

EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON THE AUDIT EXPECTATION GAP: EVIDENCE FROM STATE CORPORATIONS IN KENYA

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ABSTRACT: *Audit committee are a vital mechanism that institutions need to monitor management's behavior in the firm in order to enhance a proactive oversight of financial compliance, reporting and disclosure process. This study sought to identify the effect of audit committee characteristics on the audit expectation gap within the public sector in Kenya. The study was anchored on the institutional theory and the agency theory. The study adopted a descriptive research design in solving the research problem. The target population for the research was pooled from all the 119 state parastatals as well as 119 select personnel within state corporations who are users of the audit reports. The study relied on primary and secondary data. The collected data was analyzed using descriptive and inferential statistics. The findings of the study indicated that there is a statistically significant effect of audit committee characteristics on the audit expectation gap within state corporations in Kenya.*

KEYWORDS: *Audit Expectation gap, audit committee composition, audit committee independence*

INTRODUCTION

Pierce and Kilcommins (2006) observed that the audit expectation gap exists when the external auditor's understanding of their role and duties is compared against the expectations of user group and the general public. Salehi (2011) indicated that the audit expectation gap is mainly due to users' reasonable expectations of audits as well there as unrealistic perceptions of the audit profession's performance. The audit expectations gap centers on several issues, most notable among them are; the auditor's roles and responsibilities as opined by (Nazri & Ahmad, 2004). Lee, Ali, and Gloeck (2009) defined expectation gap as the situation whereby a difference in expectation exists between a group with a certain expertise and a group, which relies upon that expertise.

The Audit Committee is a key fulcrum in any corporate organization in monitoring and placing a check on good accounting and management practices (El-Sayed, 2011). The Audit Committee function of an organization plays a significant role in enhancing good

corporate governance by providing an assurance of adherence by management to observe prudent corporate policies, the management of risks and place a check on internal controls compliance with set auditing standards (Bédard & Gendron, 2010). According to the IIA (2011), the audit committee is supposed to own the direct relationship with the external auditors who give a yearly opinion on the financial reporting. Ownership refers to the direct reporting, the ongoing communication, the frequent meetings and various robust discussions about the audit results and scope. Oversight matters also include the compensation, selection criteria, scope, independence, monitoring, and rotation and performance assessment. If attempts management takes ownership of the auditors rather than the audit committee, the committee should take up measures for claiming ownership (Lienhard, 2013).

Cohen and Sayag (2013) on the effectiveness of internal auditing: An empirical examination of its determinants in Israeli Organizations in which they used these variables; Sector – private versus public, professional proficiency of internal auditors, quality of audit work, organizational independence, career and advancement, top management support in determining their relationship with the internal audit effectiveness. The study also reveals that other determinants of internal audit effectiveness are derived from support of top management such as proficient internal audit staff, developing career, organizational independence for internal audit work are all results of decisions made by top management. Hence it is of importance for audit committee composition and technical skills to be considered in order to foster the expectation gap within the public sector. Badara and Saidin (2013) examined antecedents of internal audit effectiveness: A moderating effect of effective audit committee at local government level in Nigeria. The results of the study showed that effective audit committee vis independence of the committee, technical skills and adoption of charter significantly influences the effectiveness of the audit report.

In his study Moloi (2015) studied audit committee reporting in national government departments and indicated that the voluntary information submitted by audit committees enhanced their usefulness and promoted the independence of the committee. In another study in South Africa, Ruhnke and Schmidt (2014) considered the audit expectation gap in terms of its existence, causes and its impact on the corporate governance of firms. The findings of the study indicated that increasing information content and mandatory rotation of the audit committee members helped in reducing the audit expectation gap. Kirima (2016) examined the factors affecting the performance of the internal audit function in Government Ministries in Kenya. The study results showed that the internal auditors work environment, the internal auditor independence, auditor's technical competences and better exposure to professional audit programmes impacted the performance of the audit function in Government Ministries.

