AUDIT COMMITTEE ATTRIBUTES AND CORPORATE GOVERNANCE IN STATE CORPORATIONS UNDER THE NATIONAL TREASURY IN KENYA

Rhodah Chepngetich.
Student, School Business, Economics and Tourism, Kenyatta University, Kenya.
Dr. Salome Musau.
Lecturer, School of Business, Economics and Tourism, Kenyatta University, Kenya.

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ABSTRACT

The role of state corporations in national economies is pivotal, given their mandate to implement government policy, provide essential services, and drive socio-economic development. In Kenya, state corporations under the National Treasury have historically faced scrutiny over governance failures, marked by rising complaints of administrative malpractice and corruption. Despite the establishment of corporate governance frameworks such as the Mwongozo Code and the formation of audit committees intended to enhance oversight, concerns over political interference, weak supervision, and inadequate financial management structures persist. This study sought to analyze the effects of audit committee attributes on corporate governance among state corporations overseen by the National Treasury. The target population comprised 136 respondents from 34 public institutions under the National Treasury. Due to the relatively small population, the study employed a census approach, ensuring that all 136 respondents within these corporations participated. Data were primarily collected using a structured questionnaire. Quantitative data analysis involved statistical methods, including the calculation of means and standard deviations, while qualitative data was analyzed thematically and descriptively. Additionally, an empirical analysis was conducted to assess the effects of audit committee attributes on the governance of state-owned enterprises. The data were subjected to heteroscedasticity, multicollinearity, and normality tests to validate the reliability of the multiple regression model. The analysis showed that all four audit committee attributes had significant positive effects on corporate governance. Audit committee independence enhanced objectivity and accountability; committee size contributed to workload distribution and governance coverage; diversity promoted inclusive and balanced decision-making; and expertise had the greatest impact, enabling informed oversight and risk management. The study concluded that audit committee attributes are critical determinants of good governance in state corporations. It recommends strengthening appointment policies to preserve independence, ensuring optimal committee size, promoting diversity, and enhancing technical capacity through professional development. These findings contribute to the discourse on public sector governance reform and offer practical insights for policy implementation. Further research is encouraged to explore contextual moderators influencing effectiveness of the committee such as institutional culture and regulatory environments.

Keywords: Audit Committee attributes, Corporate Governance, Accountability, and Transparency.

INTRODUCTION

Governments, through legislation, establish or nationalize state corporations as state-owned enterprise to form the public Sector. A State Corporation has a mandate of implementing state regulation in the economy (Arkhipova *et al.,* 2016). Additionally, State Corporation has influence on the people's lives and economy through provision of services and goods. The various services and goods are provided in a distinct manner by the government. This is because of the diversity, complexity, sophistication and controlled nature of state corporations (International Monetary Fund, 2022.)

Due to the responsibility of serving the public, Corporate Governance is very key in management of State Corporations. For State Corporation to embrace good corporate governance, there is a need to safeguards against undermining auditing and accounting standards. Without proper accounting information, there is likelihood of concealing bribery and corruption. This has an effect of causing degradation of corporate governance (Ali and Khan, 2022). Boutellis-Taft (2021), notes that accountants' roles are key to an effective corporate governance. Their accounting, reporting, internal control skills are able to help in identification of where a business could improve its practices.

To ensure robust corporate governance, it is beneficial to establish checks and balances within the accounting and financial reporting of state corporations. The audit committee plays a crucial role in overseeing this process. The committee also evaluates timeliness and has productiveness of the formation content of financial statements (Maranjory and Tajani, 2022). Azumendi (2011) demonstrated that national governance reflects the way state-owned enterprises (SOEs) uphold corporate governance norms in his research on governance in SOEs in Latin America and the Caribbean. The researcher puts more emphasis on a need for corporate structures that are political and self-interest free. South Africa noted that this brings confidence to the citizens on service delivery by SOEs, hence developed the Presidential Review Commission (PRC) on SOEs in 2014 (Kikeri, 2022). Djibouti has imbedded good corporate governance in inspiration of being the beacon of the red sea by the year 2035 by strengthening public institutions for better administrative, economic, political judicial and governance (African Development Fund 2022)

When the British built the Kenya-Uganda Railway line in the late 1800s, state corporations were established in Kenya. The first state corporation, Imperial British East Africa Company (IBEA), was founded by the colonial administration during construction. This was later followed by several other statutory boards in the areas of regulatory, marketing and agricultural commodities. As soon as Kenya got independence in 1966, the Ministry of Agriculture and Animal Husbandry established the Inspectorate of Statutory Boards (ISB). The ISB's main objective was to monitor and evaluate the boards' performance in the agriculture industry. State Corporations were established in various sectors under multiple Ministries at the same time that ISB was transferred from the Ministry of Agriculture and Animal Husbandry to the Office of the President. The State Corporations Act, Cap 446, was passed in 1986 to establish guidelines for State Corporation management. The State Corporations Act was changed to establish the Office of the Inspector-General (Corporations) in response to the mismanagement of State Corporations. This office is currently housed inside the Office of the Prime Cabinet Secretary (Inspectorate of State Corporations 2023).

Kenya's state-owned institutions are governed by the Governance code, *Mwongozo,* for State Corporations and the Code of Corporate Governance Practices for Capital Markets Authority (CMA), in addition to the country's current legal framework. The State Corporation Advisory Committee created the code in 2015. The code lays out requirements for SOEs in terms of corporate governance. According to the State Corporations Advisory Committee (2015), it outlines the responsibilities of the board, Relevant Committees, and Management. When it comes to corporate governance, SOE procedures have improved. This is due to the government's consistent publication of guidelines in the form of circulars regarding the responsibilities and behaviour expected of board members. The board's responsibility is to oversight the transparency and accountability of management (Mwangi and Nyaribo, 2022).

Corporate Governance

Corporate governance is defined by the Organization for Economic Co-operation and Development (OECD, 2022) as a framework of policies, procedures, and practices that guide and oversee an organization. It is in charge of establishing the appropriate framework that provides direction on the objectives of the organization and how to accomplish them. Dragomir, Dumitru, and Feleaga (2021) explain that in state-owned entities, corporate governance encompasses the ownership function of the state, the oversight duties of the government, and the monitoring responsibilities performed by the board of directors or governing council. The OECD has outlined five standards for sound corporate governance. Ashiru, Nakpodia, and Adegbite (2019) list the following as the guiding principles: integrity, leadership, capability, accountability, and sustainability. In line with Laney et al. (2020), when the public sector governance structure implements these principles, resources, and systems will be strategically arranged to fulfil the interests of all parties involved. This will mirror the accomplishments of publicly held firms. However, most SOEs have been seen as only fulfilling a legal obligation. Perceiving corporate governance as an improvement to business operations is crucial (Gwala and Mashau, 2022).

The United Nations Global Compact and Global Reporting Initiative (GRI) incorporated the concepts of corporate governance into the SDGs along with a study titled "Integrating SDGs into corporate reporting: A Practical Guide United Nations (UN) 2019". Per Huber, Comstock, and Smith (2018), the purpose of this guidance is to act as a standard for corporate annual reporting. The article offers businesses a decent governance manual with a focus on more thorough and open disclosures.

In recent years, interest in corporate governance has grown occasioned by many financial crises and business scandals that have eroded investor trust and highlighted the need for tighter supervision procedures (Boata, 2024). Subsequently, stakeholders including regulators, activists, investors, and lawmakers are calling for improved transparency, accountability, and moral behaviour in corporate organizations, which has led to a global focus on fortifying corporate governance frameworks. Advanced countries like the USA, UK, and Germany have lawfully adopted comprehensive legal architectures and sound structures vigorously to enforce effective corporate governance (Kothari, 2024). Strong investor protection mechanisms, well-established legal frameworks, and active institutional investors all support sound governance standards in these countries. Nonetheless, corporate governance flaws happen, such as what the crises involving Enron and Volkswagen have shown.

