CORPORATE GOVERNANCE AND QUALITY OF FINANCIAL REPORTING OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE, KENYA

Kisanya, Luvusi Antony.
Masters Student, Kenyatta University, Kenya.
Dr. Charity Njoka.
Department of Accounting and Finance, Kenyatta University, Kenya.
Dr. Daniel Makori.
Department of Accounting and Finance, Kenyatta University, Kenya.

©2024

International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 10th September 2024

Published: 19th September 2024

Full Length Research

Available Online at: https://iajournals.org/articles/iajef_v4_i3_52_69.pdf

Citation: Kisanya, L. A., Njoka, C. Makori, D. (2024). Corporate governance and quality of financial reporting of commercial banks listed at the Nairobi Securities Exchange, Kenya. *International Academic Journal of Economics and Finance, 4*(3), 52-69.

ABSTRACT

In Kenya, the banking sector is heavily regulated to safeguard investor trust, given the critical economic function of banks. However, research indicates that even healthy organizations operating financially secure have experienced problems related to their financial strategies. Several banking institutions in Kenya have experienced failures over time, largely attributed to financial embezzlement linked to substandard financial reporting. This issue has been exacerbated by the persistent challenges facing the emerging economy. Consequently, publicly listed companies must incur substantial agency costs to mitigate information asymmetry and counteract the self-serving behaviors of managers. As a result, banking sector regulators have been very active in the introduction of regulatory policies to enhance the public's confidence. For instance, the Capital Market Authority in Kenya replaced the earlier guidelines of corporate governance that had been established in the year 2002 with the 2015 Code, thus targeting to align and comply with the best practices across the globe owing to dynamic business environments. The study purposed to assess the effect of corporate governance on quality of financial reporting of commercial banks quoted at Nairobi Security Exchange. The specific research's main goal was to demonstrate how board independence affected quality of financial reporting among of commercial banks quoted at Nairobi Security Exchange. The study was based on Agency theory and Positive Accounting theory. Positivist research philosophy and explanatory research design was adopted, obtaining secondary panel data targeting all the eleven listed commercial banks for the period 2017 to 2021. The study utilized the panel regression model for analysis. The target population encompassed all the eleven listed commercial banks at NSE under investigation from 2017 to 2021. Census was applicable as the sampling design. The analysed data was presented using tables, graphs and charts. Corporate governance practises showed adverse relationship with quality of financial reporting among listed commercial banks on Nairobi Securities Exchange. The regression analysis results revealed board independence had a negative and significant influence ($\beta1=-0.0242$, $p=0.0158$). Consequently, the study suggests enhancement of board independence to improve the effectiveness of independent board members in strategic decisions made by listed commercial banks at Nairobi Securities Exchange during reporting process.

Keywords: Board Independence, Board Expertise, External Audit Tenure, Board Gender Diversity, Financial Reporting, Bank Size and Corporate Governance.

INTRODUCTION

The formulation of valuable and well-informed investment decisions by investors hinges upon their reliance on diligently prepared financial reports. To achieve this, it requires financial reports be presented in a format that is both comprehensible and capable of being verified, ensuring transparency and reliability. (IASB, 2015). The reporting process is employed by varied

organizations to monitor business performance and deliver valuable information to stakeholders such as shareholders, creditors and regulators. Furthermore, it is vital in identifying potential profitability of the company, thereby aiding in strategic decision-making and assessing the overall financial health of the organization (IFRS, 2018).

Kabwe (2023) assert, to improve quality of reporting, boards must embrace a robust governance framework by adopting the IFRS. The objective of this framework is to safeguard the integrity of financial reporting process and prevent its compromise (Akeju & Babatunde, 2017). The incidents of notable scandals involving Enron and WorldCom in recent years instigated fears regarding the independence and ethical conduct of the accounting profession in delivering quality financial reports (Jamhuri *et al.,* 2022). In the context of agency relationships, the assessment provided by auditors and financial analysts appears as crucial, yet studies show nearly half of financial reports provided by firms fail to meet the required quality standards (PWC, 2018).

Instances of financial misrepresentation are not uncommon in Africa, and in Uganda for example a notable case is the financial reports of Crane Bank believed to be unsuitable in 2016, where the value of non-performing loans compared to the actual figures were significantly understated (Bank of Uganda, 2017). Likewise, in Nigeria, the directors of First Bank of Nigeria Plc were dismissed from their positions due to allegations of involvement in improper earnings management in 2021. This practice posed a substantial risk to the bank's overall value proposition. (Adegboyega, 2021). In South Africa, Thulare (2019) observed that African Bank and VBS Bank went in liquidation in 2014 and 2018 respectively due to mismanagement and improper accounting, particularly around unsecured lending. Likewise, according to a study by Ozili (2021), African banks audited by the Big-4 firms (PricewaterhouseCoopers, Ernest & Young, Klynveld Peat Marwick Goerdeler, and Deloitte) employ income smoothing strategies during financial crises. This practice reflects their inclination to prioritize survival over the pursuit of high-quality earnings in such challenging economic conditions. Additionally, the study suggests that income smoothing not only serve as an additional incentive for African banks but also aids in mitigating its impact on their balance sheets.

In Kenya, according to CMA (2018) report, about 44 percent of the country's listed companies failed to meet the corporate governance Code of 2015 compliance (Juma, 2019). The flop of companies like Kenya Airways, Uchumi Supermarkets, and Mumias Sugar was primarily ascribed to the misrepresentation of financial statements (Irungu, 2016). In 2015, Dubai Bank was placed under administration and later closed, while Chase Bank was placed in the hands of a receiver in 2016. These two banks were affected by financial misrepresentation (CBK, 2017).

