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Moderating Role of Audit Committee Effectiveness on the Relationship between Board Gender Charateristic and Quality If Integrated Reporting Among Firms Listed In Nse

Beth Wambui Mwangi[1], Naomi Koske[2], Ronald Bonuke[3]

[1,2] Department of Accounting & Finance

[3]Department of Marketing and Logistics Moi University, Kenya

ABSTRACT: The Audit Committee is claimed to bolster the reliability and precision of financial statement data by managing risks and advocating for ethical conduct within businesses. Its duties include examining financial information, supervising internal audits and auditor impartiality, verifying data presented to the board and shareholders, and scrutinizing ethical matters. Therefore, integrating the Audit Committee into public Joint Stock Companies (JSCs) has the potential to yield benefits for both the organizations and their stakeholders. Firms need to facilitate collaboration between the board and the audit committee to ensure alignment on strategic goals, risk management priorities, and reporting objectives. They also need to leverage the diverse perspectives and expertise of board members, including gender-diverse members, to inform audit committee discussions and decisions. Encourage open dialogue and information sharing between the board and the audit committee to enhance transparency and accountability in the reporting process. By implementing these strategies, firms can leverage the gender diversity of board members and the effectiveness of the audit committee to improve the quality of integrated reporting, leading to better decision-making, enhanced stakeholder trust, and long-term sustainable growth.

KEYWORDS: Audit Committee Effectiveness, Gender Diversity, Quality Of Integrated Reporting

1. INTRODUCTION

Audit committees are important operating committees of a company's board of directors that is in charge of overseeing financial reporting and disclosure. It is worth noting that audit committees comprise members drawn from the board of directors. According to Carcello et al. (2011), like other members of the board of directors, audit committee members are appointed by shareholders but are usually not part of the corporation's management. The selection of non-executive board members to form audit committees provide an avenue through which these committees can effectively provide vital oversight of the corporation's financial reporting processes, internal controls and independent auditors. The audit committee is not only appointed by shareholders, but also reports to shareholders in the annual financial statements.

Numerous studies have demonstrated the positive influence of Audit Committee (AC) attributes on various types of disclosure, including CSR reporting (Mohammadi et al., 2021; Qaderi et al., 2020), corporate philanthropic donations (Umar et al., 2023), risk disclosure (Almunawwaroh & Setiawan, 2023), forward-looking disclosure (Al Lawati et al., 2021), and sustainability reporting practices (Arif et al., 2021; Pozzoli et al., 2022; Tumwebaze et al., 2022). However, earlier research analyzing the impact of individual AC attributes (such as size, independence, financial expertise, and meetings) on Integrated Reporting Quality (IRQ) has yielded inconsistent results. For instance, studies by Erin and Adegboye (2022) in South Africa and Raimo et al. (2020) across 125 international firms from 26 countries suggest that AC's size, meetings, and independence positively correlate with IRQ.

Conversely, other studies have found an insignificant relationship between AC's independence, financial expertise, and IRQ in South Africa (Ahmed, 2023; Ahmed Haji & Anifowose, 2016). Despite some research exploring the connection between AC effectiveness (ACE) and IRQ in South Africa (Ahmed Haji & Anifowose, 2016; Wang et al., 2020), none have specifically focused on the ACE-IRQ relationship in the Asian region, particularly in Malaysia. Given this gap, the relationship between ACE and IRQ remains an intriguing and unexplored area. Hence, our study aims to contribute to this ongoing discourse by investigating how ACE collectively influences IRQ.

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From the preceding literature, it is apparent that corporate variables play a critical role in determining the quality of integrated reports. However, while evaluating the role of these variables, it is also critical to consider the impact of audit committee effectiveness in the production of integrated reports. Various studies, including Raimo et al. (2021), have been initiated to investigate the moderating effect of audit committees on corporate governance variables and, by extension, IR processes. A sample of 125 international firms that published an integrated report in 2017 sourced from the IIRC website were leveraged (Raimo et al., 2021). From the findings of this study, it emerged that several attributes of audit committees including independence, and the level of activity, allow an increase in the quality of the integrated reports provided by the corporate entities. However, the findings in Raimo et al. (2021) concerning the moderating role of audit committee effectiveness in integrated reporting were not comprehensive considering that the study did not take into consideration the implication of other audit committee attributes such as the audit committee size, expertise, voluntary disclosure and responsibility.