Statement of the Problem

Audit committees are a mechanism of ensuring the quality, credibility and objectivity of the financial reporting (Turley & Zaman, 2004). They have a role of oversight responsibility and assist a board to monitor responsibilities of an organization or institution hence their effectiveness is crucial in proper financial management (Baxter & Cotter, 2009). As a result of the detrimental effects of the audit expectation gap on the financial reporting and auditing process, researchers and the auditing professional bodies have conducted various studies to identify effective methods for narrowing the gap (Masoud, 2017; Bananuka, Nkundabanyanga, Nalukenge, & Kaawaase, 2018).

Minimizing the audit expectation gap will foster the reliability of the audit function as well as strengthen the financial health of the institution (Naynar, Ram, & Maroun, 2018).

ICPAK (2017) indicates that the effectiveness of the audit committees within the public sector has been under scrutiny owing to the rampant fraud within the state agencies and lack of stringent adherence to the corporate governance practices. This has negatively impacted the quality of internal audit reports within the public domain. Harrison and Ochieng (2018) note that lack of clear policy guiding the tenure of audit committee members, technical capacity, their independence and lack of clarity among users on the perception of audit reports are some of the key challenges affecting the audit function. This has largely contributed to the audit expectation gap within the public sector. From the above it is clear there is a policy gap within the public sector in relation to the practice of audit committees. This research sought to expand the available empirical evidence in order to foster policy formulation within the state corporations that will guide audit committees in enhancing their effectiveness. Further lack of empirical studies examining the effect of audit committee characteristics on audit expectation gap within state agencies was a major motivator to conducting the research.

Objectives of the Study

The general purpose of the research is to examine the effect of audit committee characteristics and the audit expectation gap within state corporations.

Specific Objectives

- i. To establish the effect of audit committee independence on the audit expectation in within state corporations in Kenya
- ii. To assess influence of audit committee composition on the audit expectation within state corporations in Kenya

Hypotheses of the Study

HO₁ There is no significant effect of audit committee independence on the audit expectation within state corporations in Kenya

HO₂ There is no significant effect of audit committee's composition on audit expectation within state corporations in Kenya

THEORETICAL UNDERPINNING

Institutional Theory

The institutional theory as proposed by Meyer and Rowan (1977); holds that the environment within which a firm operates plays an important role in influencing the adoption and implementation of various innovations, practices and structure within the organization which foster the technical aspects of the firm. DiMaggio (1988) further hold that the basic tenets of the institutional theory offer guidelines geared towards analyzing the environment within which an organization operates. The theory is built on the concepts of legitimacy rather than efficiency or effectiveness as the primary organizational goal (Scott, 2005).

The institutional theory is relevant to this study in that it suggests that organizations incorporate technical practices, or management structures among departments in seeking to increase their overall performance. The audit committee being an oversight

body helps to improve the audit expectation gap through application of the principles of the institutional theory. Such principles and practices can be incorporated to better explain the adoption structures and systems into practice and hence in improvement of overall performance of the public sector. Hence the theory anchored the audit committee composition and audit committee technical skills as best practices and structures respectively.

Agency Theory

Agency theory as proposed by Jensen and Meckling (1972); explains how to best organize relationships in which one party determines the work, which another party undertakes (Schneider, 1984). The theory argues that under conditions of incomplete information and uncertainty, which characterize most business settings, two agency problems arise: adverse selection and moral hazard, (Lin, Vargus & Bardhan, 2007). The agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals on financial reporting and management practices. This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship. Accordingly, agency theory has emerged as a dominant model in the financial economics literature which widely discusses the financial reporting and management practices in the public institutions.