A modern, customized set of corporate governance guidelines that is being utilized in the area is the African Corporate Governance Code of Best Practices (Grace, 2023). Firms wishing to enhance corporate governance can use this publication as a resource. Corporate governance best practice codes value the principles of accountability, transparency, fairness, stakeholder involvement, and ethical conduct. The African Code is unique for it is designed for the African context and it brings the indigenous actors into the corporate decision-making systems. Even with the limitations of the African Code, its application can result in greater organizational performance and corporate governance procedures within the African setting (Areneke, Khlif & Kimani, 2022). Even with efforts to enhance them through programs like the Ghana Corporate Governance Code, implementing corporate governance standards is still challenging (Nkansah & Boateng, 2018). Notwithstanding the ongoing difficulties, Ghana offers chances to improve corporate governance procedures. According to Asiedu et al. (2020), boosting board effectiveness, encouraging corporate transparency, and strengthening regulatory enforcement are priorities. Furthermore, enhancing disclosure standards, engaging stakeholders, and implementing capacity-building programs can help raise awareness and promote a culture of good governance among Ghanaian businesses. The African Union has acknowledged that corporate governance is key in achieving economic independence in Africa. Apart from adhering to the practical Guide by UN, (2019) the Union in its Agenda 2063, has aspiration three (3) which is all about an Africa of Good Governance (African Union Commission (AUC), 2015).

Like in other nations, corporate governance has grown in importance in Kenya (Kiratu & Moronge, 2016). Corporate failure and subpar performance by both public and private organizations have contributed to this in part. Trust for Private Sector Corporate Governance Kenya has been the country that has supported the most. However, in terms of unrealized potential, the private and corporate sectors' results in Kenya remain poor (African Development Bank Group, 2019). Despite the adoption of the 2015-introduced amended code of corporate governance procedures and IFRSs, Kenya's corporate sector is frequently the subject of reports about poor corporate governance and accountability procedures (Kimani, Ullah, Kodwani & Akhtar, 2021). It is noted that Kenya subscribes to both the UN and The African Union and is thus bound by these goals and aspirations.

The CMA Code of Corporate Governance Practices serves as a guidance for publicly traded corporations in Kenya. It is designed to adjust in response to evolving requirements of the business. By bringing Kenyan national norms into line with global best practices for fortifying institutions for publicly traded firms, it does this (CMA, 2015). Listed companies were subject to the Kenya Regulations on Corporate Governance of Listed Companies, 2002 before the enactment of the CMA act. The Mwongozo Code provides suggestions on good corporate governance for SOEs that are not listed on public markets (State Corporations Advisory Committee (SCAC), 2015).

Al-Ahdal et al. (2020) and Sheikh and Alom (2021) used transparency and openness to measure corporate governance in Bangladesh and corporate governance may not have affected the business operation positively. Audit committees influence the sustainability performance of the firm (Yorke et al., 2023). The study focused on sustainability, accountability, and transparency as measures of corporate governance as proposed by Yorke et al. (2023), and Sheikh and Alom (2021

Audit Committee's Attributes

The board's and its members' oversight function is the cornerstone of sound corporate governance. The board uses a number of committees to carry out its oversight. The audit committee is ranked among the most important boards by Ashari and Krismiaji (2020). The origins of audit committees can be found in the United States of America (USA) in the 1930s, when McKesson and Robbins fraud case led to public corporations being forced to establish audit committees by the SEC and NYSE. Afterward, the NYSE mandated that audit committees be a component of the corporate structure for all listed companies by June 30, 1978. Formation of audit committees as an avenue of promoting corporate governance in the United Kingdom was as a result of a recommendation in the Cadbury Committee report from 1992 (Cadbury, A. 1992).

The audit committee's main roles include supervision and observation. With management, an outside auditor, and any advisor serving as a reasonable resource, the committee can accomplish this goal (Deloitte Development LLC, 2018). The committee's ability to carry out the above-specified task effectively depends on it having a few key characteristics. The size, independence, diversity, and experience of audit committee members support the board's supervision and the ways in which companies profit from adhering to corporate governance principles, according to the Bangladesh Securities and Exchange Commission (BSEC, 2018). Notwithstanding this focus, there has been a rise in corporate governance-related crises worldwide in the last 20 years. Numerous prominent corporate governance scandals have occurred in India in the past few years. A measure aiming at strengthening the audit committee was introduced by the country in the Companies Act of 2013 (Rajashekar and Abhay, 2022).

In some countries, it is noted that Audit Committees do not exist. For example, Ashari and Krismiaji, (2020) note that in Namibia, government entities and especially ministries are very reluctant in the establishment of audit committees which shows unwillingness to implement the finest national and international governance procedures for audit committees. To establish and operationalize the audit committee, many of these countries have legislated it. The Public Finance Act of 2004 was changed by the United Republic of Tanzania to grant the Audit Committee additional authority (Millinga and Naho, 2022).

According to the economy, there are various administrative procedures for the establishment of audit committees in Kenya. For example, the 2006 Central Bank Prudential Directive stipulates that directors of financial institutions must establish audit committees, while directors of listed companies must establish audit committees. Article 57 of the Sacco Association sets out the rules for the composition of the audit committee. The Kenya CMA published a corporate governance model in 2002, but ultimately the Code of Conduct for Corporate Governance of Public Enterprises (2015) and the work of the audit committee will prevail. Scale, independence, diversity, and specialization. In June 2011, corporate governance standards were released for companies that provide insurance and reinsurance. The Public Finance Management (PFM) Act 2012 and its implementing regulations, as well as a 2015 Code of Governance for Government-Owned Entities, regulate the audit committee in Kenya's public sector (Mwongozo) (KPMG, 2022).

The PFM regulations give the Audit Committees purpose and authority. Further to the regulations, audit committees are guided by gazette notices no. 2690 for the County Governments and 2691 for the National Government which provide directions intended to provide best practices in Audit Committee operations and define the roles of the committees (The Kenya Gazette, 2016). The Gazette notice that established the Audit Committee noted that its size is a vital attribute in the evaluation of the performance of State Corporations (Hasan, 2022). Additionally, the notice gives guidance on the composition in terms of expertise, and diversity (Kabara, Ali, Ayman, and Hamid, 2022). With the correct size and composition, the committee can execute its mandate objectively in an independent working environment (Kinyua, 2020).

State Corporations under the National Treasury

Article 225 (1) of the 2010 Kenyan Constitution establishes the National Treasury's mandate. According to the article, the parliament is tasked with creating an Act that will outline the National Treasury's creation, duties, and obligations. The Public Finance Management Act (PFM) Act 2012 and its regulations of 2015 implement the clause that designates the Ministry as the entity in charge of financial and economic concerns. Economic Planning and the National Treasury are the two state agencies under the ministry. It uses agencies and divisions to carry out its mandate. 26 State Corporations are part of the State Department of National Treasury (The National Treasury, 2022).

Statement of the problem

Corporate governance is essential to State Corporations given that it cultivates a climate of integrity, leadership, and accountability that supports a favourable and enduring organizational culture (SCAC, 2015). However, the office of ombudsman has over the years recorded a large number of complaints and displeasure by citizens on the governance of those institutions run by the state (Commission on Administrative Justice, 2023). In 2019-2020 annual report, there were 3,831 complaints during the period related to administration adding to more than 6,525 complaints registered in the preceding years (Commission on Administrative Justice, 2020). In addition, in the years 2019 and 2020 there were 6,021 reports on corruption (Kenya Ethics and Anti-Corruption Commission, 2020). These cases were linked to governance issues among Kenya state owned entities (Transparency International, 2023). Due to the above Governance and accountability malpractices, the public service offices organized for meeting on embracing Good Corporate Governance and accountability (Koskei, 2023). In the consultative meetings, it was noted that State-Owned Entities have been viewed negatively due political influence, poor governance, weak supervision mechanism and poor structures of financial and non-financial management (Ruto, 2018). The Audit Committee remains a provision of safeguard measures against poor corporate governance in any given organization ((Koskei, 2023). This is the case due to their responsibility for overseeing and verifying responsible bookkeeping and administrative procedures (Deloitte Touche Tohmatsu Limited, 2018). In an ideal world, these matters are supposed to be noticed by the Audit Committee in the early stages and flag problems that would cause corrective actions to be taken. Several studies on corporate governance have mostly dwelt on financial performance with a bias toward for-profit state-owned enterprises. Thiruvadi (2018), For instance, Thiruvadi (2018) examined how the traits of the audit committee chair relate to an organization's capital structure and profitability. Similarly, Jabak (2022) found that the audit committee influences the quality of financial reporting, which forms an integral part of corporate governance. Research has connected audit committee attributes to corporate governance; nevertheless, most studies contain methodological, conceptual, and contextual problems. An empirical examination of the connection between audit committee attributes and corporate governance in State-owned entities overseen by the Kenyan National Treasury was conducted to fill previously indicated research gap.

