, and other users about a bank's earnings, asset quality, capital position, and risk exposure. A distinctive feature of bank accounting is the importance of loan-loss provisions (LLPs), which require judgement about borrowers' creditworthiness, expected recoveries, collateral, and economic conditions. LLPs can communicate useful information about expected credit losses, but managerial discretion can also affect reported earnings and the timing of loss recognition. The banking-accounting literature therefore treats loan-loss provisioning as an important setting for examining reporting discretion and its consequences (Beatty and Liao 2014; Bushman and Williams 2015).

The governance problem motivating this study is specific: despite regulatory requirements for board audit committees, it remains uncertain how strongly the committee's financial expertise, meeting frequency, independence, and size are associated with bank-specific FRQ in Kenya. Formal compliance does not necessarily imply effective oversight. Committee members may differ in technical knowledge, willingness to challenge management, time available for review, and access to internal and external auditors. Consequently, the question is not simply whether banks have audit committees, but whether observable dimensions of committee composition and activity are associated with smaller discretionary provisioning deviations.

Kenya offers a relevant setting for examining this question. The Central Bank of Kenya's (CBK) Prudential Guidelines require banks to maintain a Board Audit Committee made up of non-executive directors, with a majority of members independent and an independent chair. The guidelines assign the committee a role in independent oversight of financial reporting and internal controls, while requiring suitable committee mandates and disclosure of composition (CBK 2013). In Banking Circular No. 8 of 2023, the CBK highlighted non-compliance with prudential requirements, including instances involving audit committee constitution and loan classification. These regulatory observations demonstrate why actual governance effectiveness remains relevant; they do not establish that any one committee characteristic caused a particular reporting failure.

The accounting environment also matters. IFRS 9 became effective for

annual periods beginning on or after 1 January 2018 and replaced the incurred-loss impairment approach under IAS 39 with a forward-looking expected-credit-loss framework (IFRS Foundation 2018). This transition increased the importance of assumptions, model inputs, and forecasts in calculating provisions. It also complicates comparisons over time: changes in estimated discretionary provisioning may reflect legitimate changes in credit risk, the accounting regime, or model error, as well as managerial discretion. The study period therefore spans distinct provisioning regimes, making year effects and pre-/post-2018 sensitivity checks important for interpretation.

Prior studies report mixed findings about audit committee characteristics. In Kenya, Luvisi and Waweru (2024) report positive relationships between committee composition and earnings quality among six Tier One banks, based on questionnaire responses. Mnif and Slimi (2023), studying 82 African listed banks, find that former auditors serving on audit committees are associated with lower LLP-based earnings management, especially where those directors are unaffiliated with the current external auditor. Choi (2024) provides bank-specific evidence that audit committee financial expertise is associated with more timely loan-loss recognition and fewer discretionary provisions. These studies support the relevance of committee oversight, but differ in sample, measurement, design, and institutional context. Questionnaire-based earnings quality, broad accrual measures, and residual-based bank LLP measures are not interchangeable outcomes.

The specific research problem is therefore the limited comparability and mixed evidence on how individual BAC dimensions relate to bank-specific FRQ in the Kenyan commercial banking context. This study addresses the problem by examining all four dimensions within the same panel specification, controlling for bank size and age, and comparing fixed-effects estimates with a dynamic-panel robustness model. The analysis focuses on the direct associations between the four committee dimensions and FRQ.

The study has four objectives: (1) to examine the association between committee financial expertise and FRQ; (2) to examine the association between committee meeting frequency and FRQ; (3) to examine the association between committee independence and FRQ; and (4) to examine the association between committee size and FRQ. The study contributes bank-specific evidence from Kenya, uses a discretionary LLP measure designed for the banking context, and evaluates the stability of the results using a dynamic panel estimator.

Theoretical Framework, Empirical Review and Hypotheses

Integrated theoretical framework

Agency Theory is the primary explanation for why BAC characteristics may be associated with FRQ. When managers possess more information about a bank's loan portfolio and reporting judgements than outside users, they may have discretion to select assumptions or recognition practices that serve their own incentives. Jensen and Meckling (1976) frame monitoring as a way to reduce agency costs, while Fama and Jensen (1983) emphasise the separation of decision management and decision control. In banking, committee oversight may be especially important because LLPs affect reported earnings and communicate information about credit risk. Committee members with financial

expertise may be better equipped to review models and estimates; more frequent meetings may provide additional opportunities to examine emerging issues; independent membership may support objective challenge; and adequate committee size may distribute workload and expertise.

