Board Gender Diversity, Audit Committee Activities and Financial Reporting Quality of Firms Listed in Nairobi Securities Exchange, Kenya

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ABSTRACT

The purpose of this study was to investigate the moderating effect of audit committee activities on the relationship board gender diversity on financial reporting quality of firms listed in Nairobi Securities Exchange (NSE). This study was anchored on the Upper Echelon theory and Stakeholder's theory, The study employed a longitudinal research design and also a positivism philosophy was adopted in the study. A census approach was used whereby all the firms that remained continuously listed for 7 years for the period 2011-2017 inclusive were studied. The data collection instrument used in this study was data collection sheet. Fixed Effect Model (FEM) was used to analyze the panel data, since it was found to be an appropriate estimation technique by the Hausman test. The findings revealed that gender diversity had negative and statistically significant effect on financial reporting quality. However, audit committee activities positively moderated the relationship between gender diversity and financial reporting quality. Therefore, for financial reporting quality to be improved, the study recommends the following as attested by the findings. First, this study recommends that the board of directors of firms should be made up of directors that is not gender diverse, which is one gender should form a majority as this improves financial reporting quality. The findings of this study would provide essential guidelines for decision-making in regard to board gender diversity and audit committee activities for firms striving to enhance financial reporting quality.

Keywords: *Board diversity, Age, Gender, Education, Nationality, Financial reporting quality, Audit committee activities.*
JEL Classification: *G38 Corporate Finance and Governance: Government Policy and Regulation.*

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Highlights of this paper

- Gender diversity had negative and statistically significant effect on financial reporting quality.
- Audit committee activities positively moderated the relationship between gender Diversity and financial reporting quality.

1. INTRODUCTION

Financial reporting quality provide high-quality financial information that gives a true and fair view of the state of affairs of a firm. This helps in the process of decision making on matters concerning an organization's financial activities. However, the reports of organizations, which are presented, on annual basis can never be totally free from biasness, given the conditions under which the accounting information is measured. Cheng, Goh, and Kim (2018) study agreed that this has raised the attention of organizations' managers and also scholars in the field of accounting and finance into continuously establishing the primary determinants of financial reporting quality (FRQ) with cases of scandals in finance rising as from early 2000s. The collapse of big companies has pressured managers of firms to provide financial information that is not only accurate but also reliable in a faster and efficient way (Chen, Miao, & Shevlin, 2015). This has generated many studies on reliable predictors of FRQ other than corporate governance, ownership structures and company characteristics. Pargendler (2016) discovered that the incidents of bribery, fraud and corruption are widespread. The research also found out that companies with homogeneous board memberships, for instance, have only male members or board members are old or young only, suffer from a higher level of government-related scandals (Skroupa, 2017).

Many scholars have come to the realization that a diverse board in terms of balance in gender play a key role in enhancing the performance of organizations, therefore, it can also be argued that board diversity can be a predictor for quality financial reporting, however, there has been little agreement on how the diversity of Board of Directors (BoD) impact quality reporting because other variables such as management integrity, accounting decisions, local regulatory requirements, global standards and monitoring processes also affect FRQ of firms. Some of these factors are attributed in one way or the other to the managers' personal attributes (Francois & Kyle, 2011).

The call by various stakeholders such as financial investors, regulators and social investors for more diversity have inspired many researchers to research the effect of board gender diversity on FRQ. Historically, women have held only a few positions on company boards. In 2007, Females kept 14.8 per cent of Fortune 500 committee members in the US (Dang, Nguyen, & Vo, 2014). The change is due to the increasing demand from councils around the world on women executives to be chosen. The value of gender equality by the Board clearly illustrates several of the recommendations for improvement in governance. This trend is backed by empirical research showing that women in the boardroom are of real benefit to the business.