Objectives of the study

General objective

The main aim of the research was to analyze the effects of audit committee attributes on corporate governance in State Corporations under Kenya's National Treasury is the study's general objective.

Specific Objectives

i. To determine the effect of audit committee's independence on corporate governance of state corporations under National Treasury in Kenya.
ii. To examine the effect of audit committee's size on corporate governance of state corporations under National Treasury in Kenya.
iii. To evaluate the effect of audit committee's diversity with regard on corporate governance of state corporations under National Treasury in Kenya.
iv. To demonstrate the effect of audit committee's expertise on corporate governance of state corporations under National Treasury in Kenya.

REVIEW OF LITERATURE

Theoretical Review

Stakeholder Theory

Groundwork for theory of stakeholder can be found in Freeman's groundbreaking work from 1984, which established a ground-breaking conceptual framework requiring businesses to consider the interests of their stakeholders—people and organizations that could be impacted by or have influence over the company's operations (Gutterman, 2023). To gain greater knowledge of the requirements, expectations and ideals of groups that were previously viewed as outsiders to the organization, stakeholder theory encourages managers to extend their scope beyond shareholders to include other interest groups. According to the notion, managers are responsible for a variety of interactions, including those with shareholders, employees, contractors, suppliers, and business partners (Zhang, Zhang & Yang, 2022).

As per the stakeholder theory, a diverse range of interest groups should be represented, and organize activities toward accomplishing organizational goals (Klenam & Enya, 2023). There are two categories for these: primary and secondary. Suppliers, workers, and the general public are considered members of the primary stakeholder group since they are either legally required to do so or are integral to the business's operations. The political group forms the secondary stakeholder group, and they are essential to a company's efforts to gain legitimacy and gain approval for its operations. Organizations need to have methods for communicating with stakeholders and comprehending their requirements and concerns to gather reliable information about what they expect from them.

The theory of stakeholders, as articulated by Donaldson and Preston (1995), emphasizes managerial decision-making and upholds the idea that all stakeholders' interests are inherently valuable. It does not assume that any particular group of interests bears greater significance than the others. Hence, by defending the interests of all stakeholders, Jensen (2001) advises managers to seek goals that increase the firm's long-term worth. Consequently, effective leadership requires acknowledging the concerns and interests of stakeholders who are, or could be, influenced by the organization's actions and decisions. Supporting the analysis, the theoretical perspective underscores the role of corporate governance in shaping outcomes that influence the larger community. Beyond maximizing shareholder profit, corporate governance also takes into account the relationships between many stakeholders, including the general public, employees, and society. By doing this, accountability and responsibility for how business actions affect the larger community are created (Kim, 2022).

Following Donaldson and Preston (1995), Stakeholder theory suggests that it involves consequences that are both instrumental (profit/wealth-enhancing) and normative (moral/ethical). Interpretations of it include an obligation to take into account the justifiable demands of all parties involved and/or an approach to maximize organizational prosperity. The normative stakeholder theory was born out of the concept of the company as a social creature. According to this view, the corporation is a social body with public responsibility that pursues communal goals and is established through political and legal processes (Gamble & Kelly, 2001). It also functions as a corporate governance. The pluralistic approach of corporate governance is frequently associated with instrumental stakeholder theory (Mahajan, Lim, Sareen, Kumar, & Panwar, 2023)). In addition to shareholders, per the pluralistic model, a business needs to look out for the interests of its stakeholders. Because it is a workable strategy to boost output, profitability, competitiveness, and economic success rather than because it has intrinsic value, stakeholder value is justified.

In this instance it argues that including stakeholders in corporate decision-making who take on risks and make firm-specific investments and contributions is necessary to increase corporate efficiency (Silva, Nuzum, & Schaltegger, 2019). As a result, instrumental stakeholder theory suggests that stake holding is a useful strategy for accomplishing particular objectives.

Stakeholder theory has faced criticism on several occasions, where Argenti (1993) claims that Freeman's definition of stakeholders is deemed excessively imprecise because it encompasses terrorists and creatures as stakeholders Multiple oversight responsibilities imposed on stakeholders are viewed as unethical and might put managers at risk of moral hazard. It could be unnecessary to provide further protection for stakeholders because contract law and regulation already protect their interests.

Agency Theory

This theory rests on three underlying assumptions: that parties have different objectives, therefore ownership and control should be separate; that agents and principals are self-serving rational actors; and that one party has more information than the other (Kargi & Zakariya, 2020). The agency perspective, as outlined by Jensen and Meckling (1976), suggests that corporate governance structures emerge to address conflicts between shareholders and managerial self-interest (Gwala & Mashau, 2023). Furthermore, setting up the best possible contract is unlikely, as decisions made by managers, or agents, affect both the interests of the owners and their own personal welfare. As part of this framework, owners must provide management the authority to make decisions (Bergh et al., 2019). Every one of these groups has a different set of priorities. The agency relationship is a type of agreement wherein the business's owners, or principals, assign management responsibilities to managers, and the agents submit requests to the company.

Separation of power is a motivation to maximize key benefits that the organization expects to obtain based on decisions made by the principal. Nevertheless, without an audit committee, insider-dominated corporate governance could become extremely powerful and perhaps abusive; additionally, without the audit committee's experience, these measures might be ineffectual (Maniruzzaman & Hossain, 2019).

Agency theory, which has its foundation in controls and leverages them in accomplishing goal alignment in an arrangement that minimizes agency cost, may be utilized to handle goal divergence difficulties. The fundamental idea behind it is that individuals have self-interest and will maximize their benefit. Goal divergence and moral hazard may become more likely as a result of the difficulty of maximizing utility or self-interest (Voorn & Van Genugten, 2021). This is the point at which the opposing parties may behave dishonestly or contrary to the values that maximize their gain. However, goal divergence is a fundamental aspect of all agency relationships; as authority is transferred or assigned, it becomes harder to manage the agent, which leads to agency issues or goal divergence (Reilly, 2021).

In this study, the audit committee functions as the agent, while the board, responsible for overseeing corporate governance, is the principal (Benegrew, 2022). This establishes an agency relationship between the board and the audit committee. In this context, the agent is expected to act on behalf of the principal. However, there is a risk that the agent may act in ways that prioritize personal gain over the principal’s best interests (Benegrew, 2020). In this case, there is a need to protect the principal (board) and also mitigate the consequence of self-interest from the audit committee. Thus, given power delegated to the management by the public may be difficult to control and manage, it is important to have a mechanism that directs this power.

To address the self-interest issues, they establish how audit committees attribute to corporate governance extended by the management (Benegrew, 2021). This is to say that Agency Theory is very helpful in associating corporate governance with audit committee attributes. The underlying idea is that the public, as represented by the board, expects the audit committee to carry out its duties with the board's best interests in mind. The "contract" between the audit committee and the board is structured to ensure the committee uses its strengths to continually act in the board's favor. However, the audit committee might prioritize its own interests over those of the board (Squires & Elnahla, 2020). This theory is central to the current study, which examines the link between the audit committee's characteristics and corporate governance.