The separation of management from ownership in the modern corporation provides an ideal context for the operation of agency theory. Shareholders (and debtholders) act as the principal with interests in deriving maximum utility from the actions of management, serving as the agent. Problems arise because of the separation of ownership and management and the resulting inability of the owners to observe the actions of management (Fama & Jensen, 1983). Owners and agents have incentives to invest in various information systems and control devices to reduce agency costs associated with information asymmetry. The decisions of the audit committee may give rise to limited room to solving the associated challenges affecting various stakeholders, which leads to results that are not fully conclusive. Hence the agency theory was applied in the current research to link the audit committee independence as an element of the characteristics of audit committees can affect the audit expectation gap within state corporations.

Literature

Yee, Sujana, James, and Leung (2017) conducted a study examining Perceptions of Singaporean internal audit customers regarding the role and effectiveness of internal audit. The researcher adopted a descriptive research design with primary data being collected from structured questionnaires from a pool of public auditors. The findings of the study indicated that effectiveness of the internal audit was largely dependent on the level of audit independence and the reporting policies. Velte and Freidank (2015) examined the link between in-and external rotation of the auditor and the quality of financial accounting and external audit. The study was conducted across the European Commission. The main aim of the study was to examine how audit firm rotation enhances the audit independence and mitigates expectation gap. The study adopted a literature review of empirical studies conducted across European Commission. The results of the study showed that rotation of audit committee members enhanced the

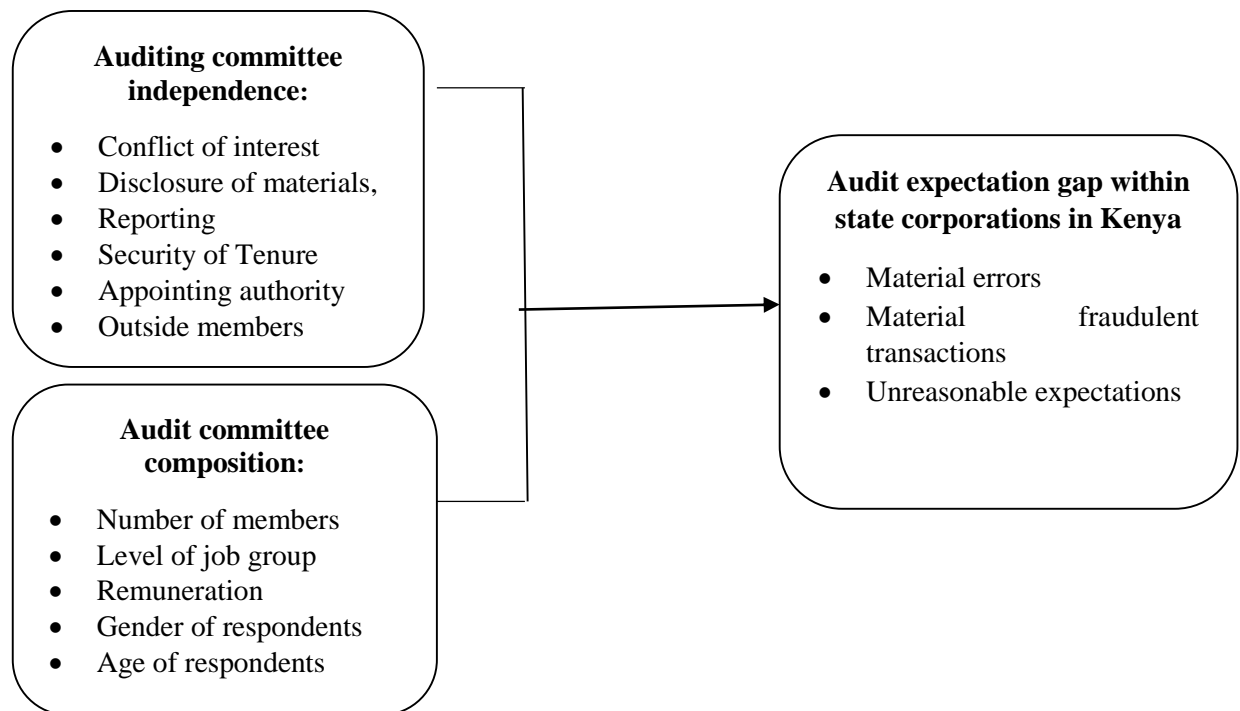
quality of the audit reporting. However in the long term rotation of audit committee members led to decreased learning and knowledge effects which limited auditor independence.