In response to this financial impropriety, regulatory authorities have mitigated conflicts of interest and ensured auditors independence through procedures that guarantee disclosures. These actions have been undertaken to protect the interests of investors and foster enhanced confidence in capital markets (CMA, 2018). Notably, the decision to repeal and replace the corporate governance guidelines of 2002 with corporate governance Code of 2015 was primarily motivated by the evolving business landscape and the aspiration to align with global best practices. The objective was to enhance and fortify the institutional framework for companies listed in Kenya (CMA, 2015). These decisions narrowed to address company mismanagement, rectifying any deficiencies in

governance mechanisms and effectively managing risks to prevent the abuse of power (CMA, 2015).

Statement of the Problem

Investors both present and prospective rely on annual reports to make rational financial investment decisions (Aifuwa & Embale, 2019). The concept of QFR requires financial reports to disclose detailed information relating to financial performance of the firms with respect to their accuracy and reliability (Uwuigbe *et al.,* 2018). However, concerns regarding quality of financial reporting have been voiced by regulators, investors, market participants and academicians in the aftermath of scandals leading to failures of big corporates like Enron, WorldCom and Afribank in Nigeria (Jamhuri *et al.,* 2022).

Generally, banking meltdown emerge from lack of high monetary transparency and poor corporate governance due to instruction of unethical accounting policies that favour the management. As a consequent, stakeholders incur losses, besides, the negative impact it has to a nation's economy (Kangea, Nasieku & Muturi, 2022). Thus, the importance of QFR cannot be underscored for public listed commercial banks as separation of control and quality of financial reporting fall within the agency framework (Jamhuri *et al.,* 2022).

In Kenya, commercial banks account for 71 percent of the banking sector and play a significant role in effective allocation of recourses in the capital markets (Odundo, 2018). Thus, the dissolution of Chase Bank, admonishing its management for misrepresentation of financial statements and its auditors for oversight failure in 2016 as well as reprimand against NBK senior management former members of the board for fiscal year 2015 misrepresentation in 2018 were part of challenges of corporate governance guidelines of 2002.

These two incidents illustrate the concerns that led to CMA to implement the corporate governance Code of 2015, operationalised in 2016. Simiyu, Nasimiyu and Toroitich (2020) posit that commercial banks in Kenya use deceptive accounting in meeting management rather than organizational objectives. Regrettably, the escalating financial information misrepresentation practices continues to attract unsuspecting investors (Kamau, Namusonge & Bichanga, 2016). This phenomenon is exacerbated by the prevalence of principal-agent conflicts commonly observed in numerous listed companies (Gathaiya, 2017).

There are varied outcomes on prior empirical investigation examining corporate governance and QFR. Studies on influence of boards' independence, gender diversity, expertise and external audit tenure revealed mixed results in relation to QFR (Akeju & Babatunde, 2017; Mukhlasin, 2018; Kalabake *et al.,* 2019; Garcia-Blandon, Argiles-Bosch & Revenda, 2020; Alsaadi *et al.,* 2021; and Omar *et al.,* 2022). These preceding studies were conducted in developed or countries other than Kenya. However, available literature shows local studies focused more on how board gender diversity influenced QFR for firms listed or non-financial firms quoted on NSE (Jamhuri *et al.,* 2022; Singoei *et al.,* 2021 and Kangea *et al.,* 2022).

Previous research investigated certain specified elements of corporate governance or were conducted in different sectors and regulatory environment compared to Kenya hence a contextual gap. This study was motivated by limited empirical evidence on effect of corporate governance Code of 2015 on QFR. Consequently, the study aimed at filling the gap by examining the effect of corporate governance Code of 2015 on QFR of commercial banks listed in Kenya to determine the overall impact.

Objective of the Study

To find out the effect of corporate governance practices on quality of financial reporting of commercial banks listed at NSE, Kenya.

Specific Objective

To determine the effect of board independence on quality of financial reporting of commercial banks listed at NSE, Kenya.

THEORETICAL REVIEW

Agency theory

Jensen and Meckling are the proponents of agency theory in 1976 which was conceptualized as the dynamic interaction between principals (shareholders) and agents (corporate management). They posit that principal and agent's conflicts arise due to divergent interests (Kangea *et al.,* 2022). Within this theoretical framework, emphasis is placed on establishing mechanisms that mitigate principal-agents conflicts thereby optimizing organizational function. Despite the concept's emphasis on wealth maximization, shareholders interest may be overridden by management opportunism as witnessed in various organizations (Omware *et al.,* 2020).

In Kenya, statutory regulations mandate that listed companies operate in a manner that prioritizes the welfare and interests of their shareholders. Thus, agency theory bears considerable relevance in the context of this investigation on effect of corporate governance and QFR among listed commercial banks in Kenya. It provides a better explanation on the link between corporate governance and QFR (Kangea *et al.,* 2022). Agency theory is crucial as it offers a structured framework to explain how corporate governance impacts the reliability and accuracy of financial reports.

An effective board serves a central role in organizational governance by providing that decisions align with the expectations of stakeholders (Kabwe, 2023). One way is the establishment of a proper governance structure that encourages transparency of operations and reporting process. This allows for the important monitoring and the oversight role played by independent directors on corporates boards. It prevents any conflicts between management and the shareholders through agency costs (Kabwe, 2023). The theory provides insights of agency framework related to QFR and how it can be improved.

Consequently, in order to improve financial reporting quality, corporates have to incur agency costs in terms of fees paid to directors and auditors which should be proportionate to both managers and

organizations interests (Kabwe, 2023). According to agency theory, larger corporations necessitate a greater number of directors and consequently incur higher agency costs to prevent any misrepresentation of information by the board through thorough and effective oversight. At its core, agency theory scrutinizes corporate disclosures with the objective of fostering an environment where managers are incentivized to disclose unfavourable information voluntarily (Tarus *et al.,* 2015).