Vasvári (2015) observed that many Financial Psychology research suggest that women are more careful and unwilling to take risks as compared to men who are risk-tolerant. Owusu, Holmes, and Agyemang (2017) found out that the board of directors within Nigeria is predominantly male, with females comprising 4.9%, 1.8% and 1.8% of all executives, chairs and CEOs, respectively. Nevertheless, the analysis did not show how Nigeria's variety of boards contributes to the company's financial results. Pucheta-Martínez, Bel-Oms, and Olcina-Sempere (2016) study implied that women are more straightforward as compared to men, and therefore less inclined to interfere with company records and other news related to the firm. Ilanit, Segev, and Yosef (2012) discussed the leadership and management of women's sales in high-tech companies. The study used an evaluation methodology that was univariate and multivariate and found a negative correlation between female executives and revenue management. The results revealed that accounting variables affect the percentage of women on the board of directors and audit committee. However, if both the Chief executive officer(CEO) and the Chief finance officer(CFO) are women, there has been less income control. Arun, Almahrog, and Aribi (2015) explored the impacts of female leadership on UK experience in handling company earnings. They found that the practice of earnings management in Great Britain has been limited by businesses with more females and independent women executives. Arun et al. (2015) further noted that female directors' presence in the Executive Board and the Audit Committee had an impact on revenue management.

Regarding the impact of board gender diversity on the financial reporting quality, previous studies focused on the various characteristics portrayed by men and women. Based on Ferreira (2015) and Arun et al. (2015) study, women are viewed as more impartial in decision making, disinclined to take risks and less tolerant of disreputable behavior. Consequently, this would aid women in ensuring strategic management is effective and influencing decision-making. Arun et al. (2015), contend that numerous analyses have revealed a positive linkage in terms of women's involvement in a board on FRQ. Gender diversity is directly related to the information available to managers, and it may impact their success in managing and advising employees (Alam, Chen, Ciccotello, & Ryan, 2014). Even the success of a board member's female director or minority is related to how often they have access to information and how confident they are. The two main variables relate to a company's distance (Giannetti & Zhao, 2016).

According to Adams, de Haan, Terjesen, and van Ees (2015) the regulatory bodies and scholars have believed that "board audit committee operations" were the answer to these problems. Nevertheless, the emphasis was changed from audit committee operations to board gender diversity. The lack of evidence of the success of the operations of the board audit committee led scholars to conclude that the operations of the board audit committee did not yield desired results since the practices of the audit committee were old-fashioned.

1.1. Financial Reporting Situation in Nairobi Securities Exchange

Capital Markets Authority (CMA) has the mandate of overseeing its member firms. Currently, the NSE has 66 listed firms in 14 different sectors. According to the Nairobi Securities Exchange Listing Rules (2014) if a listed company fails to follow the rules and procedures, its securities may be suspended or delisted. Firms are expected to comply with the continuous listing responsibilities, which include the disclosure of periodic financial information and other provisions (Zainal, Mustaffa, & Jusoff, 2012). Failure to comply with these responsibilities, as well as other rules, has resulted in statutory management being imposed on both listed and unlisted companies on the NSE.

The activities or operations of a firm are key consideration for its continued listing in the NSE and thus evaluation of the FRQ of these listed firms is important to ensure that investors do not lose their money by investing in profitable firms yet the firms have liquidity problems (Shehu & Ahmad, 2013). Financial Reporting Quality characteristics of disclosure, timeliness in release of financial information and key announcements by firms and consistency in application of accounting standards are some of the key emphases by NSE as an oversight body (Swartz & Firer, 2005). When profitable firms are put under receivership, questions arise over their Financial Reporting Quality and NSE is on the spot over its oversight role.

The Nairobi Securities Exchange (NSE) is the country's main open capital market in Kenya, as stated by CMA (2017). Companies at the NSE operated for a long time without clear structures of command and management, raising issues about corporate governance among stakeholders. Changes in corporate governance laws and norms have since been experienced. In addition, improvements have been made to the method and structures used to coordinate and control a company among them corporate accounting laws of the listed company with a definitive objective of recognizing long-term importance to investors while considering the interests of the different stakeholders (Capital Markets Authority, 2018).

Poor quality financial reports lead to managers of firms into making poor decisions, missing crucial red flags and also damages the company's credibility. There are examples of firms in Kenya which posted huge profits and collapsed the following years such as Uchumi supermarket and Chase Bank. In December 2013, Uchumi Supermarket reported a profit of Kshs 106 million, only for it to report a huge loss of Kshs 263 million in December 2014.Similarly, the Kenya power company reported a net profit of Kshs 262 million in 2019 down from a net profit of Kshs 3.3 billion in 2018 which translates to 92% decrease in net profit. This makes the consumers of financial information to question the quality of the financial reports. This study therefore assessed the effect that board diversity has on the quality of company's financial reports.