Nonetheless, Zogning (2022) criticizes the agency theory, arguing that it is a conception that might not always be appropriate for social interactions. It is predicated on the notions that social connections have no effect on market dynamics and that players are infallible and motivated by self-interest. Moreover, it assumes that self-interest is the only motivator for behaviour and that cooperation indicates a contract between the parties. However, the manager's behaviour is influenced by more than just information asymmetries and financial incentives; like other social activities, it has its origins in the established social institutions. As such, it seems unlikely that the agency theory would acknowledge a perspective that holds that the primary incentive of people and institutions is financial gain. Behavioural research, however, shows that people are motivated by their status, sense of identity, and need for self-fulfillment. The relevance of non-monetary incentives like prestigious rewards as helpful instruments for lowering agency problem is not negated by the theory that individuals are rational, self-centred, and opportunistic.

In critique of the Agency Theory, Benegrew (2022) argues that it is difficult to identify the principals or ascertain their desires in the public sector. The public as a whole owns and governs the public sector, but because the public's interests are so dispersed, it is unlikely that the agents; Public Managers or Actors will be effectively controlled. Discovering out what each principal might want them to do at any given time is difficult for the agents. Furthermore, there's no market for shares, no bankruptcy-like situation, and no influence from the profit motive.

Legitimacy theory

Located in the US and established by Dowling and Pfeffer in 1975, legitimate theory postulates that to guarantee that any threat to its existence is culled, and is granted acceptance or support from society, a corporation must constantly adapt its value system into the society's ecosystem (Martens & Bui, 2023). Mahmud (2019) claims that businesses need to consistently behave in a way that aligns with societal norms to gain acceptance. The fundamental principle of legitimacy theory is presence of a social contract between an institution and the community it serves (Gibson, 2023). This argument holds that organizations conduct themselves in a manner that benefits the society because they are attempting to maintain their legitimacy by adhering to the laws and customs of their societies (Dare, Olakunle, Seyi & Idris, 2021).

However, whenever management disregards societal norms and values, a legitimacy gap will arise. Whenever an organisation and social ideals are out of balance, that is, when the organization's actions do not correspond with how society views them, a legitimacy gap occurs. Additionally, Olateju, Olateju Adeoye, and Ilyas (2021) postulate that there will be a legitimacy gap when corporate performances do not align with stakeholder expectations. An organisation will experience a legitimacy gap if its corporate governance and public expectations are not being met, as well as any potential consequences (Fisher, 2020). This is where disclosures come into play, helping to close the legitimacy gap by making business practices more in line with social norms. It is crucial to close the legitimacy gap to lessen the impact that these kinds of groups have. Corporate governance might regard legitimacy to be helpful or even a means of surviving.

Corporate governance should show that they genuinely care about reducing the adverse effects of their operations while also projecting to the public the legitimacy of their initiatives (Anang, Joseph, and Said, 2020). Many strategies, such as disclosures, can be employed to close the legitimacy gap (Crossley, Elmagrhi & Ntim, 2021). Disclosures in yearly reports are an effective corporate governance communication strategy when businesses strive to build a reputation for being trustworthy. Furthermore, corporate governance reports to win over the public's acceptance (Omran, 2015). Corporate governance can establish, preserve, and justify their economic and political contributions by making disclosures in their annual reports ((Mahmud, 2019). This fits well with the idea of legitimacy, which is predicated on the comprehension of the unspoken social compact that exists between the community and social structures. with the intent to attain the objective of achieving congruence with the community at large.

Under the current study, when public and corporate performance expectations diverge, there will be a legitimacy gap. To decrease these entities' influence, the legitimacy gap needs to be filled. There are several solutions to close the legitimacy gap, such as putting audit committee qualities or disclosures into practice. Since State corporations want to be seen as legitimate organizations, audit committees are a useful tool for encouraging better governance practices. According to Marklund, (2023) legitimacy is attained by organizations through the board or council and its committees. The audit committee being an essential element of corporate governance, represents the realization of an organization's legitimacy. It needs to address the information imbalance between the company and its stakeholders in order to keep the organization credible. This infers those attributes of the audit committee influence attainment of credibility. Since the committee will be assessing values such as accountability and transparency—two aspects of good corporate governance that support an organization's legitimacy, expertise is crucial (Ikbal Abdullah, 2022). Zainabu Tumwebaze, (2021) found out that audit committees of large companies voluntarily increase disclosures to maintain or restore their legitimacy which is different from similar disclosure changes following disclosures of internal control deficiencies or for smaller companies (i.e., non-accelerated filers) indicating that large company audit committees are more inclined to manage legitimacy.

In support of Janang (2020), it was found that audit committees, independent directors, and, indeed, the degree of social disclosure are related. This suggests that corporate governance functions as a helpful oversight mechanism. The study also made clear that there is a legitimacy gap that has to be closed because annual reports currently only provide a limited quantity of information about society. The majority of organizations that are finding it difficult to close this gap have improved their internal governance structure. Factors like the makeup of the board or the audit committee may be crucial in diminishing credibility through extensive disclosures in corporate governance reports (Al-ahdal, 2022)

Deegan (2019) points out several "gaps" or shortcomings in the legitimacy theory. Among these are the fact that the theory only offers a limited comprehension of the following: which stakeholder groups are most likely to be affected by disclosures that legitimize an organization; how managers assess the presence or gravity of threats to legitimacy; and whether or not disclosures that legitimize an organization are effective in altering public perceptions of the organization. Although stakeholder responses to companies' disclosures about their progress towards pledged targets may be positive, she and Michelon (2019) contend that concerns about the rate of such development persist. Thus, it seems that these gaps have not been sufficiently addressed, which has caused the growth of legitimacy theory as a whole to stagnate. Even though legitimacy theory is a well-acknowledged theory, the study raised questions about whether applying it in its current form will further our knowledge of managers' choices to disclose social and environmental facts.

Review of Empirical Studies

Audit Committee Independence and Corporate Governance

Onmonya and Ebire (2023) reported results that aligned with their research objectives. Their analysis showed that the significance value ($P = 0.240$) did not support a meaningful relationship between the two variables. The findings indicates that the independence of the audit committee has no direct effect on improving financial performance. Their study concludes that audit committee independence does not influence a firm's financial success. It however also established that more independent non-executives on corporate boards are beneficial to audit committees. Appropriate oversight is ensured by an open and honest attitude to the duties given to audit committees. The supervisory responsibilities are best carried out by the audit committees' independent non-executive members. Nevertheless, Mabati et al. (2020) showed that accountability procedures in Nairobi, and Kenyan commercial banks are positively impacted by audit committee independence. However, there were conceptual problems for Onmonya and Ebire (2023), especially when it came to the application of return on assets (ROA) as a gauge of business success. Accountability will be used as a corporate governance metric in the current study to overcome this constraint.

According to Harila and Marklund (2023), there is no difference in the effects of ethnic gender in the Joint Security Justice Group. Their findings suggested that audit committees may not be the most reliable measure of security quality. However, since this study was conducted in

Sweden, where regulatory frameworks differ from those in Kenya, its applicability to other contexts may be limited.
According to Mabati et al. (2020), audit committees play an instrumental role in reinforcing corporate accountability among firms based in Nairobi, Kenya. Their study underscores the strategic significance of audit committees within governance frameworks, particularly in the Kenyan corporate landscape. Against the backdrop of these contrasting perspectives, the present research seeks to assess the influence of audit committee size on corporate governance practices within Kenya's public sector.

Similarly, Harila and Marklund (2023) established that the inclusion of foreign directors on corporate boards does not exhibit a statistically significant association with overall firm performance. This finding prompts further scholarly inquiry into the extent to which board composition, including audit committee attributes, shapes corporate governance outcomes across different regulatory regimes. Moreover, their analysis identified the educational attainment of board members as a determinant of an organization's economic performance (Harila & Marklund, 2023). A strong educational background allows members to better understand and support safe and secure businesses. The results show that participants who specialize in history education in Sub-Saharan Africa (SSA) will be successful in their areas of competence. However, Kwarteng et al. Search does not ignore the expertise of the expert team and is directed to solve the work of the emergency book. These findings highlight how important it is for Sub-Saharan African (SSA) policymakers to give sustainability performance top priority. This is because independent directors have more sway over corporate sustainability reporting due to their wider stakeholder duties.