Positive accounting theory

Ross Watts and Jerold Zimmerman proposed the Positive Accounting Theory (PAT) in 1978. The primary objective of PAT is to explain and forecast the selection of accounting principles by companies and the underlying rationales driving such choices (Watts & Zimmerman, 1978). They extensively examined the multitude of factors that influence the disposition of management towards accounting standards.

Kangea *et al.* (2022) opine PAT policies are rooted in three primary hypotheses: the bonus plan hypothesis, the debt covenant theory, and the political cost hypothesis. These theories suggest that directors select strategies aimed at maximizing current earnings. PAT, inherently innovative and supported by the aforementioned policies, serves as a pivotal measure for assessing the quality of financial reporting (Wiratama & Asri, 2020).

Kabwe (2023) asserts that the presence of accounting expertise among board members can mitigate instances of accounting irregularities and abnormal accruals. This is attributed to the valuable contribution of their accounting proficiency towards enhancing the QFR. In the context of this investigation on effect of corporate governance and QFR among listed commercial banks in Kenya, PAT is relevant based on the professional input of members of board with financial, auditing or accounting experience.

Given management's discretion in selecting accounting standards for annual report preparation, establishing robust checks and balances is essential to prevent choices from being influenced by malicious intent or potential opportunistic behaviour (Silva *et al.*, 2019). Since companies operate under agency framework, the selfish behaviour is spawn by information asymmetry (Tarus *et al.,* 2015). Nevertheless, managers may exhibit motivation driven by the imperative to enhance the value of their respective companies, they may however concurrently embrace less conservative accounting methodologies in order to derive personal benefits (Tarus *et al.,* 2015).

Wiratama and Asri (2020) explain that PAT is more concerned with empirical research that relates to choosing accounting methods that leads to profit maximization. Managers may be motivated to adopt accounting methods that minimize their company's earnings due to the potential impact of tax, political or regulatory systems. Such manifestation can be further explained by the observation that larger corporations are inherently more susceptible to the obligation of political costs when compared to their smaller counterparts.

Besides, PAT looks at value of the company through the efficiency perspective (Osho & Oyorinde, 2018). The management may tend to make accounting choice before an initial public offering, filing

for a bankruptcy, or during a financial distress. Consequently, it becomes imperative for management to carefully embrace appropriate accounting standards throughout the reporting process, to enhance quality reporting (Silva *et al.,* 2019).

Empirical literature Review

Board independence and quality of financial reporting

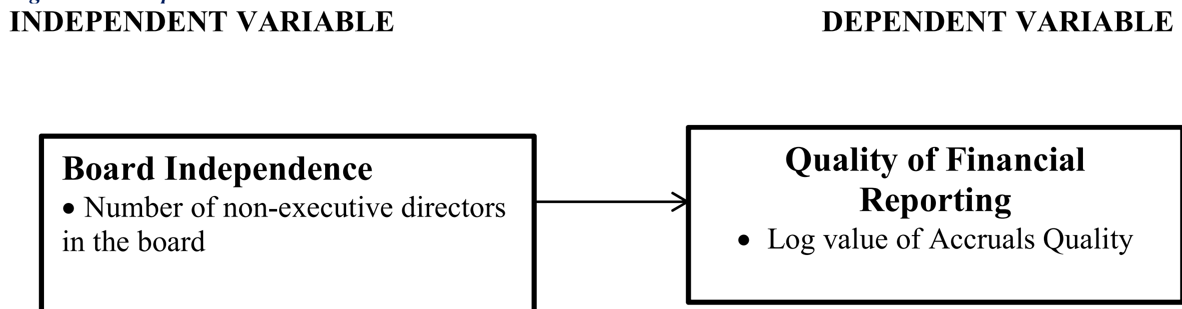
Almaqtari, Al-Homaidi and Ahmad (2018) researched the effect of corporate governance on FRQ in India. They sampled 30 listed firms on the Bombay Stock Exchange between 2012 and 2016. Four models, the Collins and Kothari (1989), Dechow and Dichev (2002), Jones (1991) and the McNichols (2002) were used to assess FRQ. The study used multiple regression to analyse audit committee effectiveness (diligence, independence, size) board effectiveness (independence, size, diligence) and audit quality. The outcome revealed an insignificant negative connection between board independence and FRQ. Despite research being carried out on publicly traded companies, It did not scrutinize the moderating effect of log of total assets on the relationship between effectiveness (independence) and FRQ. This study also distinguishes itself by focusing exclusively on listed commercial banks in Kenya.

Alsaadi, *et al.,* (2021) studied the impact of corporate governance on QFR of 18 firms quoted on Saudi Stock Exchange between 2012 to 2017. The purpose was to examine how board independence, ownership structure, audit committee size and audit committee independence impact the QFR for listed financial firms. The research employed the Jones model (Dechow *et al.,* 1995) with discretionary accruals as proxy for QFR. They concluded board independence significantly impact the QFR. This study was based in Saudi Arabia, unlike the contemporary study which was based on listed Kenyan commercial banks.

Ogbeide *et al.,* (2021) researched the association between independence of board and FRQ of Nigerian commercial banks. Secondary data for nine commercial banks listed in Nigeria between 2009 to 2018 was sampled using judgemental technique. The study employed descriptive and retrospective research designs. The independent variables considered board independence, board size, female board members and audit committee size. Data analysis utilized descriptive statistics and PLS regression. The outcome exhibited a significant adverse link between independence of board and FRQ. The present study employed panel regression utilizing an explanatory research design to evaluate how board independence effects the QFR of listed commercial banks in Kenya.