2. THEORETICAL FRAMEWORK AND DEVELOPMENT OF HYPOTHESES

Formulated by Hambrick and Mason (1984) Upper Echelon Theory (UET) clarifies how top managers' personality characteristics influence organizational effectiveness. In the upper echelon theory, the basic idea was to focus on top management (Board of Directors) characteristics rather than individual senior managers to inform better understanding of the organization's outcomes. The theory therefore was used as a theoretical foundation on the demographic factors of BoDs in which the diversity in groups and teams is viewed as a beneficial force for an organization to function effectively. It merges with theories like; agency theory and the theory of positive accounting. Therefore, together with other theories, a range of theoretical views can be implemented to clarify the antecedents and implications of FRQ by the population diversity of top leadership.

H_{01}: Gender diversity has no statistically significant effect on financial reporting quality of firms listed in Nairobi securities exchange.

Freeman R E founded Stakeholders theory in 1984.He asserts that the interests of all corporate stakeholders, not just shareholders, should be taken into account by managers. According to this theory, effective members of audit committee ensure management of the firms guarantees stakeholders interest and stakeholders' general well-being. The importance of having an effective audit committee was highlighted by Ghafran and O'Sullivan (2013) who stated that the committee's primary mission is to defend stakeholders' well-being as well as their interests. This is because if the financial accounts are of the weakest quality, all stakeholders' interests will be jeopardized. The theoretical basis study suggests that there is a need to fill conceptual gaps by using stakeholder theories in extending knowledge about audit committee activities and financial reporting quality (Ayuso, Rodríguez, García-Castro, & Ariño, 2014). As a result, this school of thought is pertinent to the research since it contends that a well-functioning Board should be able to incorporate all stakeholders, regardless of demographic features. In this regard, the audit committee ensures stronger corporate governance procedures, which are reflected in the quality of financial reporting. This will, in turn, increase stakeholder confidence and assure the organization's long-term success. This theory is relevant in relation to the study variables audit committee activities and gender diversity.

H_{02}: There is no statistically significant moderating effect of Audit Committee activities on the effect of board diversity on financial reporting quality of firms listed in Nairobi securities exchange.

2.1. Empirical Literature Review

2.1.1. Gender Diversity and Financial Reporting Quality

The effect that gender diversity has on the different components of organizational success, including the financial reporting quality, has been widely studied. Kyaw, Olugbode, and Petracci (2015) found a significant link between a gender diverse board and earnings management. Likewise, the participation of female directors in the audit boards and in the revenue management board as assessed by anomalous accruals cannot be considered significant according to Marinova, Plantenga, and Remery (2016) study. On the other hand, as evidenced by Arun et al. (2015) study, the more the female directors are in the board, the higher the earnings of the firm. Similarly, Liu, Wei, and Xie (2014) showed that improved profitability of the firms is associated with increase in number of women directors in the board of a firm.

Gender diversity literature focuses on the idea of making it easier for women to control executive decision-making by adding different features to the board. According to Arun et al. (2015) females are less forgiving for unethical behavior, and more confident of decision making. Findings on the impact of gender diversity in boards may be ascribed to the fact that this research was carried out in different time scales as well as in different countries with different governance structures. That can also allow them to track decision-making through leadership qualities and financial reporting. So, the generalization of findings from one place to another may not be possible. It can also be related, as indicated by Alam, Chen, Ciccotello, and H. (2013), to the gap disparity between women and businesses.

Notwithstanding this backdrop of gender inequality in the board, Malouf and Mínguez-Vera (2008) hold the view that financial reporting quality is positively and substantially linked to gender diversity using accounting conservatism as a measure. Labelle, Francoeur, and Lakhal (2015) study acknowledges that women are more inclined to interact with and endorse others, including unscrupulous approaches for instance wealth control, delaying in reporting on financial information; withholding critical financial information and reporting on extra proceeds. The two analyses can act as indicators of women's implication on FRQ.

