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Effect of audit committee independence on the financial performance of insurance firms in Kenya

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ABSTRACT

The aim of this study was to examine the effect of audit committee independence (ACI) on the financial performance of insurance firms in Kenya. The study analyzed data from the 55 insurance firms licensed by the Insurance Regularity Authority (IRA) in Kenya. ACI was operationalized by the number of independent directors serving in the boards of insurance firms operating in Kenya. Primary data was collected from a sample of 412 board directors, Chief Executive Officers (CEOs), Chief Finance Officers (CFOs), Audit Committee members (AUDIND) and Internal Auditors (INAUD) using a questionnaire instrument while secondary data was retrieved from audited financial reports of year 2017. Data was analyzed using descriptive and inferential statistics. Firm performance was measured by the two accounting-based measures Return on Assets (ROA) and Return on Equity (ROE). The findings from the regression analysis indicate that audit committee independence significantly and positively affects the financial performance of insurance firms in Kenya.

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Introduction

Corporate governance has become a major subject of discussion for researchers, policy makers and private sector leaders alike because of the critical role it plays in the management of both public and corporate affairs (Foo & Witkowska, 2011; Momoh and Ukpong (2013). The discipline became popular after the 1970s following the integration of global markets (Malik & Makhdoom, 2016). The development of international standards and the growing global debate on the subject is clear evidence of the importance of corporate governance (Sookram, 2016). The unexpected collapse of some of the most respected firms such as Enron and WorldCom in 2001 (Davies & Schlitzer, 2008) and the 2008-2009 global financial crisis that saw corporate failures on an unprecedented scale rekindled the need and impetus for strengthening governance structures (Foo & Witkowska, 2011).

According to Okeahalam (2004), a significant number of firm failures have been blamed on the lack of timely disclosure and effective corporate governance. A number of sources (Okeahalam, 2004; Luhman & Cunliffe, 2013; Price, Roman & Rountree, 2010; Braga-Alves & Shastri, 2011) explain the critical role good corporate governance plays in the improvement of firm financial performance, creating an enabling investment environment and thus protecting investor and stakeholder rights and encouraging overall economic development. In majority of developing countries, financial malpractice in many firms has increasingly necessitated the need for improved corporate governance practices (Baydoun, Maguire, Ryan & Willet, 2013).

The independence of the board and its activities from influence is seen as a key pillar of, good corporate governance practice (Fama & Jensen, 1983; Heenetigala & Armstrong, 2011; Fadun, 2013). As a result, most corporate governance guidelines in the world today extol the independence virtue, among them the OECD principles of corporate governance, the King Code of South Africa, the UK corporate governance code and Kenya's code of governance for state corporations (Mwongozo). The Corporate Governance Guideline (CCG) of Kenya's insurance industry regulator (Insurance Regulatory Authority [IRA CGG], 2011) outlines the constitution and the function of the audit committee of the board for insurers in Kenya. The code specifies the composition of the

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audit committee and gives special mention to the Chair of the committee as an independent director. Key among the functions of the audit committee as outlined by this guideline is oversight over the internal and external audit functions. The guideline also limits any influence the CEO may have on the audit function (see pages 9-10). This underlines the importance that the Kenyan insurance regulator attaches to the independence of the audit committee of the board. This is consistent with the expectations of both King III (2009) and King IV (2016) of South Africa, which in fact, require the entire audit committee of the board to be made up of "suitably skilled and experienced independent non-executive directors" (King III, 2009, p.31). Empirical findings support this view as well. For instance, Heenetigala and Armstrong (2011) argued that audit committees should be independent and carry out their responsibilities with due professional care and hence when there are financial manipulation cases, the audit committee should be held accountable for it, thus the need for full transparency of financial information to enable minimization of information asymmetry.

Though consistent with the agency theory and works as an additional control mechanism that ensures that the shareholders' interests are being safeguarded, the role of the audit committee equally serves the wider stakeholders. For instance, M.Z. Islam, M.N. Islam and A.K.M.Z. Islam (2010) recognize an independent audit committee as one of the most important mechanisms for preventing both agency problems and failure of other corporate governance instruments. They conclude that the result of an effective independent audit committee mechanism serves "to satisfy the need of both internal and external users of financial statements" (p.185). Aanu, Odianonsen and Foyeke (2014) argue for the importance of the governance role played by the audit committee in protecting the interests of both shareholders and other stakeholders. Wang (2017) also report a positive relationship between audit committee reporting and long-term stakeholder sustainability management.

Literature Review

Independence is the main attribute of any audit committee as earlier asserted by Fama and Jensen (1983) who suggested that the independence of a non-executive director is a crucial quality that contributes to the effectiveness of audit committee monitoring function. In the context of the stakeholder theory, this attribute is an essential quality of the audit committee which enables it to effectively perform its oversight role. A significant amount of empirical work has been undertaken in the context of audit committee independence and its impact on the financial sector. The role of a firm's audit committee in the enforcement of corporate governance principles, thus enhancing firm value cannot be gainsaid.