Mgbame, Eragbhe, and Osazuwa (2012) examined audit partner tenure and audit quality: An empirical analysis. The study main objective was to provide evidence on the existence of relationship between tenure of the auditor and their audit quality in Nigeria. The study adopted Binary Logit Model estimation technique to analyze the relationship between the tenure of an auditor and audit quality. The findings of the research revealed that the audit team size and the tenure of the audit team had an inverse related relationship to the audit quality within Nigerian firms. Ndege (2015) sought to examine the effects of corporate governance practices among the audit committee on financial performance of Savings and Credit Cooperatives in Kenya. The independent variables that were used are: board size, internal audit function and frequency of board meetings. Return on Capital Employed was used as a measure of financial performance. Financial information for the period between year 2006 and 2009 was used. The findings of this study indicate that there is a negative relationship between the size of the board and the financial performance; the average board size being seven. However, the above study fails to take into consideration the view of state corporations in relation to governance practices within the audit committees; hence need for the current research.

Mutua (2015) carried out a study aimed at establishing the relationship between internal audit and effective management in Embu water and sanitation company limited. Primary data was collected from staffs in the different levels as per the organization structure using a questionnaire and secondary data included cost of internal audit from the payment cash book and salaries journals. The data was analyzed using SPSS tool and the following conclusion was noted: with commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. A fact that ensures proper processes are followed in generating and safeguarding the organizations wealth and financial reporting. The researcher noted that the independence of the auditors was key in determining the quality of the internal audit function.

Conceptual Framework

The conceptual framework gives a depiction on how the variables are related to one another. The variables defined here are the independent (explanatory) and the dependent (test) variable. An independent variable influences and determines the effect of another variable.

Independent Variable**Dependent Variable****METHODOLOGY**

The study utilized positivism research philosophy since it is objective and independent of the researcher with no human interest of the study. Research design is the plan and structure of investigation so conceived as to obtain answers to research questions, expressing the research problem-framework, organization, or configuration of the relationships among variables of the study (Cooper & Schindler, 2008). This study employed a descriptive research design. A descriptive study is one in which the problem is clearly defined and the variables known. The target population for the study was 119 audit committee members. The study further factored 119-users of audit reports within state corporations to examine the audit expectation gap within the firms. The current study conducted a census sampling of the entire population of the study. The sample respondents were 238 personnel members.

Primary data was collected using structured questionnaires. The study also utilized secondary data to collect public data on the audit committees and the expectation gap within state corporations. The secondary data was collected from government reports, state corporation publications as well as annual reports from state owned commercial corporations. The study adopted a drop and pick technique in the data collection process. This ensured there was convenience in the data collection process. The collected research data was analyzed using descriptive statistics, correlation analysis and regression analysis to measure the causality between the study variables. The analyzed data was presented in tables, figures and other bar graphs.

RESULTS AND DISCUSSION

Response Rate

The study was able to obtain 174 responses (87 members of audit committees and 87 users of audit reports) representing a 86% response rate.

Position Held within the Organization

The results indicated that the majority of the respondents 58.6% were members of the audit committee, findings also showed that 27.6% of the respondents were secretary's within the audit committee while only 13.8% of the respondents were the chairpersons of the committee. These results indicate that the respondents were well aware of the audit committee characteristics as well as the operations of the audit committee. This enhanced the information given owing to their central role in the audit committee operations. Chou and Buchdadi (2017) in their study indicated that the professional level held by the respondents determines the quality of the information obtained in the research.