Agency Theory nevertheless has limits. It can over-emphasise managerial opportunism and understate the extent to which provisioning discretion reflects legitimate judgement about credit risk. It also does not fully explain why some committees have greater access to technical expertise and external professional resources than others. Resource Dependence Theory complements the agency perspective by treating board members as providers of knowledge, relationships, and access to resources needed to manage uncertainty (Pfeffer and Salancik 1978). Hillman and Dalziel (2003) integrate agency and resource-dependence perspectives, arguing that boards contribute through both monitoring and resource provision. Applied here, financial expertise supplies technical knowledge; committee size can affect capacity to distribute workload; and committee activity can support the use of professional advice. The theory does not mean that a larger committee is necessarily more effective, since coordination costs may offset the benefits of additional members.

Stakeholder Theory is retained as contextual justification rather than as a separate causal mechanism. Banks manage deposits and provide credit within a regulated system, so unreliable financial reporting can affect parties beyond shareholders, including depositors and prudential regulators (Freeman 1984). Stakeholder interests explain why FRQ matters, while Agency Theory and Resource Dependence Theory explain why BAC characteristics may be associated with it.

Two alternative perspectives also qualify the predictions. Stewardship Theory recognises that managers may act in the organisation's interests rather than always pursuing self-interest; a discretionary provision is not automatically evidence of manipulation. Institutional Theory highlights the possibility of symbolic compliance, where an organisation adopts formal governance structures without corresponding changes in behaviour. These perspectives strengthen the distinction between formal committee attributes and substantive oversight. The variables in this study measure observable structures and activity, not the actual content of committee discussions or the degree of challenge directed at management. The hypotheses are therefore stated as expected associations rather than claims that the measured characteristics directly observe effective monitoring.

Bank-specific reporting quality and loan-loss provisions

The outcome measure is designed around LLPs because bank-specific provisioning is a major judgement-intensive accrual. Beatty and Liao (2014) review the role of bank financial accounting in valuation, risk assessment, regulatory capital, and earnings management. Bushman and Williams (2015) show that delayed expected-loss recognition is associated with greater bank risk vulnerability. At the same time, abnormal provisions may reflect legitimate unobserved credit-risk differences, so a DLLP residual should be interpreted as a proxy for provisioning discretion rather than a direct measure of intentional manipulation.

IFRS 9's expected-credit-loss approach became effective in 2018 and

requires forward-looking information in impairment measurement (IFRS Foundation 2018). The transition makes committee oversight of assumptions and models particularly relevant, but can also reduce comparability between pre- and post-2018 observations. Year effects are important for separating common annual shocks from within-bank associations. The present estimates do not establish whether the relationships differ before and after IFRS 9 implementation. A pre-/post-2018 comparison would be a useful sensitivity analysis for future work or an additional analysis before submission.

Empirical evidence on audit committee characteristics

Evidence on financial expertise is consistent with the proposition that knowledge of accounting and finance can improve oversight of complex estimates. Choi (2024) uses regulatory changes affecting bank audit committee expertise and finds that expertise is associated with more timely loan-loss recognition, lower discretionary provisions, and fewer restatements. Krishnamoorthy, Maletta, and Zhao (2023) also examine financial expertise in the audit committee chair and its association with reporting quality and the audit process. These studies suggest that expertise is not simply a formal credential: its usefulness depends on whether technical knowledge is positioned to influence oversight. However, evidence from different regulatory systems cannot be transferred mechanically to Kenyan banks.

African banking evidence is particularly relevant. Mnif and Slimi (2023) study 82 African listed banks over 2011–2016 and report that former auditors on audit committees are associated with lower LLP-based earnings management. Their results indicate that professional background and independence from the bank's current external auditor can matter. In Kenya, Luvisi and Waweru (2024) study six Tier One banks between 2016 and 2021 and report positive associations between committee composition and earnings quality, using questionnaire-based data. While useful, the Kenyan study differs from the present design in its limited Tier One sample and survey-based measurement. The current panel adds evidence based on audited reports and a bank-specific provisioning proxy across 33 eligible banks.