Toluwa and Ojeaga (2023) extended their analysis to reveal that audit committee independence exerts a statistically significant but negative influence on sustainability reporting. Specifically, they observed that greater independence within audit committees is associated with a reduction of 0.053 units in sustainability reporting outcomes. However, this effect is minimal, and the statistical insignificance of the criterion ($p = 0.499$, which exceeds the 0.05 threshold) suggests that audit committee independence does not exert a substantial impact on sustainability reporting practices within Nigeria's oil and gas sector. In a related study, Hong (2022) identified a significant and positive association between audit committee attributes—namely size and independence—and the extent of governance disclosures. Governance transparency was not connected with other variables, such as meeting frequency, gender diversity, or financial expertise. The study's dependency on correlation hinders its capacity to demonstrate causality, even if these results point to a major role for audit committee independence in governance disclosures in Vietnam. The current work will create a model employing multiple regression analysis in order to address this constraint.

In a similar vein, Aprianti et al. (2021) identified a negative relationship between audit committee independence and the practice of stand-alone sustainability reporting. Their results suggest that the presence of an independent audit committee does not necessarily compel firms to disclose corporate governance or social and environmental information through separate sustainability reports. Nevertheless, given that this research was conducted within the

Indonesian context, a contextual limitation arises that may affect how broadly the findings can be applied to different geographical or institutional contexts.

Audit committee size and corporate governance

Recent researches haved assessed the connection between the audit committee size and governance outcomes in various contexts. For instance, Onmonya and Ebire (2023) investigated the influence of audit committee characteristics on stakeholder performance in Nigeria, focusing on data collected between 2015 and 2021. Employing panel data analysis and correlation matrices, their study analyzed secondary data extracted from annual reports. The results indicated that the size of the auditor group did not have a statistically significant effect on overall company performance ($P > 0.05$). Specifically, the profitability of listed firms in Nigeria appeared unaffected by variations in audit committee size. In compliance with corporate governance regulations, all publicly listed firms in Nigeria are required to establish audit committees to safeguard shareholder interests and uphold the integrity of financial reporting.

While the study's findings suggest that audit committee size does not directly impact firm performance, the authors propose that smaller committees may operate more effectively, as members are able to allocate more time to the thorough examination of key financial statements. The study by Onmonya and Ebire (2023) was limited to publicly traded Nigerian enterprises, which have different governance issues than Kenya's public sector, which leaves conceptual gaps in the conclusions. On the other hand, a study by Mabati, Onserio, Mutai, and Bii (2020) showed that audit committees enhance accountability procedures in Nairobi, Kenyan commercial banks, suggesting that the correlation between the size of the audit committee and corporate governance may vary depending on the industry and region. Thus, the current study aims to evaluate the effect of audit committee size on corporate governance in Kenya's public sector.

Furthermore, it was determined by Abiola (2020) and Harila and Marklund (2023) that corporate governance was unaffected by the audit committee's size. The size of the audit committee and sustainability assurance were not related, according to the Swedish study conducted by Harila and Marklund (2023). Nevertheless, because the sample was restricted to Sweden's top 100 publicly traded enterprises, it might not be entirely representative of smaller businesses. The more ownership and management separation there is, the more audit and assurance requirements there are. This means that different firm sizes may need varied amounts of audit supervision. More thorough insights might be obtained by increasing the sample size to encompass a larger population.

Kwarteng, Appiah, and Addai (2023) investigated the influence of board characteristics—such as size, independence, gender diversity, and meeting frequency—on the performance of firms operating in Sub-Saharan Africa (SSA). Their study employed a two-stage generalized method of moments (GMM) estimation technique to demonstrate the relationship between board size, the frequency of meetings, and firm performance. Nonetheless, the findings present certain limitations, as the analysis does not account for the attributes of the control group, thereby offering a somewhat incomplete perspective. Through a survey involving 210 respondents, Hong (2022) examined the relationship between audit group characteristics—specifically independence and size—and broader governance factors such as democratic practices and media control in countries like Great Britain and Vietnam. The findings revealed a significant positive correlation, indicating that audit group size is associated with these governance outcomes. However, the study also suggests that expanding the sample size to 350 participants would enhance the reliability and effectiveness of the results.

This study by Hong (2022) provides information on the relationships between audit team size, gender diversity, independence, financial literacy, finance and marketing management, etc., and their quality. This study uses the Vietnam National Bank Registry (VLCA) to measure business management transparency and refers to Scopus data (2004 - 2022). Through several retrospective analyses of 210 non-financial companies, a positive relationship was found between the size of the audit committee and corporate governance. However, Hong's study did not conduct a systematic literature review, which may have influenced the main findings.

Aprianti et al. (2021) explored how variations in board structure affect sustainability reporting among 47 energy companies registered on the Indonesia Securities Exchange. Applying multiple regression methods, they established that the scale of the board significantly contributed to the development of sustainability reports. This supports the notion that a larger audit team plays a role in encouraging management to disclose comprehensive information regarding governance, social, and environmental (ESG) performance. However, the study's scope was somewhat constrained due to a modest participant pool of 57, limiting the extent to which the results can be applied to wider contexts. Abiola (2020) conducted a study to examine the relationship between audit committees and corporate governance within selected firms in Nigeria's manufacturing sector. Employing a causal research approach, the study relied on secondary records extracted from the annual disclosures of two prominent firms—Nigerian Brewery Plc and Nestlé Nigeria Plc—spanning the years 2008 to 2017. A combination of descriptive metrics, correlation tools, and regression models was utilized for analysis.

The results indicated that while the size of the audit committee showed a weak negative connection with board magnitude, this association lacked statistical significance. Moreover, although a positive link was noted between the audit committee and non-executive directors, it too was not significant. No substantial impact was detected concerning executive director numbers either. Based on these observations, Abiola concluded that variations in audit committee size appear to have minimal bearing on governance frameworks in Nigeria's manufacturing sector. Additionally, the weak negative association with non-executive director representation further highlighted the limited influence.

A notable shortfall in Abiola's (2020) work is its dependence on correlation analysis, which cannot firmly establish cause-and-effect. To overcome this gap, the present research adopts multiple regression analysis, providing a stronger basis for exploring the causal link between audit committee dimensions and governance quality.

Audit committee diversity and corporate governance

Gender diversity had no statistical substantial difference in the impact on sustainability assurance within audit committees after the findings of the Harila and Marklund (2023) study. This suggests that the gender composition of audit committees may not serve as the best indicator of the quality of sustainability assurance provided. Their research, conducted in Sweden—a nation with governance practices that differ substantially from those in Kenya—may not fully capture challenges unique to the Kenyan context. However, study by Mabati et al. (2020) found that audit committees played a pivotal role in strengthening accountability mechanisms among commercial banks in Nairobi. Building on these varying insights, the current study aims to evaluate how diversity within audit committees influences corporate governance in Kenya's public sector.

There is no proof that gender, proportion of directors from other countries on company boards, and sustainability performance are significantly correlated (Kwarteng et al., 2023). Interestingly, Kwarteng et al. focused on board characteristics without examining these characteristics in relation to audit committees. It is unclear if the same holds true for the qualities of the audit committee. Additionally, the research's conclusions were not as broadly applicable as they may be because it used a binary technique to quantify gender diversity, giving each participant a score of either 1 or 0. The findings are limited to this particular metric, which allows for additional study on the subject of audit committees diversity based on gender. The research indicated that having a diverse audit committee and holding several directorships have a favorable impact on sustainability reporting. The consequence was statistically substantial ($p = 0.008$) at the 5% level of significance. The audit committee's sustainability disclosure standards are significantly impacted by the presence of several directorships in Nigerian-listed oil and gas companies. This positive association highlights how crucial the makeup of the audit committee is to improving company openness, especially when it comes to sustainability disclosures.