Figure 1: Conceptual Framework

INDEPENDENT VARIABLE **DEPENDENT VARIABLE**



Source: Researcher (2024)

Research Design

The research was based on positivist perception that promote objectivity to ensure unbiased investigation of outcomes thus enabling the development of robust scientific knowledge. According to Saunders, Lewis and Thornbill (2016), this entails employing elements like research design, research strategy, data collection techniques and the analytical methodologies. The tenets of positivism endorse the utilization of logical and rational methodologies in the pursuit of research activities. The primary aim of a research undertaking entails the identifying research problem, description of research objectives, formulating suitable hypotheses then adoption of a fitting methodology. Positivism strives to construct conceptual and theoretical frameworks later tested by actual studies. Thus, positivism is appropriate for this study, as it aims to explain and predict occurrences and behaviours through a theoretical framework, result testing, and policy proposals for quality reporting.

Research Philosophy

The research used an explanatory research design employed in investigations that clarify how and why particular phenomenon occur and predict future occurrences when information is limited (Saunders *et al*., 2016). The inquiry endeavoured to assess the correlation between mechanisms of corporate governance implementation and QFR among quoted commercial banks in Kenya. This research design rightly aligned with this topic.

Target Population

The population of the study encompassed all the eleven listed commercial banks at NSE. Annual reports of the firms under investigation from 2017 to 2021 served as unit of analysis while the accounting information used as unit of observation. The annual reports spanning from 2017 to 2021 of the firms under study constituted the unit of analysis, with accounting data serving as the unit of observation.

Sampling Design

There are eleven commercial banks listed in Kenya. This number was relatively small and manageable to consider all firms in line with (Mugenda and Mugenda, 2012). Consequently, a census methodology was utilized to include all eleven listed commercial banks on the NSE, thereby increasing the reliability and validity of the research.

Data Collection Instruments

The research applied secondary data extracted from the financial reports of the firms selected throughout the period from 2017 to 2021 as detailed in Appendices I and II. Secondary data, chosen for its practical advantages, offers a cost-effective and time-efficient compared to employing questionnaires, which require engagement with multiple individuals and procedural complexities.

Empirical Model

The empirical framework was formulated based on the panel regression model advocated by McNichols (2002). The direct effect model was consistent with particular objectives and research hypotheses of the investigation

$QFR_{it} = \beta_0+\beta_1 \mathbf{BI}_{it}+ \varepsilon$……….……..………………..….........…...3.2

Where:

QFR = Log of the value $ACCR_{it}$
BI = Board Independence
t = Time Scope
i = Firm
$\beta_0 - \beta_1$ = Coefficients
ε = Error term

Data Analysis and presentation

Panel data, sourced from eleven listed commercial banks on NSE, was used in the investigation, spanning the timeframe from 2017 to 2021. In conducting descriptive and inferential analyses, the study employed EViews alongside panel regression analysis. Descriptive statistics facilitated the derivation of key metrics such as mean, standard deviation, percentages and temporal trends. The null hypothesis was evaluated utilizing the p-value method at 0.05 (5%) critical value within the framework of regression analysis, tailored to address the distinct objectives outlined in the research. Inferential statistics were important in measuring data parameters and establishing the causal relationship between the research variables (Wooldridge, 2010).

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics

Table 1: Board Independence Descriptive Statistics

	N	Min	Max	Mean	Std. Dev	CV
Board Independence	55	0.3333	0.9091	0.6269	0.178830	29%
Financial Reporting Quality	55	-0.0197	0.0301	0.0049	0.010237	206%

Source: Field Study (2024)

The table showed the descriptive statistics of study. Board independence had mean value of 0.6269, with 0.3333 as the minimum, and 0.9091 as the maximum, and a standard deviation of 0.17883. From the finding, 63 percent of directors in the boardroom of listed commercial banks in Kenya were independent (NEDs). However, Jamhuri *et al.*, (2022) found that only 58.00% of the board were non-executive directors. Akeju and Babatunde (2017) opine that higher levels of independence results to higher quality of finance reporting. However, a coefficient of variation of 29.00% connotes some banks had more NEDs on their boards than others.

From the results, accruals quality which proxies QFR had a mean of 0.0049 with -0.0197 as minimum and 0.0301 as maximum, respectively. A low standard deviation of 0.010237 indicates higher levels of QFR for commercial banks listed in Kenya during the specified time frame. However, a high coefficient of variation of 206.00% as indicated by standard deviation showed a high dispersion in level of QFR.

Regression Analysis

Panel regression analysis was computed to derive the relationship between the variables.

Model Summary

Table 4: Panel Regression Analysis Results

Variable	Coefficient	Std. Error	t – Statistics	Prob
C	1.3907	0.9321	1.4920	0.1420
Board Independence	-0.0242	0.0097	-2.4985	0.0158
	Weighted Statistics			
R-squared	0.1119	Mean dependent var		0.2804
Adjusted R-squared	0.0409	S.D. dependent var		0.8843

Source: Field Study (2024)

The outcome from Table 4 shows evidence that board independence has a notable negative effect with QFR of commercial banks listed in Kenya (coefficient = -0.0242 and p = 0.0158<0.05). This means board independence was a significant factor influencing changes in QFR for commercial banks listed in Kenya. This result suggests that an increase in board independence leads to -0.0242 unit reduction in QFR of listed commercial banks under study period.

The Adjusted R^2 measures the ratio of the change in the quality of accruals in Kenya because of changes in board independence explains 11.19 percent of the changes in QFR. The remaining 88.81 percent is attributed to aspects not considered in the model.