For meeting frequency, the theoretical expectation is that regular meetings provide opportunities to examine financial statements, discuss internal-control weaknesses, and question changes in provisions. Vafeas (1999) examines board meeting frequency and firm outcomes, while subsequent committee studies show that meeting frequency may be associated with monitoring in some settings. However, meetings may also be reactive: committees may meet more often when a bank faces problems. Thus, meeting frequency can proxy for both monitoring effort and the severity of issues that prompt meetings. This possible simultaneity is one reason to avoid interpreting the estimated coefficient as necessarily causal.

Evidence on independence is also mixed. Beasley (1996) associates board composition with the likelihood of financial statement fraud, and Klein (2002) examines audit committee and board characteristics in relation to earnings management. More recent evidence remains sensitive to the measure and setting. Bawuah (2024), studying 25 Ghanaian non-financial firms, reports that audit committee independence, size, and meetings are associated with lower earnings management, with some relationships varying by Big Four audit status. These

results concern non-financial firms and discretionary accruals, whereas the present study examines bank-specific LLP discretion. Differences in governance enforcement, ownership, legal systems, and substantive rather than symbolic independence may help explain mixed results across settings.

Committee size can increase the range of expertise available and distribute work, but larger committees may incur coordination and communication costs. Eyenubo, Mohamed, and Ali (2017) report a positive association between audit committee size and FRQ in Nigerian companies. Evidence from other settings varies, partly because size can be measured as the number of members while the reporting outcome and institutional setting differ. For Kenyan banks, the expected sign is positive if additional members expand expertise and workload capacity, but this is an empirical expectation rather than a regulatory requirement that every committee should be as large as possible.

Hypotheses development

Financial expertise provides technical knowledge for evaluating provisions, impairment assumptions, and financial reporting decisions. Consistent with Agency Theory and Resource Dependence Theory, the first hypothesis is:

H1: *Board audit committee financial expertise is positively associated with financial reporting quality in Kenyan commercial banks.*

More frequent meetings may increase the committee's capacity to oversee the reporting process and discuss emerging credit-risk and control issues. The second hypothesis is:

H2: *Board audit committee meeting frequency is positively associated with financial reporting quality in Kenyan commercial banks.*

Independent members may be better placed to evaluate management's judgement without undue influence. The third hypothesis is:

H3: *Board audit committee independence is positively associated with financial reporting quality in Kenyan commercial banks.*

A committee with sufficient members may have more capacity to divide complex oversight tasks, although coordination costs remain possible. The fourth hypothesis is:

H4: *Board audit committee size is positively associated with financial reporting quality in Kenyan commercial banks.*

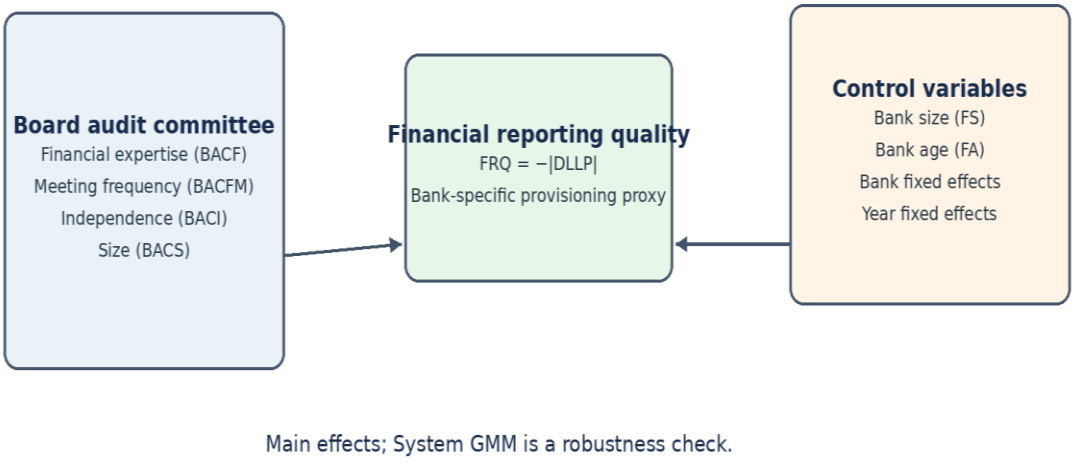


Figure 1. Conceptual framework for the direct relationships tested in the study.