Descriptive Statistics

Audit Committee Independence

	N	Mean	Std. Deviation
There is security of tenure within our audit committee	87	4.4713	.64410
There is transparency in selection of audit committee officials	87	4.1264	.78953
There is no conflict of interest within our audit committee	87	4.3908	.67093
There is full disclosure of materials in the audit committee	87	4.4828	.79038
There is presence of outside members within the audit committee	87	4.4138	.84291
There is clear appointing authority within the audit committee	87	4.3908	.82626

Table 1 Audit Committee Independence

Source: Researcher (2019)

The findings on table 1 above show that with regard to there is security of tenure within our audit committee there was strong agreement among the respondents as shown by a mean of 4.473 with a standard deviation of .6441 indicating minimal variation in the respondents. These results conform with Lee, Ali, and Gloeck (2010) who indicated that strengthening of the auditors' independence through assurance of job security ensured there was objectivity and quality undertaking of their audit function.

Concerning there is transparency in selection of audit committee officials the results showed a strong level of agreement as shown by a mean of 4.1264. These results are in agreement with Litjens, van Buuren, and Vergoossen (2015) who indicated that offering auditors' unrestricted to material evidence strengthened the quality of their report and entrenched their independence. Agyei, Aye, and Owusu-Yeboah (2013) also indicates that access to information and transparency in the roles and responsibilities of the auditors enhanced their audit duties.

The findings of the research also showed that in regard to there is no conflict of interest within the audit committee there was strong agreement as shown by a mean value of 4.3908 and variation of .67093 indicating minimal variations in the responses. The results are consistent with Yee, Sujan, James, and Leung, (2017) who concluded that the effectiveness of the internal audit was pegged on the independence of the auditors from the organization directors. Eyenubo, Mohammed, and Ali, (2017) also indicated that the independence of the auditors was key in enhancing the quality of the auditors report.

Concerning there is full disclosure of materials in the audit committee there was agreement among the respondent as indicated by the mean value of 4.4828 showing strong agreement. These results are supported in literature by Litjens, van Buuren, and Vergoossen (2015) who posited that lack of access to sensitive information by auditors and limited independence of the auditors by the management led to widening of the audit expectation gap.

In regard to there is presence of outside members within the audit committee there was strong agreement among the respondents as shown by a mean of 4.4138 and deviation of .84291 indicating moderate variation in the responses. Bou-Raad (2015) also points out that involvement of external auditors is key to enhancing the user perception on the quality of the financial reporting. Mohammed (2017) also notes that external auditing strengthened the quality of the internal audit department through material sharing and collaboration in review of internal controls.

In regard to there is clear appointing authority within the audit committee there was strong agreement among the respondents as shown by a mean value of 4.3908 and a deviation of .82626. These results are consistent with Mutua (2015) who indicated that the independence of the auditors was key in determining the quality of the internal audit function. Arena and Jeppesen (2016) also concluded that in the public sector there is a need to ensure that the appointing authority should not yield any power to direct or control the audit committee in order to foster the quality of their duties.

1.9.2 Audit Committee Composition

	N	Mean	Std. Deviation
Our audit committee has attained the statutory required number of members	87	4.4023	.79912
There is gender diversity within our audit committee	87	4.4598	.81846
The audit committee has members of different age brackets	87	4.5862	.70796
Our audit committee has attained regional representation	87	4.4023	.86884
The audit committee is composed of members of diversified level of experience	87	4.3333	.93593

Table 2 Audit Committee Composition**Source:** Researcher (2019)

The results of the study on Table 4.2 showed that with regard to our audit committee has attained the statutory required number of members there was strong agreement among the respondents as shown by a mean of 4.4023 and deviation of .79912 indicating minimal variation in responses. The results are consistent with Velte and Freidank (2015) who indicated that in Ethiopia legislation has been put in place to ensure there is no audit committee that can function without meeting the constitutionally mandated minimum of 5-members.