Serra, Lemos, and Martins (2021) studied antecedents of board and auditor on derivative instrument disclosures. The 2017 reports of 37 businesses that are listed on Euronext Lisbon were subjected to a disclosure index and content analysis. The parameters impacting the degree of disclosure of derivative instruments were then determined using a multiple linear regression model. The only factor influencing the degree of disclosure was the gender of the auditor who created the reports as shown by the outcome of the multiple regression analysis.

Adegboye, Ojeka, Alabi, Alo, and Aina (2020) explored how features of audit committees relate to sustainability reporting among banks publicly traded in Nigeria. Their analysis, which utilized panel data drawn from ten Nigerian banks over the 2014 to 2016 period, indicated that both gender diversity and committee independence exerted a meaningful and positive effect on sustainability performance. A Fixed Effects regression estimator was utilized in this analysis. Based on the Hausman test specification, the findings were adjusted for profitability of bank, size and age. Ten of the fifteen banks that made up the purposive sample for the study had a narrow scope, which limited the findings' applicability to other industries. However, this policy argument was evidenced by existence of a positive correlation between disclosure of nonfinancial performance and gender diversity in the audit committee, which highlights the importance of diversity in promoting corporate governance procedures.

Audit committee expertise and corporate governance

Harila and Marklund (2023) showed knowledge management as a very important aspect in ensuring sustainability. Therefore, the evaluation of the characteristics of the observation group through the lens of professional knowledge was the study's overall goal. (2021) confirmed the effect on security reporting with a high level of 0.038 Ali and explained why the people who control should have sufficient knowledge. In general, the association between audit committee reviews and expert report publication appears more favorable than that of frequent financial reporting. For instance, reports suggest that organizations with stronger governance structures often demonstrate greater accountability, leading to better allocation of financial resources and improved reporting practices. However, the work by Aprianti et al. (2021) relied on correlation analysis, which poses challenges in establishing causation. To address this limitation, the present study adopts multiple regression analysis to better evaluate organizational capability and efficiency.

In related research, Kwarteng et al. (2023) found that the economic sustainability of firms is significantly shaped by the educational qualifications of board members. A well-educated board tends to be more adept at endorsing and supporting sustainable initiatives, thereby enhancing shareholder value. Their findings suggest that in Sub-Saharan Africa (SSA), board members with specialized academic backgrounds may focus more effectively on their expertise areas. Nevertheless, Kwarteng et al. did not extend their analysis to the proficiency of audit committees, focusing instead on theoretical gaps linked to board education. In contrast, Harila and Marklund (2023) highlighted the pivotal role that audit committee knowledge plays in promoting sustainability assurance. Consequently, this study will center on evaluating audit committee characteristics through the lens of expertise.

Further supporting these findings, Aprianti et al. (2021) confirmed that the audit committee's knowledge base significantly affects stand-alone sustainability reporting, with their results showing a statistical significance at the 0.038 level. Their data demonstrated a positive relationship between audit committee expertise and the frequency of sustainability disclosures, indicating that companies with a greater number of financial experts on their audit committees are more inclined to publish such reports. According to agency theory, audit committees composed of finance specialists are better positioned to fulfill oversight responsibilities and enhance the quality of both financial and non-financial reporting. Nevertheless, Aprianti et al.'s (2021) reliance on correlation analysis limits their ability to claim causal effects. To address this gap, the current study will apply multiple linear regression methods to strengthen the analysis of causal relationships.

Similarly, Lawati and Hussainey (2021) investigated the influence of audit committee financial expertise on corporate financial policies, including capital structure decisions, dividend distributions, and cash holdings. Drawing on 216 firm-year observations from financial institutions listed on the Muscat Stock Exchange between 2014 and 2019, their findings showed that the presence of skilled professionals within audit committees is positively associated with the shaping of financial policy decisions in these firms. The results offer factual backing for the regulatory advocacy of designating financial specialists to audit committees, augmenting their oversight function and curbing managerial self-interest. Financially savvy audit committee members have been demonstrated to positively impact business financial choices by offering extra scrutiny of management's investment plans. As a result, companies saw rises in their debt loads, dividend payments, and cash holdings. Comparing Omani financial organizations to Kenyan institutions, however, highlights contextual disparities due to the study's focus on Omani financial institutions, which have particular difficulties with corporate governance. For instance, Mabati et al. (2020) established that the autonomy of audit committees has a favorable influence on enhancing accountability mechanisms within commercial banks operating in Nairobi, Kenya. Accordingly, the present research assessed corporate governance by employing measures specifically relevant to the Kenyan context.

Mabati et al. (2020) explored how audit committees in Nairobi contributed to strengthening accountability practices within local financial organizations. The study, employing a cross-sectional design, purposively selected 50 participants from 33 banking institutions. Primary data were gathered using semi-structured questionnaires, with descriptive statistics used for preliminary analysis. More comprehensive regression and correlation analyses were then conducted to examine the relationships between the variables. The study aimed to determine whether audit committees improved accountability procedures within these organizations. However, the small sample size limits the ability to detect subtle effect sizes, potentially leading to an overestimation or underestimation of impact. Future research with a larger sample would provide deeper insights into the role of audit committees in enhancing corporate governance.

RESEARCH METHODOLOGY

A descriptive approach was selected for this study, as it allows for a comprehensive examination of key variables and provides in-depth insights into the research issue. Additionally, it facilitates the identification, estimation, and assessment of relationships, making it well-suited for exploring the connections between audit committee features and corporate governance (Jonas & Doerr, 2020).

A population of four (4) participants was targeted from each of the thirty-four (34) state-owned entities under the National Treasury of Kenya for this study. The primary respondents included Chief Executive Officers (CEOs), Finance Directors, Chairpersons of Audit Committees, and Heads of Internal Audit within these organizations. So, the target population was 136 respondents. Given the manageable size and accessibility of this population, a census approach will be utilized. Data was collected and analyzed from all 34 organizations using this approach, ensuring broad representation of the population and enhancing the reliability and accuracy of the results. As a result, the study's sample size consisted of 136 respondents from the state corporations under Kenya's National Treasury. When a confined area or case-intensive research are needed, a census can be helpful. In this study, the researcher collected primary data through the use of questionnaires containing both closed and open-ended questions (Sileyew, 2020).

Upon completion of picking of the questionnaire, analysis, classification, and interpretation of information was conducted to develop and test knowledge that is credible, timely, and valid for fulfilling the objectives of the research (Sileyew, 2020). Information collected was checked against the errors and calculated as it should be if gathered from the databases. To obtain comprehensive results, the study applied both quantitative and qualitative research analysis methods to analyze the collected data. Quantitative analysis techniques were used to explore relationships, trends, and patterns among the variables from the closed-ended questions (Sürücü & Maslakçı, 2020). Descriptive statistics were also employed in the analysis. At the same time, the data from open-ended questions were analyzed using qualitative methods, such as theme analysis, while statistical analysis was used on quantitative data. By employing both quantitative and qualitative approaches, the study ensured a comprehensive examination of the findings, integrating the participants' detailed personal narratives with the numerical data. The study therefore used coding and theme organisation methods in analysing the data to present factual and diverse information narratively. The Statistical Data analysis was conducted using the Social Sciences Package (SPSS) version 23. Regression analysis played a key role in developing a model to estimate the dependent variable (DV), corporate governance in State Corporations under the National Treasury in Kenya, based on the following independent variables (IVs): audit committee members' independence, size, diversity, and areas of expertise. This analysis involved formulating a research question that links the independent factors to predict the dependent variable. Additionally, correlation analysis was applied to examine the quantitative relationship between the dependent variable and each individual predictor variable. The model equation was represented as follows:

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + e$……………………………………………. (i)

Where:

Y = Corporate governance in State Corporations under the National Treasury in Kenya
X_1 = The committee's independence
X_2 = The committee's size
X_3 = The diversity of the committee members
X_4 = The expertise of the committee members
β_0 is the constant, representing the value of Y when each independent variable (IV) is zero
β_{1-4} are the regression coefficients, representing the changes induced by X_1, X_2, X_3, and X_4
e = Error term

RESEARCH FINDINGS AND DISCUSSION

Response Rate

This research's aim was to survey a sample of 136 respondents from various State Corporations under the National Treasury of Kenya. Out of the 136 targeted respondents, 96 individuals responded in the survey, representing a 70.59% rate of response. The distribution of these responses is presented in Table 4.1, which further details the demographic and organizational breakdown of the participants.