Francis, Hasan, Park, and Wu (2015) assessed the effect of CFO gender on firm financial reporting and found that female CFOs and the performance of their economic reports have an important link. Their argument is that representatives of the board of females can make less aggressive decisions about discretionary accruals. The findings show that underperformance among companies with female CEOs is consistent with complete discretion and error estimation. This shows that financial reporting is of high quality. The research employed only one variable, gender and FRQ (analyzed by an error in the accrual assessment and uncommon accruals). The contrast is minimized in the present study by introducing the Board of Directors' operations in four other autonomous variables, namely age, gender, education level, nationality and audit committee activities. Furthermore, the study provides other steps relating to the FRQ evaluation, namely cash flows and stock returns. When a significant proportion of women are on board it provides high-quality financial reporting.

Wang and Kallunki (2015) showed no link between the Member Board's gender diversity and conservative financial reporting results. Nyoka (2018) carried out a study on the effect of board diversity on earning management in Kenya's listed manufacturing and affiliated enterprises and disclosed that board members' sex diversity had significant and adverse impact on corporate earnings management. Mwangi, Oluoch, Muturi, and Florence (2017) researched on the impact of the activities of the audit committee on the financial reporting of non-commercial state-owned companies. The results of sex diversity also showed that an increasing proportion of women in commission produce better financial reporting, establishing a beneficial correlation between gender diversity and financial reporting efficiency. Waweru and Prot (2018) undertook a study on the relationship between compliance with corporate management and financial reporting quality which is measured by the earnings accruals of a firm. A total of 48 firms was surveyed which were firms mentioned in the security exchanges of Kenya and Tanzania between the period 2005 and 2014.At the end of the study, it was concluded that sex diversity was positively and significantly related with earning accruals. A study by Pucheta-Martínez, Bel-Oms, and Olcina-Sempere (2018) examined the board members' sexual diversity and the accuracy of financial reporting, Corporate social responsibility (CSR) and company results. The study examined present literature by reviewing articles and books, as well as theories relevant to the effects of sexual diversity and financial reporting. The study findings indicated the importance of including female directors in financial and non-financial decision making, such as reducing agency spending or improving engagement between companies and all stakeholders.

2.1.2. Moderating Role of Audit Committee Activities

As stated by Sherman, Rose, and Haraszuk (2015) the audit committee (AC) plays a key role in overseeing internal controls and providing accurate financial information to shareholders as regards the consistency of financial reporting. The Sub-committee frequently facilitates and monitors internal audit research, which records risk assessment by management (Hermawan, 2011). In order to ascertain any financial malpractices, AC can carry out internal audit of the financial statements (Nuryana & Surjandari, 2019). Moreover, an independent AC may not be viable if it is inactive, as per Menon and Williams (1994). They further postulate that an industrious AC may make preventive and restorative move at suitable occasions so as to neutralize inward control failures.

According to Krishnan, Raman, Yang, and Yu (2005), the number of AC conferences represents the AC's pro-activity in the assessment of internal controls. Kusnadi, Leong, Suwardy, and Wang (2016) disclosed the importance of this metric to underline that regulators have continuously preferred a working AC that meets every now and then in one year. In the same line of reasoning, the Treadway Commission, also recognized as the National Committee on Fraudulent Financial Reporting claims that an AC structured to have a primary supervisory position should be involved (Mohamad Naimi, Rohami, & Wan-Hussin, 2010). To put it another way, regular meetings are important for AC. In the academic literature, there is strong evidence suggesting that certain dimensions of audit committee governance are effective mechanisms for improving financial reporting quality. In particular, high activities of audit committee are linked with lower levels of fraud and (Berglund, Draeger, & Sterin, 2022). Effective audit committee activities are linked with fewer internal control issues, fewer financial restatements, and higher financial reporting quality (Draeger, Haislip, & Sterin, 2022). However, the direct impact of active audit committees on financial reporting quality is less clear. The literature has noted that more audit committee meetings are associated with less fraud and discretionary accruals (Cohen, Hoitash, Krishnamoorthy, & Wright, 2014), but no association is found with restatements and conservatism (Krishnan & Visvanathan, 2007). Moreover, the majority of studies examining the effect of audit committee meetings fail to find a significant link with financial reporting quality (Tanyi & Smith, 2015).