Methodology

Research design, population and sample

The study employs a quantitative explanatory panel design using secondary data. The core study period is 2015–2024. The CBK reported 38 commercial banks and one mortgage finance company within the 39 banking institutions in the sector at 31 December 2024 (CBK 2024). Since the manuscript focuses on commercial banks, the target population should be stated as the 38 commercial banks rather than all 39 banking institutions. The analytic sample comprises 33 eligible commercial banks with the data required for the variables used in the study, yielding a balanced panel of 330 bank-year observations.

The sample is therefore a balanced panel of eligible banks rather than a complete census of all commercial banks. Inclusion required operation during the study period and sufficiently complete, consistent financial and governance information. Because eligibility depends on data availability, selection bias is possible if excluded institutions differ systematically in distress, restructuring, ownership, or reporting quality. The absence of an institution-by-institution exclusion analysis limits the ability to assess how far the sample represents the broader population.

Data were extracted from audited annual reports, financial statements, governance disclosures, external auditor reports, and CBK banking-sector publications using a structured extraction protocol. Each observation was linked to the bank, financial year, source document, reporting note, units, variable definition, and coding decision. Financial values were reconciled against published statements and CBK reports, and committee disclosures were cross-checked where adjacent-year governance reports were available. A consistent choice between standalone and consolidated financial statements is necessary to avoid combining different reporting units.

Measurement and operationalisation of variables

Financial reporting quality is operationalised as the negative absolute value of discretionary loan-loss provisions, estimated as the residual from a bank-specific provisioning model. This transformation places the measure on a scale at or below zero: values closer to zero indicate smaller absolute residuals and hence higher measured FRQ. A residual is not a direct observation of fraud or managerial intent; it may also reflect omitted credit-risk factors, model error, changes in accounting regimes, or measurement error.

The normal component of loan-loss provisions is estimated using observable credit-risk and bank characteristics. The first-stage model is specified as follows:

$$LLP_{it} = \alpha_0 + \alpha_1 \Delta NPL_{i,t+1} + \alpha_2 \Delta NPL_{it} + \alpha_3 \Delta NPL_{i,t-1} + \alpha_4 \Delta LOAN_{it} + \alpha_5 LLA_{i,t-1} + \alpha_6 NCO_{it} + \alpha_7 SIZE_{i,t-1} + \mu_i + \lambda_t + \varepsilon_{it}$$

In this specification, LLP is the provision expense scaled by beginning gross loans; changes in non-performing loans are scaled by beginning gross loans for the relevant interval; loan growth is the change in gross loans divided by beginning gross loans; LLA is the beginning loan-loss allowance ratio; NCO is net write-offs less recoveries scaled by beginning gross loans; and SIZE is the natural logarithm of lagged total assets. The precise definition of gross NPLs, provisions, allowances, write-offs, and recoveries must be applied consistently across all banks and years. The resulting residual is treated as a proxy for the discretionary component of provisioning, subject to the model's specification and

the completeness of the credit-risk variables.

The lag-and-lead structure requires auxiliary observations beyond the main analysis window. In particular, the stated lagged-change definition requires 2013 data for the 2015 observation, while the future change in NPLs requires 2025 data for the 2024 observation. Only the constructed observations for 2015–2024 enter the main panel regressions.