The moderating effect of the effectiveness of Audit Committees on the quality of integrated reports was also the subject of investigation in Chariri & Januarti (2017). In this study, the researchers leveraged companies listed in the Johannesburg Stock Exchange in 2014 to collect data. In evaluating the findings, Chariri & Januarti (2017) used descriptive and inferential statistics to establish the moderating effect of Audit Committees on the quality of integrated reports. From this study, it emerged that audit committee with accounting/finance expertise positively affect the scope of integrated reporting. Moreover, Chariri & Januarti (2017) established that the frequency of audit committee meetings and the independence of audit committees have positive impacts on the quality of integrated reports.

Another study initiated to investigate the moderating effect of audit committees on the quality of integrated reports was initiated by Falatifah & Hermawan (2019). The purpose of this study was to examine the effect of IR disclosure on the cost of equity and the effect of the board of directors and audit committee effectiveness on the cost of equity through IR disclosure. In this study, the sample comprised international firms from more than 20 countries listed on The International Integrated Reporting Council (IIRC) network database from 2015-2017. By leveraging descriptive and inferential statistics, Falatifah & Hermawan (2019) concluded that there is no significant influence or direct relationship between the board of directors and audit committee on IR disclosure.

On the other hand, other members of the board of directors are tasked with the oversight of an entity's management operations. Members of audit committee must be non -executive and independent, while members of the board comprises of both executive and non-executive members as noted in Ben Barka & Legendre (2017). Moreover, Audit committee provides the directors with recommendations, for their review and approval, on the objectives, strategy, business plans and major policies that are to govern the operation of the company (Drogalas et al., 2016). It is also noteworthy that the Boards of directors mandate is specified on the board charter of a company while audit committee mandate is specifies on the audit committee charter (Böhm et al., 2016). Lastly most companies have a minimum audit committee members set at three with quorum being two while the overall size of the board varies from seven to twelve members according to majority of the quoted companies

In the present study, audit committee effectiveness will be leveraged as a moderating variable in determining the impact of board characteristics (specifically on board gender) on the quality of integrated reports produced by corporate entities. Listed firms in NSE are required to publish annual statements that present their financial situation and a corporate governance report that shows their governance level (García-Sánchez, Frías-Aceituno, & Rodríguez-Domínguez, 2013). Companies also voluntarily publish sustainability and social reports, which comprise their non-financial performance regarding social and environmental issues. The NSE is regulated by the Capital Markets Authority (CMA) whose function is overseeing the affairs of listed companies (NSE, 2015). It also enacts policies that affect the development of the stock Market. In the present study, firms listed in NSE will be leveraged as a target population in determining the impact of board characteristics on the quality of integrated reports produced by corporate entities.

The existing literature underscores the crucial role of corporate factors in shaping the quality of integrated reports. However, when assessing the influence of these factors, it is imperative to also consider the significance of audit committee effectiveness in the creation of integrated reports. Numerous investigations, such as the one conducted by Raimo et al. (2021), have been launched to explore how audit committees moderate the impact of corporate governance factors on integrated reporting processes. In this research, a sample comprising 125 global companies that released integrated reports in 2017, as gathered from the IIRC website, was utilized. The study revealed that certain attributes of audit committees, including independence and the extent of their involvement, contribute to an enhancement in the quality of integrated reports issued by corporate entities. However, the findings in Raimo et al. (2021) concerning the moderating role of audit committee effectiveness in integrated reporting were not comprehensive considering that the study did not take into consideration the implication of other audit committee attributes such as the audit committee size, expertise, voluntary disclosure and responsibility.

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The examination of how the effectiveness of Audit Committees moderates the quality of integrated reports was also explored in Chariri & Januarti (2017). This research utilized data from companies listed on the Johannesburg Stock Exchange in 2014. Chariri & Januarti (2017) employed descriptive and inferential statistics to assess the moderating impact of Audit Committees on integrated report quality. The study revealed that Audit Committees with expertise in accounting/finance contribute positively to the extent of integrated reporting.

Additionally, Chariri & Januarti (2017) found that both the frequency of audit committee meetings and the independence of audit committees have favorable effects on the quality of integrated reports. Another study initiated to investigate the moderating effect of audit committees on the quality of integrated reports was initiated by Falatifah & Hermawan (2019). The purpose of this study was to examine the effect of IR disclosure on the cost of equity and the effect of the board of directors and audit committee effectiveness on the cost of equity through IR disclosure. In this study, the sample comprised international firms from more than 20 countries listed on The International Integrated Reporting Council (IIRC) network database from 2015-2017. By leveraging descriptive and inferential statistics, Falatifah & Hermawan (2019) concluded that there is no significant influence or direct relationship between the board of directors and audit committee on IR disclosure.