In accordance with Table 4 outcome, the subsequent regression model was therefore as follows: $Y_t = 1.3907 - 0.0242BI + \mathcal{E}_t$

This study investigated influence of board independence on the QFR of the banks under study. From the study, the results of $\beta_1=-0.0242$, $p=0.0158$ was found. Thus, independence of board had a significant negative effect on QFR. Given that the p-value < 0.05, the null hypothesis was rejected inferring that a unit increase in independence of board reduces the log likelihood of QFR by -0.0242 unit indicating NEDs may be passive and lack independence in their oversight role to enforce QFR. Thus, they are under control of management and merely fulfil regulatory requirement (Kabwe, 2023). Consequently, the analysis found that board independence was a particularly significant predictor variable.

The study outcome verifies the findings of Almaqtari, *et al.* (2018) that studied the impact of mechanisms corporate governance on FRQ in India. They sampled on 30 listed companies on the Bombay Stock Exchange between 2012 to 2016. The study employed four models the Jones (1991) model, the Dechow and Dichev (2002) model, the McNichols (2002) model and the Collins and Kothari (1989) models as FRQ proxies. Data was analysed using multiple regression analyse and based on the outcome. The results indicated board independence negatively but insignificantly influence FRQ.

Equally, Ogbeide *et al.,* (2021) researched the connection between corporate governance mechanisms and FRQ of Nigerian commercial banks between 2009 to 2018. The study used descriptive and ex-post facto research designs and judgemental sampling technique where nine commercial banks were sampled. Panel least square regression and descriptive statistics were used to analyse the secondary data. The results showed a significantly adverse relationship between independence of board and FRQ.

However, the outcome of the investigation contrasted with Akeju and Babatunde (2017) research that examined linkage between corporate governance and FRQ for forty firms listed for the period

2006 - 2015 in Nigeria. Three models were applied in the research to analyse the data. The results showed a significantly positive and relationship between board independence and financial reporting quality for Nigerian listed companies.

Further, Alsaadi *et al.* (2021) investigated consequence of corporate governance and QFR among listed companies in Saudi Arabia. They analyzed financial statements of 18 Saudi Stock Exchange listed companies between 2012 and 2017. They employed Jones model (Dechow *et al.,* 1995) and using discretionary accruals as proxy to assess the quality of the reports. The outcome showed quality of financial reports is significantly and positively affected by the independence of the board. Generally, increase in independence of the board increases monitoring and oversight role of the board hence high QFR. The research outcome revealed a significant negative correlation between board independence and FRQ. As an implication, though there is a greater presence of NEDs on boards, there oversight is ineffective to guarantee high FRQ. The deduction suggests some boards may have members primarily fulfiling the regulatory requirements rather than engaging as independent overseers of financial reporting quality (Kabwe, 2023).

CONCLUSION AND RECOMMENDATIONS

Conclusion

The investigation deduced that independence of board as of corporate governance mechanism had a negative influence on QFR for listed commercial banks in Kenya. With respect to the first specific objective, it was concluded that board independence was a major predictor of QFR for commercial banks listed in Kenya. Thus, board independence directly affects the QFR.

Recommendations

Thus, this study suggests that board independence must be enhanced to improve the QFR of listed commercial banks in Kenya. This will allow the directors of board of the banks to constructively contribute to strategic decisions like the accounting policies to be adopted during reporting.

REFERENCES

Abas A., I. (2019). *Examining factors that are associated with Financial Quality of listed commercial banks in Kenya*. School of Mathematics, University of Nairobi.

Adegboyega, A. (2021). First bank reacts to CBN's sacking of its board. Prime times, Retrieved April 30, 2021. https://www.premiumtimesng.com/news/headlines/ 458667-first-bank-reacts-to-cbns-sacking-of-its-board.html.

Aifuwa, H., O., & Embale, K. (2019). Board Characteristics and Financial Reporting Quality. *Journal of Accounting and Financial Management*, 5(1), 30-44 https://ssrn.com/abstract=3394421.

Akeju J., B. & Babatunde A., A., (2017). Corporate Governance and Financial Reporting Quality in Nigeria. *International Journal of Information Research and Review*, 04(2), 3749-3753.

Al-Khonian, S., & Al-Adeem, K., (2020). Corporate Governance and Financial Reporting Quality: Preliminary Evidence from Saudi Arabia. *Financial Markets, Institutions and Risks*, 4(1), 109-116. http://doi.org/10.21272/fmir.4(1).109-116.2020.

Amah, K. O., & Ekwe, M. C. (2021). Effect of Corporate Governance Structure and Financial Reporting Quality of Quoted Pharmaceutical Companies in Nigeria. *Management Dynamics in the Knowledge Economy*, 9(2), 225–240.

Almaqtari, F., A., Al-Homaidi, E., A., & Ahmad, A. (2018). Impact of corporate governance mechanisms on financial reporting quality: Evidence from India. *Asian Journal of Management Applications and Research.* 8 (1), 96-110. ISSN 2230-8660 (print).

Alsaadi, M., Tijjani, B., & Falgi, K. (2021). Corporate Governance and Quality of Financial Reporting of Listed Companies: Evidence from Saudi Arabia. *International journal of innovation, creativity and change*, 392-410.

Arumona, J. & Olayinka, E. (2019). Board Financial Education and Firm Performance: Evidence from the Healthcare Sector in Nigeria. *Academy of Strategic Management Journal.* 18. 1-14.

Baltagi, B., H. (2008). Econometric Analysis of Data. John Wiley & Sons Ltd., Chichester.

Bank of Uganda. (2017). Financial stability report. Retrieved from the World Wide Web: https://www.bou.or.ug/bou/bou-downloads/financial_stability/Rpts/All/ Financial-Stability-Report-June-2017.pdf

Buallay, A., Hamdan, A., & Zureigat, Q. (2017). Corporate governance and company performance: evidence from Saudi Arabia. *Australian Accounting Business and finance Journal*, 11(1), 78-98. Doi:10.14453/aabfj. v11i1.6.