3. METHODS AND SAMPLING

This study employed a longitudinal research design to address the research objectives. This study adopted the positivism research philosophy. The study population consisted of all the firms in NSE that were consistently listed for a seven-year period that is, between 2011 and 2017 inclusive. Specifically, 280 firm-yearly data of 40 firms for the seven years listed in NSE formed the population size. The 40 firms were those firms which remained listed in the NSE for the entire period of study. The study collected data from secondary sources with the help of a data collection sheet from published financial statements of firms listed in the NSE.

3.1.Measurement of Variables

Financial Reporting quality was measured using two measures: Earning Value Relevance and Reliability/faithful Representation; The study aggregated the two Financial Reporting Quality Metrics into a summary index to optimize the sample information content and tradeoff between the aforementioned measures and also that there is no generally agreed FRQ measurement technique. This was done by summing the residuals from the two regression models used to measure the FRQ, and then getting the mean. The integration of the two measurements into an index has the benefit of reducing the consequences of the measurement errors in the individual FRQ behavior. The aggregation procedure for corporate governance measures was justified by Dechow, Ge, and Schrand (2010).

Gender diversity was measured as a standard deviation of women and men in the board of directors (Erhardt, Werbel, & Shrader, 2003; Marinova et al., 2016; Rose, 2007).

Audit Committee Activities (ACA) was measured as the number of annual meetings of the audit committee (Tian, 2009); (Chen, Yeung, & Pun, 2006).

3.2. Model Specification

To assess the hypotheses, panel data was analyzed. The panel data was evaluated using the Fixed Effect Model (FEM) and the Random Effect Model (REM). The comparison of both the fixed and random effect was implemented by use of Hausman test, hence the null hypothesis of random effect was rejected implying that the fixed effect model was consistent.

Testing for direct effect (H_{01})

The model testing direct effects of board diversity which are also the first four hypotheses i.e., age diversity, gender diversity, education diversity and nationality diversity on financial reporting quality is as follows:

$$FRQ_{it} = \beta_{0it} + \beta_1 GD_{it} + \rho_{it} \quad (1)$$

Where;

FRQ - Financial reporting quality.

β_0 is changes in FRQ that independent variables present in the model cannot explain. Noted that it is the constant in the equation.

β_1, Are equation coefficients.

GD Gender diversity.

ρ Is error term.

i Firms.

t Time.

3.2.1. Tests for Moderation (H_{02})

The use of hierarchical multiple regression analysis to check for moderator influence was observed by Baron and Kenny (1986) and Frazier, Tix, and Barron (2004). In hierarchical regression analysis, only some of the variables are utilized simultaneously across every stage. The study hypotheses were evaluated in three stages using multiple analysis of regression and hierarchical moderated regression as per Baron and Kenny (1986) model as shown below

$$\mathrm{FRQ_{it}} = \beta_{0it} + \beta_1 \mathrm{GD_{it}} + \boldsymbol{\varepsilon} \quad (2)$$

$$\mathrm{FRQ_{it}} = \beta_{0it} + \beta_1 \mathrm{GD_{it}} + \beta_2 \mathrm{ACA_{it}} + \boldsymbol{\varepsilon} \quad (3)$$

$$\mathrm{FRQ_{it}} = \beta_{0it} + \beta_1 \mathrm{GD_{it}} + \beta_3 \mathrm{ACA_{it}} + \beta_4 \mathrm{AD_{it}} * \mathrm{ACA_{it}} + \boldsymbol{\varepsilon} \quad (4)$$

Where,

FRQ - is the measure of financial reporting quality.

β_0 is changes in FRQ that independent variables present in the model cannot explain. Noted that it is the constant in the equation.

$\beta_{1,2,3,4,5,6}$ are the model coefficients.

GD Gender diversity.

ACA Audit Committee Activities.

ε Is error term.

i Firms.

t Time.