The establishment of the Audit Committee (AC) was prompted by the need to enhance control and address the issue of information asymmetry in public Joint Stock Companies (JSCs) (Chiu et al., 2021). In most countries, there exists a legislative framework allowing publicly traded firms to autonomously select an Audit Committee. Consequently, the creation of the Audit Committee relies on decisions made by the Board of Directors and factors such as firm size, audit independence (Elad et al., 2017; Duc, 2019). The benefits derived from the oversight of the AC outweigh the costs associated with its maintenance.

The presence of a considerable number of shareholders serves as an encouragement for Audit Committee development (Tien, 2019). Furthermore, major auditing firms recommend companies establish an AC to aid in their audit processes, thereby enhancing reliability and transparency. These firms also provide guidance and support in the establishment and operation of the Audit Committee. Companies consistently evaluate the efficiency of the Audit Committee, with the qualifications, experience, and independence of Audit Committee members being crucial factors influencing its performance (Grange et al., 2021). Notably, the leadership style and problem-solving approach of the Audit Committee chairman significantly contribute to the Audit Committee effectiveness (Free et al., 2021). It is important to maintain the Audit Committee independence through regular evaluation and timely identification of potential concerns.

The Audit Committee is asserted to enhance the credibility and accuracy of financial statement information by mitigating risks and promoting adherence to business ethics. Its responsibilities encompass reviewing financial data, overseeing internal audit and auditor independence, validating information provided to the board and shareholders, and monitoring ethical considerations (PwC, 2018). Consequently, the incorporation of the Audit Committee in public Joint Stock Companies (JSCs) can deliver value to both the entities and their stakeholders (Grange et al., 2021).

The Audit Committee contributes to heightened operational efficiency, improved quality of financial statement information, the integration of reports and the audit of their quality (Erin and Adegboye, 2021). Additionally, the Audit Committee serves to mitigate risks associated with earnings management (Elkinawy et al., 2021). The competence of the Audit Committee is contingent upon factors such as the size and tenure of board members, the frequency of meetings, its internal structure, professional qualifications, and the level of ownership concentration (Al-Homaidi et al., 2021; Komal et al., 2021; Bédard and Paquette, 2021; Javeed et al., 2021).

2. PROBLEM STATEMENT

The aforementioned research indicates that the existing literature on the moderating impact of audit committee effectiveness on corporate variables and integrated reporting presents conflicting findings. This lack of consensus is likely due to the absence of a standardized audit committee effectiveness measure in previous studies, leading to inconclusive results. To address this gap, the current study aims to introduce an audit effectiveness index to assess the moderating role of audit committee effectiveness on integrated reporting quality and corporate variables such as board gender, which have been relatively overlooked.

However, to understand the moderating influence of audit committee effectiveness in integrated reporting, it is essential to differentiate between audit committees and boards of directors. Notably, audit committees consist of members selected from the board of directors and are sometimes referred to as supervisory committees. These committees are independent and typically elected by shareholders to safeguard their interests through corporate governance (Ben Barka & Legendre, 2017). One notable distinction between these entities relates to reporting. Essentially, audit committees are accountable to shareholders and typically report to them during annual general meetings to provide assurance regarding how their assets are managed.

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Vitolla et al. (2020) studied the impact of board characteristics on the quality of integrated reporting. From this study, it emerged that there is a positive relationship between the size, independence, diversity, and activity of a board with integrated reporting quality. The mixed results and the lack of consideration of the effectiveness of audit committees as one of the cooperate variables with an overriding impact on the quality of integrated reports provides gaps in extant literature. It is noteworthy that audit committees play a critical role in the financial reporting system of corporate entities. According to Agyei-Mensah (2019), the audit committee is usually tasked with overseeing and monitoring management's and the independent auditors' participation in the financial reporting process which are critical in the disclosure process. Essentially, the critical role of audit committee as depicted in the preceding discussion justifies its use as the moderating variable in the present study.

3. METHODOLOGY

Design: The study employed the use of panel analysis of firms listed in NSE between the periods 2013 - 2022. In establishing the relationship between board characteristics, audit committee effectiveness and the quality of integrated reports, the present study leveraged the quality of integrated reports as the dependent variable. Board characteristic such as board gender served as the independent variable whereas firm size and financial leverage were leveraged as the control variables. Lastly the study leveraged audit committee effectiveness as the moderating variable.