Blumberg B., F. Cooper, D., R. & Schindler P., S. (2014). *Business Research Methods* (4th ed.) Mc Graw-Hill Education, International Edition, New York, NY.

CBK, 2012, Annual Report, 2012.

CBK, 2017, Bank supervision Annual Report 2017.

CMA (2002), "*Guidelines on corporate governance practices by public listed companies in Kenya*", Gazette Notice No. 3362, The Capital Markets Act, available at: www.cma.or.ke/index.php? option=com docman&view=docman& Itemid=208 (accessed February 14, 2019).

CMA (2015). The Code of Corporate Governance Practices for Issuers of Securities to the Public 2015. Retrieved on 15th Dec 2021, from https://www.cma.or.ke

CMA (2018). Report on the State of corporate Governance of Issuers of Securities to the Public in Kenya. https://www.cma.or.ke/index.php/search?searchword=report %202018&searchphrase.

CMA *Press Release* (2018). CMA takes enforcement action for corporate governance and financial failures and fraudulent schemes at the National Bank of Kenya (NBK).

CMA Report (2020). Report on the state of Corporate Governance of issuers of securities to the public of Kenya.

CMA *Press Release* (2022). The Capital Markets Authority (CMA) takes enforcement action against former Board Members and Senior Management of Chase Bank Kenya Limited (In Liquidation) and its Reporting Accountant regarding an inquiry into Chase Bank Kenya Limited (In Liquidation) following issuance of Medium – Term Note (MTN) in 2015, 03 August 2022.

Collins, D. & Kothari, S. (1989). An analysis of inter-temporal and cross-sectional determinants earnings response coefficients. *Journal of accounting and economics*, 11,143-181.

Cooper, D. R., & Schindler, P. S. (2014). Business Research Methods (12th ed.). McGraw Hill International Edition, New York, NY.

Dang, C., Li, Z., F. & Yang, C. (2018). Measuring Firm Size in Empirical Corporate Finance. *Journal of Banking and Finance, Forthcoming*, 86, 159-176.

Danladi, S. & Magaji, Z. (2021). Auditors' Independence and Financial Reporting Quality of Listed Deposit Money Banks in Nigeria. *International Conference on Multidisciplinary Approaches in Humanities, Management and Sciences – 2021*.

Dechow, P., & Dichev, I. (2002). The quality of accruals and earnings. The role of accrual estimation errors. The Accounting Review, 77. 35-59.

Dechow, P., Sloan, R., & Sweeney, A. (1995). "Causes and consequences of earning manipulation an analysis of companies' subject to enforcement actions by the SEC." *Contemporary Accounting Research*, 13 (1), 1-36.

Escribá-Esteve, A., Nielsen, S., & Yamak, S. (2012). Upper Echelons Research: A Multilevel Perspective.

Enchobu, J., Okika, N., P. & Mailafia, L. (2017). Determinants of Financial Reporting Quality: Evidence from listed Agricultural and Natural Resources Companies in Nigeria. *International Journal Accounting Research.* 3(3), 20-31.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. New York: Pitman.

Freeman, E., R., & Phillips, R., A., (2002). 'Stakeholder Theory: A Libertarian Defense' *Business Ethics Quarterly*, Cambridge University Press, vol. 12(3), pages 331-349.

Fung, B. (2014). The demand and need for transparency and disclosure in corporate governance. *Universal Journal of Management* 2(2): 72-80, 2014 DOI: 10.13189/ujm.2014.020203 Retrieved from http://www.hrpub.org.

Garcia-Blandon, J., Argiles-Bosch, J., M. & Revenda, D. (2020). Audit company tenure and audit quality: A cross European Study. *Journal of International Finance Manage Account*, 35-64. https://doi. org/10.1111/jifm.12098.

Gathaiya, R. (2017). Analysis of issues affecting Collapsed Banks in Kenya from Year 2015 to 2016. *International Journal of Management & Business Studies,* 7(3), 9-15.

Gujarati, D. and Porter, D. (2009). Basic Econometrics. Fifth Edition, McGraw-Hill, New Delhi.

Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. *Academy of management review*, 9(2), 193-206.

IASB. (2015). Conceptual Framework for Financial Reporting. *In Accounting in Europe* (Vol. 15). https://doi.org/10.1080/17449480.2018.1496269.

IF Correspondent (2020, January 13). Why Kenya needs fewer banks. *International Finance Magazine*, 10(14) 18-23.

IFRS Foundation (2018) Analyzing the use of IFRS Standards. https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction.

Ibrahim M., & Abubakar D. (2019). Board Attributes and Financial Reporting Quality of Listed Deposit Money Banks (DMBs) in Nigeria. *International Journal of Economics and Business Administration,* 5(4) 185-192.

Irungu, G. (2016). KQ, Uchumi's Decline to zero net worth puts CMA on the Spot. *The Business Daily.* Retrieved January 28, 2019, from http://www.business dailyafrica.com.

Jamhuri, R., K., Mwangi, C., I., Okiro, K. & Wainaina, G. (2022). The relationship between Board Diversity and Financial Reporting Quality of Companies Listed at the Nairobi Securities Exchange in Kenya. *African Development Finance Journal*. 3(2), 105-121.

Jensen, M., C., & Meckling, W., H., (1976). Theory of companies' managerial behaviour, agency cost and ownership structure, *Journal of Finance and Management*, 12, 23-31.

Jones, J. (1991), "Earnings management during import relief investigation'' *Journal of Accounting Research* .29.193-228.

Juma, V. (2019, 07 May). Business Daily, *27 NSE listed firms fail transparency and risk control test*. https://www.businessdailyafrica.com/bd/markets/market-news/27-nse-listed-firms-fail-transparency-and-risk-control-test-2249080.