4. RESULTS AND DISCUSSIONS

The study provides general descriptive statistics on study variables; board gender diversity, financial reporting quality and audit committee activities on companies listed in the Nairobi securities exchange. Descriptive statistics for the dependent, independent and test variables are presented in Table 1. The result shows that gender diversity has the low mean of 3.22 and was positively skewed. Similarly gender diversity is less diverse because it has the lowest standard deviation. The findings also indicated audit committee activities had a mean of 3.66. Moreover, financial reporting quality was at a mean of -0.04.

Table 1. Summary statistics of variables.

Stats	N	Min	Max	Mean	p50	S. dev.	Skewness	Kurtosis
Gd	280	1.41	6.36	3.22	3.32	0.47	0.11	10.38
Aca	278	1.00	9.00	3.66	4.00	1.57	0.50	3.47
Frq	280	-8.40	1.45	-0.04	0.09	0.74	-6.43	63.96

Source: Research Data, (2019).
D=distance from mean to median.

4.1. Diagnostics Tests

The study used the Jarque-Bera test as suggested by Jarque and Bera (1987) to test normality of the data. Results reported chi (2) value of 0.7129, which is larger than 0.05, indicating that the null hypothesis cannot be rejected. When completing the Jarque-Bera test, the null hypothesis is Normality. To check for unit root existence, this study applied the Levin-Lin-Chu for this test because of its desirability in panel data. Results showed that the null hypothesis is rejected at 5 percent significance level for all the study variables since all the p values for all the variables are less than α=0.05, which means that data have no unit root In this study, the variance inflation factor (VIF) was used to test the degree of interaction between the predictor variables because of its simplicity and reliability. The rule of thumb says that if the value of VIFs is 10 or more (conservatively above 5), it points to extreme multicollinearity among the variables (Newbert, 2008). As analyzed in this study, the VIF test results showed that all the variables had VIF below 10; the model does not suffer from multicollinearity problems. This study tested heteroscedasticity using Breusch-Pagan heteroscedasticity test. The results showed that the p value exceeds 0.05 showing that there was no dismissal of null hypothesis indicating that the principle of constant variance was not violated.

Autocorrelation was tested using (Wooldridge, 2003) autocorrelation test because it has no such flaws and can be used to deal with biased panel data with and without observational discrepancies. Results showed p value was greater than 0.05, hence null hypothesis of Wooldridge was not rejected.

4.2. Panel Analysis (Fixed Effect)

The data analyzed in this study was panel data and therefoe a decision was made to either use Fixed effect model or Random model. The decision was on the basis of the Hausman test findings. The result of this is that the null hypothesis of the non-systematic variation in the coefficients of the financial reporting quality determinants (random effects model) is rejected. This is because of chi-square p-value< 0.05. It means therefore, that the preferred model as per the Hausman test is the fixed effects model. This study also hypothesized that gender diversity had no statistically significant effect on financial reporting quality of listed companies on the Nairobi securities exchange. Results showed that the gender diversity estimation coefficients were relevant based on β_1 =-1.54 (p-value= 0.00) which is less than α= 0.05, hence the null hypothesis was rejected and therefore it was concluded that gender diversity had a negative and significant effect on financial reporting quality. The findings also shows that 31% variation in financial reporting quality is explained by board gender diversity. This was supported by Pucheta-Martínez et al. (2018) who noted that the establishment of mandatory gender quotas in companies adversely affected their financial reports. The results also supported Srinidhi, Gul, and Tsui (2011) study in the US who suggested a negative link between gender diversity and financial reporting quality. However, the findings contradicted (Mwangi et al., 2017) study which showed that the gender diversity had achieved greater quality financial reporting. This implied that there was a favorable connection between gender diversity and the quality of financial reporting. On the contrary, Wang and Kallunki (2015) revealed that there is no significant relationship between Board member's gender diversity and the quality of financial reporting in terms of accounting conservatism. The findings also differed with Wixom et al. (2011) study which found a positive and significant relationship between women directors and the quality of financial reporting. The findings were also in disagreement with Wang and Kallunki (2015) study in China which indicated that there was no link between gender diversity of the board Members and the quality of conservative financial reporting. These also contradicted (Mwangi et al., 2017) study which indicated that growing proportion of women in commission produced better financial reporting, which created a beneficial link between gender diversity and the quality of financial reporting.