Model specification for the Analysis: A Hierarchical regression model was used to estimate the relationship between variables. Specifically, moderated hierarchical regression analysis was conducted to check for direct effects and interactions as indicated below. The foregoing example represents moderating effect of audit committee effectiveness on the relationship between board gender and the quality of integrated reporting.

$QIR_{it} = \beta_0 + \beta_1 FSIZE_{it} + \beta_2\ FLEV_{it} + \varepsilon_{it}$..M1

$QIR_{it} = \beta_0 + \beta_1 FSIZE_{it} + \beta_2\ FLEV_{it} + \beta_3 BG_{it} + \varepsilon_{it}$....................................M2

$QIR_{it} = \beta_0 + \beta_1 FSIZE_{it} + \beta_2\ FLEV_{it} + \beta_3 BG_{it} + \beta_4 ACE_{it} + +\varepsilon_{it}$.....................M3

$QIR_{it} = \beta_0 + \beta_1 FSIZE_{it} + \beta_2\ FLEV_{it} + \beta_3 BG_{it} + \beta_4 ACE_{it} + +\beta_5 ACE * BG_{it} + \varepsilon_{it}$.M4

Where: QIR= Quality integrated reporting, FSIZE = Firm size, FLEV = Financial leverage, BG=Board gender, ACE= Audit committee effectiveness index, $\beta_{0....}\ \beta_5$ = Coefficients of the equations, the interaction term $ACE * BG_{it}$, defines moderating role of ACE. i = the cross-sectional units or the ith entity, t= the time period (2013 to 2020) and Ɛ= Error term. Model M1 tests the effects of control variables; M2 and M3 test direct effects of board gender and audit committee effectiveness on QIR. M4 is the model for moderation.

4. RESULTS AND DISCUSSIONS

Figure 1 indicates firms in automobile and accessories had the highest quality of integrated reporting at 84.50 percent. Majority had over 80.00 percent except telecommunication at 79.6%. Integrated reports improve the quality of information released by an entity by providing a comprehensive picture of the entity's value generation operations. Furthermore, the broadcasting of financial and non-financial information should be merged in a single document to indicate a cohesive and integrated strategy to managing varied types of capital in order to provide an acceptable return for capital providers (IIRC, 2021).

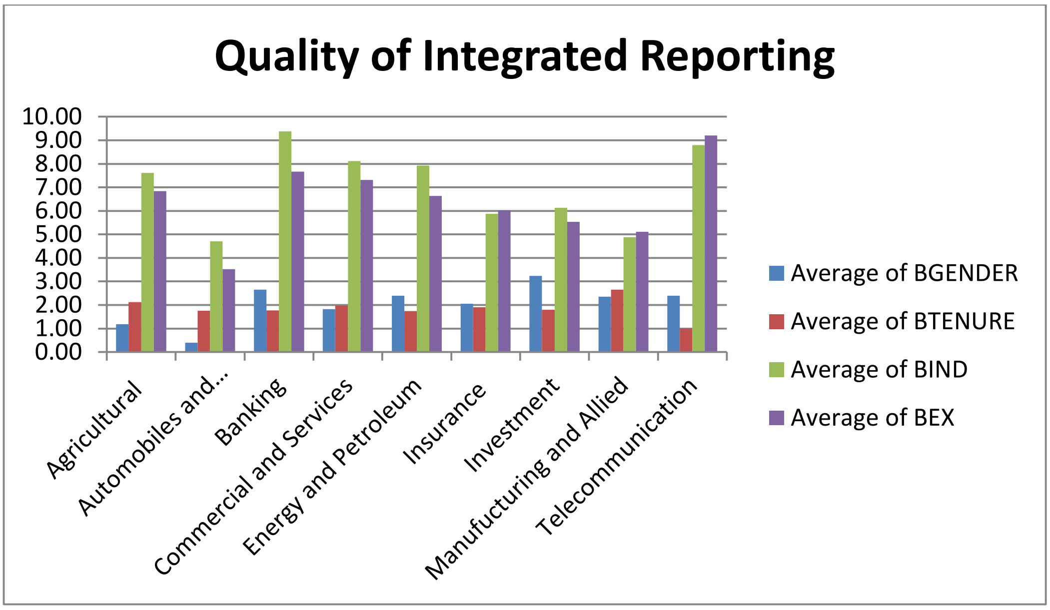

Figure 1: Quality of Integrated Reporting Per Sector of Firms Listed in NSE

Source: Research Data Analysis, 2023

The Integrated Reporting Framework is a guideline for businesses on how to correctly construct an integrated report. The framework's postulates greatly eliminate the flaws of traditional reporting, notably in terms of improving communication with stakeholders. The development and presentation of integrated reports is based on seven principles: strategic emphasis and future direction, information connection, stakeholder interactions, materiality, conciseness, reliability and completeness, and consistency and comparability.