Table 4.1: Response rate

Population	N	Percent
Target	136	100.00%
Response	96	70.59%
No Response	40	29.41%

Source: Study Data (2025)

Table 4.2 shows the response rate for this research was notably high, with 96 out of 136 participants (70.59%) providing responses, surpassing the 69% mark. The rate is considered exceptionally high (Mugenda & Mugenda, 2008).

Diagnostic tests

To validate the assumptions of multiple regressions the following tests were conducted.

Normality test

Table 4. 2: Tests for normal distribution

	KS Statistic	Df	Sig.
Corporate governance	.993	96	.873
Independence	.988	96	.564
Committee size	.987	96	.502
Diversity	.987	96	.463
Expertise	.984	96	.311

Source: Study data (2025)

The study's data variables exhibited normal distribution, with p-values for each research variable exceeding the 0.05 threshold as shown in Table 4.8. Specifically, the findings demonstrate that the dependent variable ($p = 0.873$), independence ($p = 0.564$), size ($p=0.502$), diversity ($p=0.463$), and expertise ($p=0.311$) all exhibited normal distribution. This suggests that the data met the necessary assumption for normality, validating their use in subsequent inferential analysis.

Multicollinearity tests

Table 4. 3: Tests on Multicollinearity issues

Variable	**Collinearity Statistics**	
	Tolerance	VIF
Independence	.560	1.787
Committee size	.913	1.095
Diversity	.588	1.699
Expertise	.903	1.108

Source: Study data (2025)

Based on the results, the VIF for; audit committee independence (VIF= 1.787), audit committee size (VIF= 1.095), audit committee diversity (VIF= 1.699) and audit committee expertise (VIF= 1.1.108) which was less than 10, suggesting predictor independence.

Heteroscedasticity test

Breusch Pagan test was employed to detect heteroskedasticity, with a significance level set at 5%.

Table 4. 4: Results on Heteroscedasticity test

Coefficients[a]

	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	T	Sig.
Independence	-.166	.144	-.162	-1.155	.251
committee size	.000	.104	.000	.004	.997
Diversity	.067	.131	.070	.512	.610
Expertise	.094	.111	.093	.843	.401

a. DV: Unstandardized Residual

Source: Study data (2025)

Heteroskedasticity test outcomes are displayed in the table above. All independent variables recorded p-values exceeding the 0.05 threshold, including audit committee independence (p = 0.251), committee size (p = 0.997), diversity (p = 0.610), and expertise (p = 0.401). These results indicate that the residuals' variance remains uniform across the predictor variables, implying no presence of heteroscedasticity in the data. This consistency in variance confirms that the regression estimates are reliable and that the model satisfies the assumption of homoscedasticity.

Correlation analysis

A Pearson's correlation analysis determined the association amongst corporate governance and audit committee attributes. Presented below in Table 4.2 is the analysis of the results.

Table 4. 5: Results of the correlation analysis

Correlations

		corporate governance	independence	committee size	diversity	Expertise
Corporate governance	Pearson Correlation	1				
	Sig. (1-tailed)					
	N	96				
Independence	Pearson Correlation	.400**	1			
	Sig. (1-tailed)	.000				
	N	96	96			
Committee size	Pearson Correlation	.288**	.258**	1		
	Sig. (1-tailed)	.002	.006			
	N	96	96	96		
Diversity	Pearson Correlation	.327**	.292**	.273**	1	

	Sig. (1-tailed)	.001	.002	.004		.001
	N	96	96	96	96	96
Expertise	Pearson Correlation	.293**	.279**	.174**	.314**	1
	Sig. (1-tailed)	.002	.003	.045	.001	
	N	96	96	96	96	96

**. The association is statistically notable with P-value of 0.01 (one-tailed).

Source: Survey Data (2025)

The association values are presented in the table above. From the values, it is clear that audit committee independence (r = .400, $p < .01$), committee size (r = .288, $p = .002$), diversity (r = .327, $p = .001$), and expertise (r = .293, $p = .002$)—exhibited statistically significant positive correlations with corporate governance at the 0.05 level. Among these, audit committee independence showed the strongest association, indicating a moderate positive relationship. Diversity also displayed a moderate correlation, while committee size and expertise had weaker, yet still meaningful, positive correlations. All correlations meet the significance threshold at the 0.01 level, confirming meaningful linear associations among the variables.

Regression analysis

To predict governance score based on audit committee attributes, the study applied a multivariate regression modeling. The goal was to establish a comprehensive model that explains corporate governance by integrating these indicators collectively.

ANOVA was then carried out on the study variables; independence, size, diversity, and expertise to establish how best they would be corporate governance predictors of state corporations under National Treasury in Kenya. The outcomes were captured in Table 4. 3.

Table 4. 6: ANOVA for Attributes of the Audit Committee and Corporate Governance

ANOVA^a

	Sum of squares	Df	Mean Square	F	Sig.
Regression	.302	4	.075	34.706	.000^b
Residual	.198	91	.002		
Total	.500	95			

a. Dependent Variable: corporate governance of state corporations under the National Treasury in Kenya

b. Predictors: (Constant), expertise, committee size, diversity, independence

Source: Field Data (2025)

The results from the model (sig. = 0.000) indicate that the $p < 0.01$, suggesting suitability of the model in predicting governance using committee attributes. The analysis was guided by the beta coefficients from equation (i).

The relevance of the predictor variables is further corroborated by the outcome of ($p < 0.01$, F = 34.706) implying that at least one of the betas is not zero. This research therefore, provides sufficient evidence to conclude that at least one of the IVs assumes a significant role in predicting governance of State corporations under the National Treasury of Kenya at the $\alpha < 0.05$.

A concise overview of the outcome is given below in Table 4.4.

Table 4. 7: Model Summary for Attributes of the Audit Committee and Corporate Governance

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.777[a]	.6040	.5866	.0466297

a. Predictors: (Constant), expertise, committee size, diversity, independence

Table 4.7 presents the model summary from a multivariate regression analysis applied to examine the relationship between audit committee independence, size, diversity, and expertise on corporate governance in Kenyan state corporations. The model reported an R value of 0.777, signifying a strong positive relationship. An R^2 value of 0.604 indicates that 60.4% of the variation in corporate governance practices is attributable to the collective effect of the predictors. The adjusted R^2 of .5866 accounts for model complexity, confirming the model's robustness. These results highlight the substantial explanatory power of the selected audit committee characteristics, providing strong evidence for their relevance in shaping governance practices within state corporations.

Table 4. 8: Regression Coefficients

Coefficients[a]

	Raw coefficients		Normalized Coefficients	T-value	P-value
	B	Std. Error	Beta		
(Constant)	-.001	.005		-.105	.916
Independence	.192	.092	.184	2.092	.039
committee size	.181	.067	.187	2.708	.008
Diversity	.317	.083	.328	3.819	.000
Expertise	.437	.070	.432	6.214	.000

a. Dependent Variable: corporate governance of state corporations under the National Treasury in Kenya

Table 4.8 presents the regression results illustrating how selected audit committee characteristics namely; independence, committee size, diversity, and professional expertise relate to corporate governance practices within Kenyan state corporations overseen by the National Treasury. A meaningful and statistically reliable connection between the predictors and governance outcome is evident, as illustrated in the regression formula provided below:

$Y = -0.001 + 0.192X_1 + 0.181X_2 + 0.317X_3 + 0.437X_4$ ……………………………………… (4.1)

Thus,

Corporate governance = -0.001 + 0.192 (independence) + 0.181 (size) + 0.317 (diversity) + 0.437 (expertise)

The analysis revealead that audit committee independence exerts a notable impact on corporate governance ($\beta = 0.192$, $p = 0.039$), indicating that a one-unit increase in the level of independence leads to an improvement of 0.192 units in governance quality. This finding highlights the importance of having independent members to ensure objectivity and reduce the influence of management over oversight processes. Consistent with this, Mabati et al. (2020) found that independent audit committees promote enhanced accountability and transparency by providing unbiased assessments of organizational practices, helping mitigate conflicts of interest and bolstering institutional oversight. However, Toluwa and Ojeaga (2023) observed no significant relationship between independence and sustainability reporting within the Nigerian oil and gas sector, suggesting that the effectiveness of independence may differ across industries and contextual settings.