Table 2. Panel hierarchical analysis (Fixed Effect).

	Model 1	**Model 2**	**Model 3**
FRQ	Coef. Std.err.	Coef. Std.err.	Coef. Std.err.
_cons	2.11(0.32) **	1.08(0.41) *	-0.15(0.70)
GD	-3.51(0.28) **	-3.13(0.29) **	-2.02(0.59) **
ACA		0.47(0.12) **	1.24(0.38) **
GD*ACA			0.70(0.33) *
R-sq:			
Within	0.40	0.43	0.44
Between	0.07	0.14	0.14
Overall	0.31	0.37	0.38
ΔR-sq:	0.31	0.06	0.01
F (1,239)	156.93	91.00	63.07
Prob > F	0.00	0.00	0.00
Hausman			
chi2(1)	11.48	13.57	13.39
Prob>chi2	0.00	0.00	0.00

Note: **significant at 0.01 level; *significant at 0.05 level; values in parenthesis are t –statistics.
BGD=board gender diversity, ACA= Audit Committee Activities, FRQ=financial reporting quality, FV=firm value.

Hypothesis (H_{O2}) stipulated that there is no significant moderating effect audit committee activities on the relationship between board gender diversity and financial reporting quality. However, based on the results in 2, after introducing audit committee activities the relationship between board gender diversity and financial reporting become significant and improves with 1% (R-sqΔ =.01, $\beta = 0.02$, $\rho < 0.05$). In addition, based $\beta_{=}$-.70, p<0.05) in Table 2 the audit committee's activities have a positive and significant moderating effect on the relationship between board gender diversity and financial reporting quality thus leading to the rejection of the null hypothesis. The findings were in support of Raghunandan and Rama (2007) who recorded that excellent audit committees may influence auditor-related perceptions of shareholders, especially in circumstances where shareholders may perceive an enhanced auditor danger. The findings were also in concurrence with Mustafa and Meier (2006) study which demonstrated that increased number of audit committee activities reduced misappropriation of property in publicly owned enterprises which positively affected the financial reporting of the enterprises. The FRQ of the organizations being considered in Kenya was respected great as far as completeness, comparability and consistency is concerned. Relevance, loyal representation, neutrality, predictability, and timeliness were considered fair. Hence more information such as chairman's report should be subject to audit in the financial report as financial reports' usefulness is impaired by their duration.

5. CONCLUSION AND RECOMMENDATIONS

Based on the findings this paper concluded that gender diversity has a negative and significant effect on financial reporting quality. Also, the study concludes that the higher the number of audit committee activities, the more positive is the effect of high gender diversity among directors of the board on financial reporting quality. thus, it is a recommendation of this study that in order to increase financial reporting quality, it is important for shareholders in annual general meetings to always include women and men in the board but one gender should form a majority. The frequency of audit committee meetings, while needing more resources, may provide directors with sufficient time to focus on various aspects affecting firms and thus provide solid and relevant conclusions that may affect firms' financial reporting quality under the NSE market. The audit committee's core responsibility is the oversight of financial reporting and related internal controls. The study therefore expects audit committees' activity to become involved in financial reporting issues as soon as they arise, and to work on them relentlessly until they are fully resolved. If part of addressing financial reporting issues involves the need to restate financial statements, then the study expects audit committees to meet more frequently in order to address and resolve these issues promptly, such that they disclose the misstatement in a timely manner. Thus, more audit committee meetings during the misstatement discovery year should lead to timelier disclosure of a restatement. On the other hand, the audit committee might only play a symbolic role in legitimizing the organization.

6. FURTHER RESEARCH

This study focused on NSE-listed firms, but other companies in Kenya, such as government-owned corporations and small and medium-sized institutions, may have active Diversified Boards. Consequently, the researcher recommends conducting a similar study on other institutions not specified in the NSE for comparison and generalization of findings. The study analyzed gender diversity only as well as audit committee activities as a moderating variable. Such goals may not have completely represent entire board diversity, so potential researchers need to carry out a similar study with different other board diversity such as age variables.

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