The relationship between board characteristics and the quality of integrated reporting involves various factors. The significant effect of board gender on quality of integrated reporting implies gender diversity brings a variety of perspectives to the boardroom. This diversity can lead to more comprehensive discussions about the organization's performance, risks, opportunities, and stakeholder impacts, which are essential components of integrated reporting. Research suggests that diverse groups tend to make better decisions. Boards with a mix of genders are likely to engage in more thorough deliberations, leading to better-informed decisions about the content and presentation of integrated reports.

Table 1 presents the finding and indicates the relationship between board gender characteristic and quality of integrated reporting can be moderated by how effective the audit committee is.

Table 1: Hierarchical Regression for Moderation of Audit Committee Effectiveness

Model	**M1**		**M2**		**M3**		**M4**	
Variable	**Coef. (p-value)**		**Coef. (p-value)**		**Coef. (p-value)**		**Coef. (p-value)**	
Constant	.127	(.607)	-.110	(.573)	-.338	(.088)	.050	(.562)
FSIZE	.014	(.165)	.0.006	(.487)	.003	(.741)	.005	(.132)
LEV.	.002	(.209)	.000	(.971)	-.001	(.611)	.001	(.231)
BG	-		.973	(.000)***	1.001	(.000)***	-.132	(.004)**
ACE	-		-		.519	(.000)***	-.150	(.022)**
ACE*BG	-		-		-		4.087	(.000)***
R-square	.003		.401		.396		.881	
Chi2	2.66		196.89		223.0		2348.96	
P>Chi2	.264		.000		.000		.000	

**** p<.01, ** p<.05, * p<.1*

Figure 2 suggests that audit committee effectiveness moderates the association between board gender and the quality of integrated reporting, showing that the impact of board gender on reporting quality varies depending on the audit committee's effectiveness. The figure implies that the relationship between board gender and the quality of integrated reporting is not consistent across all levels of audit committee effectiveness. In other words, the presence of a gender-diverse board (BG) has a different effect on integrated reporting quality depending on how effective the audit committee (ACE) is. This interaction effect could mean that gender diversity on the board has a more pronounced impact on reporting quality when the audit committee is highly effective and a less significant impact when the audit committee is less effective.