Table 1. Operationalisation of study variables. BACF and BACI are proportions; BACFM, BACS, FS and FA are logarithmically transformed measures as indicated by the variable definitions

Variable	Symbol	Operational definition	Role
Financial reporting quality	FRQ	Negative absolute value of the estimated DLLP residual: FRQ = −|DLLP|	Dependent variable
Audit committee financial expertise	BACF	Financially expert BAC members divided by total BAC members	Main explanatory variable
Audit committee meeting frequency	BACFM	Natural logarithm of the number of formal BAC meetings during the financial year	Main explanatory variable
Audit committee independence	BACI	Independent non-executive BAC members divided by total BAC members	Main explanatory variable
Audit committee size	BACS	Natural logarithm of the number of BAC members	Main explanatory variable
Bank size	FS	Natural logarithm of total assets measured consistently across banks	Control
Bank age	FA	Natural logarithm of years since incorporation, using a consistent age convention	Control

Fixed-effects model

The main regression estimates the within-bank association between the four BAC dimensions and FRQ while controlling for bank size and bank age:

$$FRQ_{it} = \beta_0 + \beta_1 BACF_{it} + \beta_2 BACFM_{it} + \beta_3 BACI_{it} + \beta_4 BACS_{it} + \beta_5 FS_{it} + \beta_6 FA_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Here, μ_i denotes the bank fixed effect, λ_t denotes year fixed effects, and ε_{it} is the idiosyncratic error. Fixed effects account for unobserved, time-invariant bank characteristics that may be correlated with committee structure, while year effects absorb common annual shocks, including macroeconomic and regulatory changes and the IFRS 9 transition.

The Hausman specification test yielded $\chi^2(6) = 19.90$, $p = 0.003$, supporting the fixed-effects specification

over random effects for the tested model. The six degrees of freedom correspond to the four committee attributes and two bank controls. Bank-clustered standard errors account for within-bank dependence over time; because the number of clusters is 33, small-sample-adjusted inference is also relevant.

Dynamic System GMM robustness model

A dynamic System GMM specification is reported as a robustness analysis because current FRQ may depend on its prior value and committee attributes may be endogenous. The dynamic model includes lagged FRQ and the four BAC characteristics, together with bank size and bank age. The lagged dependent variable is intended to capture persistence in the FRQ measure. System GMM combines equations in first differences and levels and uses internal lag instruments under assumptions about the serial correlation and exogeneity structure of the errors.

The GMM estimates should be interpreted cautiously. The panel contains 33 banks and ten core years, so the number of cross-sectional units is modest for dynamic GMM. The validity of the approach depends on instrument design and serial-correlation assumptions. The reported AR(2) test has $p = 0.706$, and the Hansen test has $p = 0.966$. These statistics do not reject their respective null hypotheses, but they do not by themselves prove instrument validity; a high Hansen p-value can also arise when the instrument set is too large or the test has limited power. The absence of instrument-count and AR(1) statistics limits a complete assessment of the specification.

Endogeneity, diagnostics and robustness

The fixed-effects estimator removes unobserved, time-invariant bank heterogeneity but does not eliminate reverse causality or time-varying omitted-variable bias. The System GMM estimates offer a sensitivity analysis, but they support causal identification only when the instrument strategy and moment conditions are defensible. The available estimates do not establish sensitivity to alternative provisioning models, influential observations, or pre- and post-IFRS 9 subsamples. These analyses would strengthen the evidence, along with verification that the reported controls and year effects match the estimation code and that diagnostics correspond to each reported specification.

Results

Descriptive statistics

Table 2 presents pooled descriptive statistics for 330 bank-year observations. The mean of FRQ is −0.0098, with a standard deviation of 0.0160 and a range from −0.096 to zero. The measure's distribution indicates heterogeneity in estimated provisioning residuals, but the mean alone cannot establish that provisions are appropriate or that discretion is low, because the result depends on the quality of the first-stage normal-provisioning model.

Committee financial expertise has a mean proportion of 0.475, while meeting frequency has a mean log value of 1.389. Committee independence averages 0.958, with observations ranging from 0.500 to 1.000. Committee size has a mean logged value of 1.443. These results indicate high formal independence in the sample, while the non-zero ranges for other dimensions show variation in expertise, meeting activity, and size. Because these are pooled statistics, they do not show annual trends or the frequency distribution of independence; those patterns require separate

summaries of the underlying bank-year data.