The results also showed strong agreement among respondents in regard to there is gender diversity within our audit committee as shown by a mean of 4.4598 and a deviation of .81846. These results are supported by Bruynseels, Krishnamoorthy, and Wright (2015) who indicated that generally audit committee with more female members are perceived to be more trustworthy in the public eye. This is due to the fact that there is high perception in public that women are more fair and trustworthy than male counterparts. Ndege (2015) also indicated that meeting the average number of audit team enhances the performance of their duties.

The study findings also showed that respondents were in agreement that the audit committee has members of different age brackets as shown by a mean of 4.5862 and a deviation of .70796. The findings are supported by Eragbhe, and Osazuwa (2012) who indicated that presence of long-serving members in the audit committee enhanced the public perception on the quality of their reporting.

The results of the research further showed that in regard to our audit committee has attained regional representation there was strong agreement among respondents as shown by a mean of 4.4023 and a deviation of .86884. These results are in line with the observation drawn by ICPAK (2017) who indicated that in the current political environment enhancing regional representation within the audit committees will strengthen the perception of the financial reporting. This will help in alleviating bias in the oversight role of the audit committee.

With regard to the audit committee is composed of members of diversified level of experience there was strong agreement among the respondents as shown by a mean of

4.3333 and a deviation of .93593. Al-Matari, Al-Swidi, Fadzil, and Al-Matari (2012) are also of a similar view in their study where indicated that having audit committee members with different levels of experience creates a synergy which enhances the level of their financial reporting. Porter, Ó hÓgartaigh, and Baskerville (2012) also indicates that audit committee composition was instrumental in structuring the audit expectation-performance gap.

1.9.3 Audit Expectation Gap

	N	Mean	Std. Deviation
The audit committee endeavours to uncover all material errors	87	4.4356	.75915
The audit committee strives to unearth all material frauds	87	3.8956	.39403
The audit committee strives to meet the expectation of the audit report user group	87	4.3455	.78640
There are deficient standards gaps within audit committees	87	4.3655	.75915
There are disparities in the audit committee reports	87	3.8961	.79472
The audit committee has achieved dependability among the user group	87	4.6551	.67082

Table 3 Audit Expectation Gap

Source: Researcher (2019)

With regard to the audit committee endeavors to uncover all material errors there was agreement among respondents as shown by a mean of 4.4356 and a deviation of .75915. This is consistent with Masoud (2017) who indicated that one of the key measures of the expectation gap is the level of expectation-performance gap. With regard to the audit committee strives to unearth all material frauds there was agreement as shown by a mean of 3.8956 and a deviation of .39403 indicating very low variation in the responses. Ernst and Young (2012) pointed out that there has been tremendous growth in the corporate governance practices which has translated into effective auditing function in many developing nations.

Concerning the audit committee strives to meet the expectation of the audit report user group there was agreement among the respondents as show by a mean of 4.3455 and a deviation of .7864. The study results are consistent with Waruhiu (2015) who indicated there is growing knowledge within the public of the role played by auditors in supporting prudential public resources utilization. Concerning there are deficient standards gaps within audit committees there was strong agreement among the respondents as shown by a mean of 4.3655 and a deviation of .75915. The findings rare consistent with Gitare (2013) who examined the Big four auditing firms and concluded that there are still standards gaps as far as the audit committee role is concerned within the Kenyan sector.

In regard to there are disparities in the audit committee reports there was agreement among the respondents as shown by a mean of 3.8961 and a deviation of .79472. In regard to the audit committee has achieved dependability among the user group there was strong agreement among the respondents as shown by a mean of 4.6551 and a deviation of .67082. The above results are consistent with Limisi, McFie, and Wang'ombe (2017) who examined expectation gap in tax auditing in Kenya and noted that there was growing recognition of the role of the auditors and the expectations that the public had.