Furthermore, the regression results indicate a positive and statistically significant association between audit committee size and corporate governance ($\beta = 0.181$, $p = 0.008$). This implies that increasing the size of the audit committee can improve governance outcomes by enabling a broader range of perspectives and better distribution of responsibilities, thus enhancing the oversight process. This aligns with the findings of Kwarteng, Appiah, and Addai (2023), who noted a positive relationship between board size and sustainability performance, suggesting that larger governance bodies are more capable of addressing complex organizational challenges. Similarly, Hong (2022) observed a positive correlation between audit committee size and the quality of corporate governance disclosures. On the other hand, Harila and Marklund (2023) cautioned that the ideal committee size may depend on the organization's scale and complexity, and Onmonya and Ebire (2020) argued that a larger committee size does not always result in better governance outcomes.

Audit committee diversity was found to have a particularly strong positive effect on corporate governance ($\beta = 0.317$, $p < 0.01$), emerging as one of the most influential variables in the model. Greater diversity within the committee fosters a wider array of viewpoints, improves decision-making, and strengthens oversight capabilities. Adegboye et al. (2020) highlighted that gender diversity, in particular, has a positive impact on sustainability performance, emphasizing the importance of diverse perspectives in leadership and governance. In similar findings, Kwarteng et al. (2023) argued that diverse audit committees contribute to improved sustainability reporting and governance disclosures, especially when members have varied expertise and multiple directorships. Mabati et al. (2020) further supported this conclusion, showing that diversity significantly enhanced accountability practices within Kenyan banks. These studies collectively reinforce the value of diversity in improving organizational governance and oversight.

Audit committee expertise was identified as the most significant predictor of corporate governance quality, with the highest standardized coefficient in the regression model ($\beta = 0.437$, $p < 0.01$). This underscores the critical role of professional qualifications and experience in ensuring effective oversight. Harila and Marklund (2023) argued that members with strong technical expertise are better equipped to address complex financial and sustainability challenges, leading to more informed and effective decision-making. Additionally, Kwarteng et al. (2023) emphasized the importance of educational qualifications in fostering economic sustainability, noting that members with expertise in finance and governance contribute to the

overall stability and performance of institutions. These results emphasize the need to recruit highly qualified individuals for audit committees to uphold robust governance practices.
Overall, the regression findings confirm that audit committee independence, size, diversity, and expertise all have a positive effect on corporate governance in state corporations under the National Treasury. Among these factors, expertise and diversity appear to have the most significant impact, highlighting that the effectiveness of audit committees is not only influenced by structural characteristics but also by the competencies and diversity of their members. While these findings align with much of the existing literature, the variations observed across different regions and sectors underline the importance of developing context-specific governance frameworks and the need for further empirical studies to explore these dynamics in greater detail.

Conclusions of the study

The results of this study highlight the significant role that audit committee attributes play in shaping corporate governance outcomes within state corporations under the National Treasury in Kenya. Audit committee independence was identified as a crucial factor, positively affecting corporate governance by promoting objectivity, minimizing conflicts of interest, and reinforcing accountability mechanisms. Inclusion of independent members of the committee was found to be essential in ensuring unbiased oversight and ethical decision-making.
The size of the audit committee was also found to have a positive effect on corporate governance. Although the effect was relatively modest compared to other attributes, the findings suggest that appropriately sized committees are better equipped to manage responsibilities, encourage diverse opinions, and enhance governance efficiency. However, the optimal size should reflect the complexity and operational scale of the organization to avoid inefficiencies.

Audit committee diversity was identified as a major determinant of effective governance. Diverse audit committees, particularly those comprising varied gender, age and ethnic backgrounds, demonstrated improved decision-making, greater transparency, and enhanced responsiveness to stakeholder interests. The inclusion of multiple perspectives was found to mitigate biases and enrich discussions, leading to stronger oversight outcomes.
Audit committee expertise was revealed to be the most influential factor among the four. The presence of technically competent, knowledgeable, and experienced committee members significantly strengthened governance practices, particularly in areas such as financial reporting, risk management, and regulatory compliance. These findings reaffirm the importance of professional qualifications and capacity in upholding effective corporate governance.
Overall, the study concludes that robust audit committee attributes; marked by independence, appropriate size, diversity, and expertise; are essential for enhancing corporate governance in public institutions.

Recommendations

Drawing from above conclusions, several key policy recommendations are proposed. To begin with, there is a need for the policy makers to enhance audit committee independence by strengthening institutional frameworks that safeguard against executive interference in committee appointments. Ensuring that members are selected based on merit rather than political affiliation is essential in promoting impartiality and reinforcing accountability.

Additionally, leadership and management of state corporations need to rationalize the size of audit committees based on their governance needs and operational scope. Larger entities may benefit from more expansive committees to cover wider oversight responsibilities, while smaller organizations should maintain lean, efficient teams to avoid redundancy.
Furthermore, audit committee diversity be institutionalized through inclusive recruitment policies that encourage representation across gender, ethnicity and age. Diversity in composition enhances governance outcomes by integrating varied perspectives and fostering broader stakeholder representation.

Equally important is the recommendation to invest in the continuous professional development of audit committee members. Appointing authorities to consider prioritizing appointing individuals with relevant academic qualifications and experience in finance, risk management, and governance, and support them with regular training to stay abreast of evolving challenges and regulatory standards.

This study makes several important contributions to the knowledge on corporate governance, particularly in the context of state corporations in emerging economies. By empirically examining the relationship between audit committee characteristics and corporate governance, the research provides robust evidence that enhances theoretical and practical understanding in the field. this study enriches the academic understanding of how audit committee attributes, namely independence, size, diversity, and expertise, interact to shape governance outcomes in state corporations. It offers a grounded and comprehensive perspective on the structural and functional dynamics of audit committees, thereby advancing Agency, stakeholder, and legitimacy theories and informing policy and practice in public financial management.

The study validates existing literature by confirming that the presence of independent non-executive directors, the maintenance of independence in decision-making, and the existence of objective criteria for assessing independence contribute meaningfully to enhanced governance outcomes. These insights expand academic understanding of how structural safeguards in audit committees foster transparency, accountability, and integrity in financial reporting within public institutions.

By demonstrating that qualifications, technical skills, and prior experience significantly enhance audit committee performance and, by extension, corporate governance, the study affirms the centrality of expertise in governance frameworks. It also expands the literature by emphasizing the practical relevance of member competence in shaping effective oversight mechanisms within the public sector.

This finding contributes to academic debates by suggesting an optimal audit committee size may exist, contingent upon organizational context, and by highlighting the importance of proportionality between committee size and overall board structure in public sector governance. The study provides empirical validation that ethnic, gender, and age diversity within audit committees not only enrich discussions but also improve governance outcomes. These findings deepen theoretical understanding of how representational diversity can be operationalized to strengthen oversight, particularly in state-owned enterprises where inclusivity and representativeness are often public expectations

Perhaps the most compelling contribution arises from the finding that audit committee expertise has the strongest positive influence on corporate governance. This finding adds empirical weight to the knowledge-based view of the firm, which posits that human capital is a critical driver of organizational effectiveness.

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