Table 2. Descriptive statistics. BACFM, BACS, FS and FA are transformed variables according to the study's operational definitions

Variable	Obs.	Mean	Std. dev.	Minimum	Maximum
FRQ	330	−0.0098	0.0160	−0.096	0.000
FA	330	3.509	0.9525	0.000	5.357
FS	330	10.796	0.655	9.001	12.260
BACF	330	0.475	0.094	0.250	0.667
BACFM	330	1.389	0.112	1.099	1.792
BACI	330	0.958	0.095	0.500	1.000
BACS	330	1.443	0.161	1.099	1.609

Correlation analysis

The pairwise correlations indicate that FRQ is positively correlated with BACF (r = 0.2163), BACFM (r = 0.2346), BACI (r = 0.3666), BACS (r = 0.4752), and FS (r = 0.5832). FRQ is negatively correlated with FA (r = −0.4856). BACI is positively correlated with BACF (r = 0.1574) and FS (r = 0.2150), and negatively correlated with FA (r = −0.2264). These pooled correlations provide preliminary descriptions, not causal evidence. The reported pairwise correlations remain below 0.80, but this does not prove the complete absence of multicollinearity or omitted-variable bias.

Table 3. Pearson correlation matrix (N = 330).

Variable	FRQ	FA	FS	BACF	BACFM	BACI	BACS
FRQ	1.0000						
FA	−0.4856*	1.0000					
FS	0.5832*	−0.5472*	1.0000				
BACF	0.2163*	−0.1703*	0.0603	1.0000			
BACFM	0.2346*	−0.2690*	0.1612*	0.0662	1.0000		
BACI	0.3666*	−0.2264*	0.2150*	0.1574*	−0.0117	1.0000	
BACS	0.4752*	−0.2462*	0.2051*	0.1891*	0.1346*	0.0892	1.0000

** p < 0.05 as reported. The matrix is pooled across bank-years and does not represent within-bank correlations only.*

Fixed-effects regression results

The reported Hausman test rejects the random-effects model ($\chi^2(6) = 19.90$, $p = 0.003$), supporting the use of bank fixed effects for the baseline estimates. The fixed-effects model reports an overall R^2 of 0.487 and an F-statistic of 37.09 ($p < 0.001$). The four BAC dimensions are each positively and statistically significantly associated with FRQ in the reported model: financial expertise (β = 0.023), meeting frequency (β = 0.017), independence (β = 0.043), and size (β = 0.014). Since higher FRQ values indicate smaller absolute provisioning residuals, the signs are consistent with higher values of these committee attributes being associated with higher measured FRQ, conditional on the model. Bank size is positively associated with FRQ in the fixed-effects model (β = 0.023, $p < 0.05$), while bank age is negatively associated with FRQ (β = −0.024, $p < 0.05$). The negative bank-age estimate is unexpected if experience is assumed to improve reporting quality. Possible

explanations include legacy loan portfolios or differences in business models, but these explanations were not directly tested and should be treated as possibilities rather than established mechanisms.

Table 4. Regression results

Variable	Fixed effects: coefficient (SE)	System GMM: coefficient (SE)
Lagged FRQ	—	0.178 (0.061)**
BACF	0.023 (0.007)**	0.029 (0.009)**
BACFM	0.017 (0.004)**	0.022 (0.005)**
BACI	0.043 (0.005)**	0.040 (0.006)**
BACS	0.014 (0.004)**	0.028 (0.006)**
FA	−0.024 (0.009)**	−0.013 (0.014)
FS	0.023 (0.006)**	0.013 (0.009)
Constant	−0.158 (0.020)**	−0.161 (0.027)**
R-squared	0.487	—
F-statistic / Wald χ^2	37.09**	203.97**
Model p-value	<0.001	<0.001
AR(2) test p-value	—	0.706
Hansen J-test p-value	—	0.966
Bank effects	Yes (fixed effects)	Dynamic System GMM
Year fixed effects	Yes (as specified)	Not reported
Observations / banks	330 / 33	330 / 33

*Standard errors are in parentheses. ** denotes significance at the 5% level. The fixed-effects model includes bank and year effects as specified in the estimating equations; inclusion of year indicators in the System GMM model is not reported.*

System GMM robustness results

The System GMM estimates are positive and statistically significant for BACF (β = 0.029), BACFM (β = 0.022), BACI (β = 0.040), and BACS (β = 0.028). The lagged FRQ coefficient is positive (β = 0.178, $p < 0.05$), consistent with persistence in the FRQ measure. In this specification, the coefficients for bank size and bank age are not statistically significant at the 5% level. The reported AR(2) test does not reject the null of no second-order serial correlation (p = 0.706), and the Hansen test does not reject the overidentifying restrictions (p = 0.966).