1.10 Correlation Analysis

1.10.1 Effect of Audit Committee Independence and Audit Expectation Gap

		Audit expectation gap	Audit committee Independence
Audit expectation gap	Pearson Correlation	1	.608**
	Sig. (2-tailed)		.000
	N	87	87
Audit committee Independence	Pearson Correlation	.608**	1
	Sig. (2-tailed)	.000	
	N	87	87

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4 Correlation Results of Audit Committee Independence and Audit Expectation Gap

Source: Researcher (2019)

The result of the correlation test above indicated that there is a positive and significant effect of audit committee on the audit expectation gap ($r=.608$, $p=.000$). This implies that audit committee independence can narrow the audit expectation gap; this further indicates that audit committee independence can help bridge the gap between public expectations and the actual performance of the auditors. The audit committee independence within state corporations in Kenya can be achieved through involvement of outside auditors, having transparency within the audit team, ensuring there is no conflict of interest within the committee as well as having appointing authority within the committee.

Sarkar and Sarkar (2012) studied Auditor and audit committee independence in India. The researchers concluded that audit committee accrues from large board size, the audit fees and from the established regulatory guidelines. A study by Soliman and Ragab (2014) examined Audit committee effectiveness, audit quality and earnings management: an empirical study of the listed companies in Egypt. The findings of the study indicated that audit committee independence strengthened the quality of the

financial reporting within the listed firms. Lynch and Williams (2012) examined if equity compensation compromise audit committee independence? Evidence from earnings management. The results of the study indicate that audit committee independence may be affected by equity compensation to audit committee members serving in the same firm due to the financial interest they hold.

1.10.2 Audit Committee Composition and Audit Expectation Gap

		Audit expectation gap	Audit committee Composition
Audit expectation gap	Pearson Correlation	1	.637**
	Sig. (2-tailed)		.000
	N	87	87
Audit committee Composition	Pearson Correlation	.637**	1
	Sig. (2-tailed)	.000	
	N	87	87

** . Correlation is significant at the 0.01 level (2-tailed).

Table 5 Correlation Results of Audit Committee Composition and Audit Expectation Gap

Source: Researcher (2019)

The results of the research above sought to examine the effect of audit committee composition and the audit expectation gap. The results indicated there is a positive and significant effect of audit committee composition on the audit expectation gap ($r=.637$, $p=.000$). This indicated that audit composition was a key factor in determining the audit expectation gap. The audit committee composition within state corporations can be achieved through ensuring there is gender parity in the committee, meeting the bare minimum requirements of the audit committee composition, having regional representation as well as ensuring there a well-diversified team of experts within the audit committee.

Krishnan, Wen, and Zhao (2011) studied the legal expertise on corporate audit committees and financial reporting quality. The results of the study indicated that the composition of members of the audit committee with a mix of legal and accounting expertise enhanced the quality of the audit function. Johl, Subramaniam, and Zain (2012) examined Audit committee and CEO ethnicity and audit fees: some Malaysian evidence. The results of the study indicated that the audit committee should be majorly composed of independent members and majority of the member should not be of the same ethnical background as the CEO in order to enhance their performance and limit biasness.

Hypothesis Testing

The first research hypothesis indicated;

HO₁ There is no significant relationship between audit committees independence the audit expectation within state corporations in Kenya

		B	Std. Error	Beta	T	Sig.
1	(Constant)	10.070	3.326		3.028	.004
	Audit committee Independence	.733	.149	.608	4.901	.000

a. Dependent Variable: Audit expectation gap

Table 6 Regression Coefficients for Audit Committee Independence and Audit Expectation Gap

Source: Researcher (2019)

The results above indicate a constant $\alpha = 10.07$ is significantly different from 0 since the p-value $.004 < .005$. The beta value (β) = .733 and is significantly different from 0 since the p-value $.000 < .005$. This indicates that there is a statistically significant positive effect of audit committee independence on the audit expectation gap. A unit change in audit committee independence will result in a .733 unit change in the audit expectation gap within state corporations in Kenya. Kibiya, Che-Ahmad, and Amran (2016) conducted an examination of the audit committee independence in Nigeria and indicated that limiting conflict of interest, having appointing authority and presence of outside directors enhanced the audit committee independence. The researchers further indicated that there was positive association between the audit committee independence and the quality of financial reporting within state corporations.