Kaawaase, T.K., Nairuba, C., Akankunda, B. & Bananuka, J. (2021), "Corporate governance, internal audit quality and financial reporting quality of financial institutions", Asian Journal of Accounting Research, Vol. 6 (3), pp. 348-366. https://doi.org/10.1108/AJAR-11-2020-0117

Kabwe, M. (2023). Corporate governance attributes and financial reporting quality: An evidence from a developing country in Africa. International Journal of Research in Business and Social Science. 12. 179-191. 10.20525/ijrbs.v12i1.2287.

Kalabake W., Sadiq M., Keong O., C. (2019). Auditors Tenure and Financial Reporting: Evidence from a Developing Country, *International Journal of Asian Social Science, Asian Economic and Social Society,* 9(5). 335-341.

Kamau, C., G., Namusonge, G., S., & Bichanga, W., O. (2016). Creative Accounting Related Practices Among Corporations Listed in Nairobi Securities Exchange in Kenya. *International Journal of Sciences: Basic and Applied Research, 25*, 254-265.

Kangea, S., T., Nasieku, T., & Muturi, T. (2022). Effect of Board Diversity on Earnings quality of non-financial Firms listed at Nairobi Securities Exchange. *Journal of Finance and Banking,* 12(3) 55-75.

Kankanamage, C. (2016). The relationship between board characteristics and earnings management: evidence from Sri Lankan listed companies. *Kelaniya Journal of Management*. 4. 36. 10.4038/kjm.v4i2.7499.

Kao E., H, Huang H., C, Fung H., G, Liu X (2020). Co-opted directors, gender diversity, and crash risk: evidence from China. *Rev Quant Finance Account* 55:461–500.

Karanja, K., G., & Awuor, E. (2017). Board Diversity Regulations and Performance of Commercial Banks in Kenya: A Case of Nairobi County. *European Journal of Business and Strategic management,* 2(8) 38-59.

Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. Journal of Accounting and Economics, 21(6), 163-197. http://dx.doi.org/10.1016/j.jacceco.2004.11.002

Kothari, C., R., (2014). Research Methodology: Methods and Techniques. (Second revised edition), New Age International Publishers, New Delhi.

KPMG (2008). KPMG International Survey of Corporate Responsibility Reporting 2008.

Lokman, N., Mula, M., J. & Cotter, J. (2014). Importance of Corporate Governance quality and voluntary disclosures of corporate governance information in listed Malaysian family-controlled business. *International Journal of Sustainable Development & World Policy*, 3(1), 1-24.

Luo, J., Xiang, Y., & Huang, Z. (2017). Female directors and real activities manipulation, Evidence from China. China *Journal of Accounting Research,* 10 (2) 144-166.

Macharia, M., N., & Busweti, K. (2017). The Applicability of Textual Disclosures and Selected Bankruptcy Prediction Models in Assessing the Going Concern Risk of Listed Firms in Kenya, *International Journal of Economics, Commerce and Management, 5(8), 165-222.*

McNichols, M.F. (2002), "Discussion of the quality of accruals and earnings: the role of accrual estimation errors", *The Accounting Review*, 77(1), 61-69.

Mishra, P., Pandy C., M., Singh, U., Gupta, A., Sahu, C., Kesheri, A. (2019). Descriptive statistics and normality tests for statistical data. *Ann Card Anaesth*. 22: 67-72.

Mohammad, A., J., & Ahmed, D., M. (2017). The Impact of Audit Committee and External Audit Characteristics on Financial Reporting Quality among Malaysian Companies. *Research Journal of Finance and Accounting,* 8(13), ISSN 2222-1697.

Mugenda, O., M., & Mugenda, A., G. (2012). Research Methods: Quantitative Approaches. Nairobi: Acts Press.

Mukhlasin, M. (2018). Auditor tenure and auditor industry specialization as a signal to detect fraudulent financial reporting. *Academy of Accounting and Financial Studies Journal.* 22.

Nairobi Securities Exchange, Report, 2019.

Ochola, S., A., Mungai, J., & Jagongo, A. (2022). Board Size and Tax Planning among Manufacturing and Allied Firms Listed at The Nairobi Securities Exchange, Kenya. *International Journal of Management and Commerce Innovations,* 10(1), 365-370.

Odundo, G. (2018). Bank Size and Financial Stability of Commercial Banks in Kenya: Empirical Evidence. *Journal of Emerging Issues in Economics, Finance and Banking, 7(1), 2667-2680.*

Ogbeide, S. O., Oguigo, H. U, & Adesuyi, I. O. (2021). Corporate Governance Mechanisms and Financial Reporting Quality of listed Commercial Banks in Nigeria. *Insights into Regional Development*, 3 (1), 136 - 146. ff10.9770/ird.2021.3.1(8)ff. ffhal-03583879.

Omar, I., T., Faozi, A., A., Waleed, M. A., Abdul, Aziz, R., A., & Najib H. S. F. (2022): The impact of board diversity on financial reporting quality in the GCC listed firms: the role of family and royal directors, *Economic Research*, DOI: 10.1080/1331677X.2022.2120042

Omware, I., M., Atheru, G. & Jagongo, A. (2020). Corporate governance and financial performance of selected Commercial banks listed at NSE in Kenya. *International Academic Journal of Economics & Finance,* 3(5), 75-91.

Onuorah, A., C., & Friday I., O. (2016). Corporate Governance and Financial Reporting quality in Selected Nigerian Company. *International Journal of Management Sciences & Business Administration,* 2(3), 7-16.