These diagnostic results are necessary but not sufficient to establish that the instruments are valid or that endogeneity has been resolved. The instrument count, number of groups, AR(1) statistic, and any difference-in-Hansen tests are important for evaluating this specification. Given the 33-bank panel, the results are treated as a sensitivity check consistent with the baseline signs, rather than definitive proof of causal effects.

Discussion

Financial expertise

The positive financial-expertise coefficient is consistent with the view that committee members with accounting or finance knowledge may be better able to examine complex provisions and other estimates. It is also consistent with Choi (2024), who finds that bank audit committee financial expertise is associated with more timely loan-loss recognition and lower discretionary

provisions in a regulatory setting. The result supports the importance of technical capability in bank oversight, but the present study measures the share of financially expert members and does not directly observe how members use that expertise during deliberations.

Meeting frequency

The positive association between meeting frequency and FRQ is consistent with the possibility that more regular meetings provide opportunities to review financial statements, internal controls, and provisioning assumptions. However, meeting frequency may also respond to problems: banks experiencing reporting or credit-risk concerns may convene more meetings. The coefficient should therefore be interpreted as a conditional association, not proof that adding meetings alone will improve FRQ. Meeting quality, preparation, attendance, and the actions taken following discussions may be as important as frequency.

Committee independence

The positive independence coefficient is consistent with Agency Theory's prediction that members who are less dependent on management may be better positioned to provide monitoring. It also aligns directionally with the Kenyan survey evidence reported by Luvisi and Waweru (2024), although the outcomes and methods differ. The average independence proportion in the sample is already very high (0.958), so the estimated relationship should be interpreted within a restricted range. It does not establish that a move from high independence to 100% independence will necessarily improve reporting quality. Formal independence must also be distinguished from substantive independence, which depends on access to information, technical capacity, authority, and willingness to challenge management.

Committee size

The positive association between committee size and FRQ is consistent with Resource Dependence Theory: additional members may provide more professional experience and capacity to divide oversight tasks. However, larger committees may also face higher coordination costs, slower decision-making, or diffusion of responsibility. Because the study uses committee size rather than a direct measure of members' collective expertise or participation, the coefficient does not identify which of these possible mechanisms underlies the result. The appropriate governance implication is that committees should be sufficiently resourced and capable, rather than simply maximised in size.

Bank size, bank age, and institutional context

The positive association between bank size and FRQ may reflect differences in resources, control systems, external scrutiny, or reporting capacity, but these mechanisms are not directly tested. The negative fixed-effects coefficient for bank age also requires caution. It may be associated with legacy portfolios or organisational routines, but the current estimates do not establish the explanation. Because fixed effects estimate within-bank relationships, the age coefficient should not be interpreted as a simple comparison between old and young banks. It should be reassessed under alternative specifications and with year effects clearly reported.

IFRS 9 and the interpretation of provisioning discretion

The sample spans the IFRS 9 transition in 2018. The standard's expected-credit-loss framework places

greater emphasis on forward-looking assumptions, but a large residual from a provisioning model may reflect unobserved credit-risk factors or model error rather than manipulation. The coefficient signs therefore speak to the study's FRQ proxy, not an independently verified assessment of whether a bank's provisions were correct. The reported pooled estimates do not establish whether the relationships are stable across the pre-2018 and post-2018 regimes. A comparison across these periods and alternative provisioning specifications would help distinguish changes in accounting rules from changes in governance-related associations.

Overall, all four committee characteristics have positive and statistically significant coefficients in the reported fixed-effects model, and their signs remain positive in the reported System GMM model. This consistency is encouraging, but it does not eliminate limitations arising from the measurement of FRQ, possible reverse causality, omitted time-varying factors, and the modest number of banks. Recent Kenyan and African evidence supports examining committee characteristics in bank reporting, while also showing that different methods and outcomes can produce non-identical findings (Luvisi and Waweru 2024; Mnif and Slimi 2023).