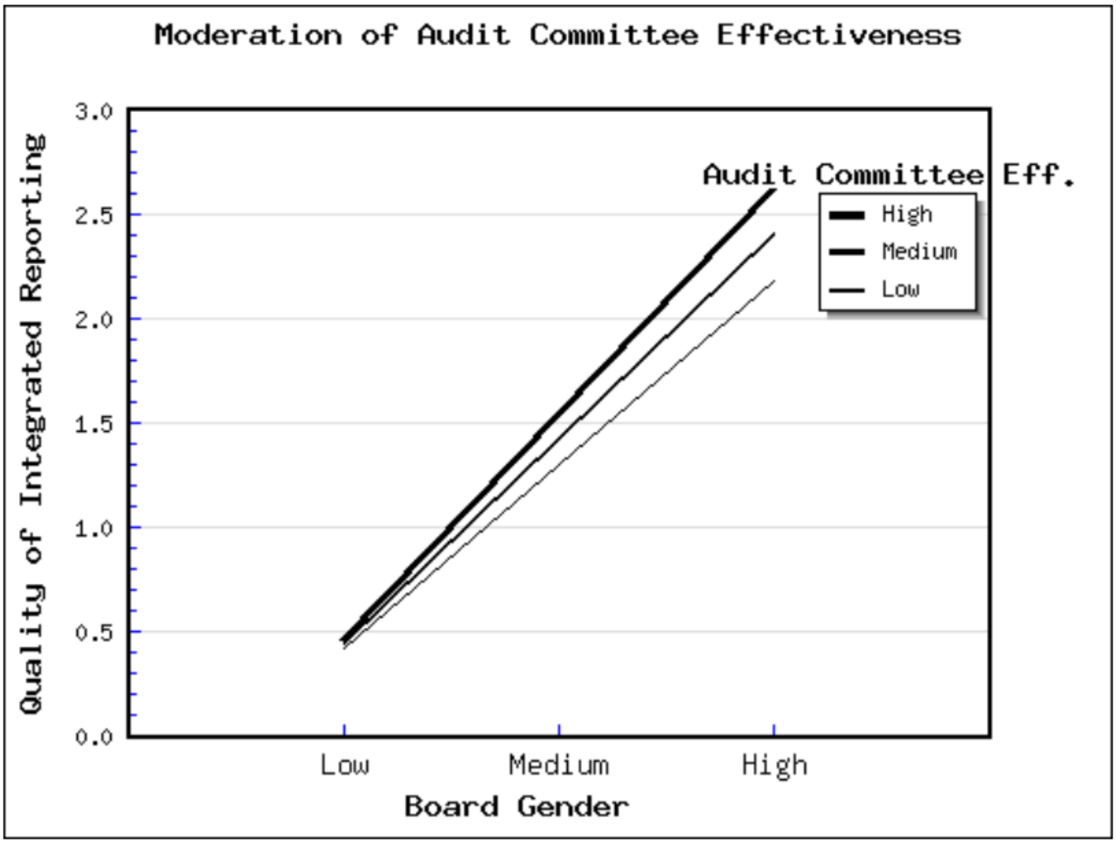

Figure 2: Moderation of ACE on the Relationship between BG and QIR
Source: Research Data Analysis, 2023

Integrated reporting aims to provide a holistic view of an organization's value creation process which involves considering the interests of various stakeholders. Gender-diverse boards may be more attuned to the diverse needs and expectations of stakeholders, leading to more accurate and relevant reporting. Gender-diverse boards may be more effective at identifying and addressing risks related to gender equality, workplace diversity, and inclusion. Integrated reporting requires organizations to disclose their approach to risk management comprehensively, and a gender-diverse board can contribute to a more robust risk assessment process. Gender diversity fosters an environment conducive to innovation and creativity. Boards with diverse perspectives are more likely to encourage innovative approaches to reporting, leading to the development of more engaging and informative integrated reports. Organizations with gender-diverse boards may be perceived as more progressive and socially responsible. High-quality integrated reporting that reflects a commitment to diversity and inclusion can enhance the organization's reputation and build trust with stakeholders.

5. CONCLUSIONS

Overall, gender diversity on boards can positively influence the quality of integrated reporting by promoting more comprehensive discussions, enhancing decision-making processes, ensuring stakeholder representation, improving risk management practices, fostering innovation, and enhancing the organization's reputation and trustworthiness

The audit committee plays a crucial role in overseeing financial reporting and disclosure processes, including integrated reporting. The audit committee can contribute to the effectiveness of integrated reporting by ensuring that the board has the necessary competencies. This may involve providing training to board members on integrated reporting concepts, industry best practices, and relevant regulatory requirements.

Integrated reporting should reflect a comprehensive view of the organization's risks and opportunities. The audit committee can play a role in overseeing the board's approach to risk management and ensuring that these considerations are adequately addressed in the integrated report. Implementing quality assurance processes for integrated reporting is essential. The audit committee can work with internal and external auditors to review the integrated report and assess the reliability and accuracy of the information presented. The audit committee should encourage transparent communication between the board and stakeholders. This involves ensuring that the integrated report provides a clear and accurate representation of the company's performance, risks, and future prospects. The audit committee facilitates the board's engagement with key stakeholders to understand their expectations and concerns regarding integrated reporting. This can help ensure that the report is aligned with stakeholder interests and provides meaningful information.

6. RECOMMENDATIONS

Based on the findings, the research recommends that firms listed in NSE should;

i. Promote gender diversity by actively recruit qualified women to serve on the board of directors to increase gender diversity.
ii. Implement policies and practices to ensure equal opportunities for men and women in board nominations and appointments.
iii. Ensure that the audit committee is composed of independent and knowledgeable members with relevant expertise in financial reporting, auditing, and governance.
iv. Provide ongoing training and education to audit committee members to keep them abreast of regulatory changes and best practices in auditing and financial reporting.
v. Regularly evaluate the performance of the audit committee and implement improvements as needed to enhance its effectiveness.
vi. Incorporate gender-related metrics and considerations into the audit committee's oversight of financial reporting, risk management, and compliance processes.
vii. Foster a culture of diversity and inclusion within the audit committee to ensure all voices are heard and perspectives are considered in decision-making processes.

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