Osho, A., E., & Ayorinde F., M. (2018). The General Tenets of Positive Accounting Theory towards Accounting Practice and Disclosures in Corporate Organizations in Nigeria. *Journal of economics and sustainable development, 9, 1-11.*

Outa, E., Eisenberg, P., & Ozili, P. (2017). The Impact of Corporate Governance Code on Earnings Management in Listed Non-Financial Companies: Evidence from Kenya. *Journal of Accounting in Emerging Economies*. 7. 428-444. 10.1108/JAEE-09-2016-0081.

Owolabi & Oluwatobi (2020). Auditors' independence and the Quality of Financial Reporting (FRQ) in listed Deposit Money Banks (BMD) in Nigeria. *International Journal of Research in Social Sciences 4(8), 303-309.*

Ozili P., K., (2021). Big 4 auditors, bank earnings management and financial crisis in Africa. *Journal of Financial Reporting and Accounting*. 10.1108/JFRA-10-2020-0306.

Panda, B., & Leepsa N., M., (2017). Agency theory: Review of Theory and Evidence on Problems and Perspectives. *Indian Journal of Corporate Governance 10(1) 74–95.*

PWC (2018), "Pulling fraud out of the shadows: *Global Economic Crime and Fraud Survey 2018*".

Qawqzeh, H., K., Endut, W., A., Rashid, R., Johari, R., J., Hamid, N., A., & Rasit, Z., A. (2018). Audit Tenure, Audit Company and Audit Quality: A Literature Review. *International Journal of Academic Research in Business & Social Sciences*.

Ruparelia, R., & Njuguna A. (2016). The Evolution of Corporate Governance and Consequent Domestication in Kenya. *International Journal of Business and Social Science,* 7 (5), 153-163.

Saona, P., Muro, L., San Martín., P. & Baier-Fuentes, H. (2019). Board of Director's Gender Diversity and Its Impact on Earnings Management: An Empirical Analysis for Select European Firms. *Technological and Economic Development of Economy*. 25. 634-663. 10.3846/tede.2019.9381.

Saratu, J., M. & Adzor, I. (2021). Understanding Financial Reporting and Earnings Quality: A Review of Concepts, Determinants and Measurement Approaches. *NDA Journal of Management Sciences Research,* Available at SSRN: https://ssrn.com/abstract=4086933.

Saunders, M., Lewis, P., & Thornbil, A. (2016). *Research methods for Business Students*. Essex, England: Pearson Education Limited.

Shamimul, H., Md. & Normah, O., (2015). How do we assess the quality of corporate financial reporting? A methodological issue. AESTIMATION, *The IEB International Journal of Finance*. 13. 2-17. 10.5605/IEB. 13.1.

Schildbach, J. (2017). *Large or Small? How to measure bank size* (EU Monitor Global Financial Markets, April 25. Deutsche Bank Research) Frankfurt am Main: Deutsche Bank AG.

Shrestha, N. (2020). Detecting Multicollinearity in Regression Analysis. *American Journal of Applied Mathematics and Statistics*. 8. 39-42. 10.12691/ajams-8-2-1.

Silva, A. H., Sancovschi, M., & Santos, A. G. C. (2019). The opportunistic approach of the Positive Accounting Theory (PAT) fails to explain choices made at OGX: An anomalous situation? *Revista de Contabilidade e Organizações*, 13:e164412. DOI: http://dx.doi.org/10.11606/issn.1982-6486.rco.2019.164412.

Simiyu, F. R. Nasimiyu, C. & Toroitich, C. (2020) Income Smoothing and Financial Performance of Tier 11 Commercial Banks in Kenya. *European Journal of Accounting, Auditing and Finance Research*, 8 (10), 70-86.

Singoei, D., K., Kibati, P., & Kiprop, S. (2021). Effect of Board Diversity on Financial Reporting Quality: Evidence from Firm's Listed in Nairobi Securities Exchange, Kenya. *Kabarak Journal of Research & Innovation*, 11(3), 308-320.

Tarus, M. J., Muturi, W. & J Kwasira (2015). Determinants of Accurate Financial Statements Reporting in Listed Banks in Kenya; A survey of Commercial banks in Nakuru Town. *IOSR Journal of Business and Management,* 17(4), 79-86.

Thulare, T. (2019). A critical analysis on bank failures in South Africa. (Unpublished paper), Faculty of Law, University of Pretoria.

Uwuigbe, U., Eluyela, D., Uwuigbe, O., Obarakpo, T. & Falola, I. (2018). Corporate governance and quality of financial statements: A study of listed Nigerian banks. *Banks and Bank Systems*. 13. 12-23. 10.21511/bbs.13(3).2018.02.

Yusuf, I. (2019). Determining Bank Size in The Nigerian Banking Industry: A Principal Component Analysis Approach. *5th Annual International Academic Conference Proceedings 2019.*

Watts, R., L., & Zimmerman, J., L. (1978). Towards a Positive Theory of the Determination of Accounting Standards. The Accounting Review, 53(1), 112-134.

Whisman, M., A., & McClelland, G., H. (2005). Designing, Testing and Interpreting Interactions and Moderator Effects in Family Research. *Journal of family psychology, 19(1),* 111-120.

Wiratama, R., & Asri, M. (2020). A Literature Review: Positive Accounting Theory (PAT). *SSRN Electronic Journal*. 10.2139/ssrn.3523571.

Wooldridge J., M. (2010). *Econometrics Analysis of Cross Section and Panel Data*. 2nd ed. Cambridge, MA: MIT Press.

Zalata, A., M, Ntim, C., Aboud, G., E. & Gyapong, E. (2019). Female CEOs and core earnings quality: new evidence on the ethics versus risk-aversion puzzle. *J Bus Ethics* 160(2):515–534.

Zalata, A., Ntim, C., Alsohagy, M., & Malagila, J. (2022). Gender diversity and earnings management: The case of female directors with financial background. *Review of Quantitative Finance and Accounting*. 58. 10.1007/s11156-021-00991-4.