Conclusion, Implications and Limitations

Conclusion

This study examined the relationship between four board audit committee dimensions and FRQ in Kenyan commercial banks over 2015–2024. Using 330 bank-year observations from 33 eligible banks, the reported fixed-effects results show positive and statistically significant associations between FRQ and financial expertise, meeting frequency, independence, and committee size. The reported System GMM sensitivity estimates are positive and statistically significant for all four committee characteristics. Because FRQ is measured as the negative absolute value of discretionary LLPs, these estimates are consistent with higher values of the committee characteristics being associated with smaller absolute provisioning residuals.

The study contributes bank-specific evidence from Kenya and highlights the importance of examining multiple committee characteristics simultaneously rather than treating the audit committee as a single undifferentiated structure. Nevertheless, the results are observational, and the provisioning residual is a proxy rather than a definitive measure of opportunistic reporting. The estimates should therefore be interpreted as conditional associations, not proof that a particular committee attribute directly caused an improvement in reporting quality.

Theoretical implications

The findings are consistent with Agency Theory's monitoring perspective: committee expertise, activity, independence, and size are associated with FRQ after controlling for bank size and age. They also fit Resource Dependence Theory insofar as expertise and committee capacity may provide knowledge and resources needed for oversight. However, the study does not directly observe committee deliberations, monitoring effort, or the acquisition of external assurance. The results therefore support the relevance of the integrated theoretical framework without independently demonstrating each behavioural mechanism. Stakeholder Theory explains the broader importance of credible reporting to depositors and regulators, while stewardship and

institutional perspectives caution that managerial judgement can be legitimate and that formal compliance may not always represent substantive oversight.

Practical and policy implications

For bank boards, the results support maintaining committees that comply with CBK governance requirements and possess sufficient financial expertise, capacity, and independence to review financial reporting judgements. The current estimates do not establish that every committee should be maximised in size or that every bank should seek 100% independence. Rather, boards should assess substantive effectiveness through annual evaluations, training on loan-loss estimation and IFRS 9, access to internal and external auditors, documented review of significant accounting estimates, and clear follow-up of material audit findings.

For the CBK, the findings support supervisory attention to both formal committee composition and actual reporting oversight. Standardised disclosure of committee composition, relevant expertise, meeting attendance, and the committee's oversight of material reporting estimates could improve comparability across banks. Regulators may also consider periodic governance-effectiveness assessments rather than relying entirely on structural checklists. Such measures should be aligned with the applicable prudential requirements in force at the time of implementation.

For directors and professional accounting bodies, capacity-building programmes should focus on interpreting expected-credit-loss models, assessing credit-risk assumptions, understanding provisioning residuals, and communicating effectively with auditors. Regional banking and accounting bodies in East Africa could share training and disclosure practices, while recognising differences in national regulatory systems. More credible financial reporting may support stakeholder confidence, but this study does not directly estimate effects on depositor confidence or financial stability; these should be understood as potential policy benefits, not measured outcomes.

Limitations and future research

First, the sample includes 33 eligible banks rather than all institutions in the target population. Institution-specific reasons for the six exclusions should be documented, and selection bias remains possible if excluded institutions differ systematically from those included. Second, FRQ is measured with one discretionary LLP proxy. The residual may reflect legitimate credit-risk changes, omitted determinants, or measurement error as well as managerial discretion. Future research could test alternative provisioning models, timely loss recognition, restatements, disclosure quality, and predictive associations with subsequent credit losses.

Third, the variables capture formal committee attributes but not substantive monitoring behaviour. Future studies could combine archival data with interviews, survey evidence, or committee disclosures to assess whether independent members challenge management and how expertise and meeting activity are translated into action. Fourth, the period crosses the IFRS 9 transition, and future research should test pre- and post-implementation differences and alternative LLP specifications. Fifth, fixed effects and System GMM do not automatically eliminate all endogeneity. The dynamic model's validity depends on instrument choice and diagnostic evidence; the instrument count and AR(1) output should be reported, and wild-cluster

bootstrap or alternative sensitivity procedures should be considered where feasible. Finally, cross-country work across East African banking systems could test whether the results depend on differences in enforcement, ownership, audit markets, and supervisory regimes.

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