The second hypotheses of the research was;

HO₂ There is no significant association between of audit committee's composition in mitigating audit expectation within state corporations in Kenya

		B	Std. Error	Beta	T	Sig.
1	(Constant)	9.370	3.215		2.915	.006
	Audit committee Composition	.483	.091	.637	5.291	.000

a. Dependent Variable: Audit expectation gap

Table 7 Regression Coefficients for Audit Committee Composition and Audit Expectation Gap

Source: Researcher (2019)

The results above indicate a constant $\alpha = 9.37$ is not significantly different from 0 since the p-value $.006 > .005$. The beta value (β) = .483 and is significantly different from 0 since the p-value $.000 < .005$. This indicates that there is a statistically significant positive effect of audit committee composition on the audit expectation gap. A unit change in audit committee composition will result in a .483 unit change in the audit

expectation gap within state corporations in Kenya. Kim, Segal, Segal, and Zang (2016) indicated that larger, more independent, and more competent audit committees are better able to detect misstatements or deter opportunistic reporting by management; thus fostering financial reporting within auditing department. Al-Mamun, Yasser, Rahman, Wickramasinghe, and Nathan (2014) indicated that the audit committees that had met the minimum required number of members with atleast one member possessing financial or accounting knowledge were more effective.

Implications to Research and Practice

The findings of the study are expected to enhance the available empirical evidence on the audit expectation gap and the critical role the audit committee plays within public institutions. The results of the study will also be a source material for future research as well as expand the body of knowledge. The Government will likely find the findings and recommendations of this study useful in diagnosing the problems affecting successful implementation of policies related to public sector financial management. The study will likely be of great importance to the auditing practice in general as well as in policy formulation as well as enhancing the audit expectation gap in the public sector in wake of the ongoing embezzlement of public funds. Further the recommendations of this study will likely help policy makers to design a more progressive and effective policies aimed at ensuring good advancement of the audit practice in the public sector.

CONCLUSION

The study concluded that upholding the independence of the audit committee is integral in promoting effectiveness and elaborate feedback within the audit function in organizations. More so independence of the audit committee ensures the internal auditors are able to control the audit function as well as foster impartiality in the audit reporting process. Finally the study concludes that audit independence should be upheld in order to promote the quality of the audit statements within state entities.

The study results have indicated that the composition of the audit committee is a key determinant of the audit expectation gap. The study concludes that state agencies should ensure people being appointed to the audit committees have the right mix of competencies that will enhance the audit function. The study further concludes that the audit committees should be composed of outside members which will reduce board/management influence thus enhancing the quality of the audit reports. The study further concludes that regional representation should be enhanced within the audit committees; this will help in limiting conflicts of interests based on the CEO/Executive members' ethnicity.

Recommendations

The study recommends that state corporations should ensure that audit committee independence from the board and management is upheld to ensure that there is no undue influence in the discharging of the audit functions. Further the audit committees should be allowed to plan their own activities and guidelines in order to ensure impartiality in the reporting process and foster the quality of the audited statements. The study further

recommends that audit committee members should limit their interaction with the executive to ensure there is objectivity in their reporting.

In regard to the composition of the audit committee. The study recommends that gender inclusion should be upheld within the public sector and more so within audit committees. Further in constituting audit committees there is need for stakeholders to ensure individual competencies such as technical skills, leadership qualities and integrity are available to help mitigate expectation gap. More so there should be appropriate skill mix within the audit committee which should be regularly assessed to ensure conformity to best standards of practice.

Future Research

The study proposes further research to be undertaken on the effect of the audit committee characteristics on the performance of listed firms in Kenya. Further the study proposes an examination of the corporate governance practices within state corporations.

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