A study by Y. A. Al-Matari, Al-Swidi, Bt Fadzil and E. Al-Matari (2012) examined the relationship between the internal corporate governance mechanism related to the board of directors, the audit committee characteristics and the performance of the Saudi companies listed in the Saudi Stock Exchange (SSE) in 2010. Firstly, the study found that the results were not consistent with the expectations from the agency theory that board of directors and audit committee might mitigate agency problems leading to reduced agency cost by aligning the interests of controlling owners with those of the company.

Regarding audit committee independence, the results found a positive but statistically insignificant relationship to firm performance as measured by ROA and ROE. Fadun (2013) examined the relationship between corporate governance and performance of insurance firms in Nigeria using data derived from five consecutive years (2006 to 2010) for 10 insurance firms listed on the Nigerian Stock Exchange. The corporate governance mechanisms investigated in this study were board size, CEO duality, audit committee, dividend policy and annual general meeting. Performance measured using ROA. The study found a significant and positive relationship between audit committee independence and firm performance, implying that firm performance is enhanced through robust implementation of the audit function.

The work of Aanu et al., (2014) on the influence of audit committee effectiveness on firm performance found that there was a positive significant relationship between independence and financial expertise of the audit committee and ROA and ROE. Al-Matari, Al-Swidi and Bt Fadzil (2014) examined the relationship between audit committee characteristics such as committee size, independence and meetings, among other, on the performance of firms listed in the Muscat Security Market (MSM). In these authors' view, there is a surprisingly insignificant relationship between audit committee independence and ROA. This is nonetheless consistent with previous studies such as Al-Matari et al., (2012) that had found no association between audit committee independence and ROA in developing countries. These authors contend that the insignificant result of audit committee independence would imply that it could be plausible to appoint individuals with technical expertise and experience in order to guarantee value creation.

In a study that explored the influence of audit committee effectiveness on firm performance of 25 manufacturing firms in Nigeria which focused on the variables of independence, financial expertise, size and meetings of audit committee, Aanu et al., (2014) found a significant positive relationship between independence and financial expertise and firm performance measured on ROA, ROE and return on capital employed (ROCE). However, committee size and number of meetings showed no significant relationship with the performance measures. Ebere, Ibanichuka and Ogbonna (2016) examined audit committee and financial performance of quoted insurance companies in Nigeria (2008-2014).

The objective of the study was to determine the extent to which audit committee characteristics affect ROA and ROE of the listed companies using data from ten listed insurance firms in Nigeria Stock Exchange. The results from regression analysis indicated that while audit committee size does not affect ROA and ROE, there was a statistically significant relationship between committee independence and firm performance using ROA and ROE.

Glover-Akpey and Azembila (2016) investigated the effect of audit committees on the performance of firms listed on the Ghana Stock Exchange (GSE). The characteristics of audit committee examined in the study were the number of meetings, financial expertise and number of independent members of the audit committee. The study findings indicated that more independent directors in the audit committee negatively influenced firm performance. It concluded that corporate governance debate should change focus from independence of the committee to issues related to membership experience and financial literacy of the members.

H0: For the purpose of this study, it was postulated that audit committee independence has no statistically significant effect on the performance of insurance firms in Kenya.

Research and Methodology

The study used correlational research design and covered all the 55 insurance (52) and reinsurance (3) firms licensed by Kenya insurance industry regulator (IRA) in the years 2017 and 2018. The subject of the study were 645 board members, audit committee members, CEOs, CFOs and internal auditors distributed as follows:

Table 1: Population and Sample Distribution

	Category of Respondents	Population	Sample
1	Board of directors	369	186
2	Audit committee	111	61
3	CEOs	55	55
4	CFOs	55	55
5	Internal auditors	55	55
TOTAL		**645**	**412**

A statistical sample of board of directors and audit committee was derived using the model $n = (Z_{0.25} * \sigma / \xi)^2$ where, n is the sample size, ξ is the margin error (equal to half the confidence interval width) of 0.25 for board of directors and the audit committee members, and σ is the standard deviation of the number of board of directors and audit committee members. For the remaining three categories, a census was done given that the companies have one each. The primary data was collected using a questionnaire instrument with a five-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The secondary data for the population of the study and the audited financial reports for year 2017 were acquired from the databases of IRA and the Association of Kenya Insurers (AKI). The data collection instruments were subjected to pilot testing for reliability using Crobach's Alpha and for validity using KMO and Bartlett's Test of Sphericity.

The data was analyzed using descriptive and inferential statistics. For descriptive analysis, frequency distribution, percentage, means and standard deviation were computed. For inferential analysis, factor analysis, correlations, chi-square, analysis of variance and regression analysis were done. As a prerequisite analysis for regression tests, tests for normality, multicollinearity test, test for heteroskedasticity and test for homoskedasticity were carried out.

Result and Discussion

The study sought to investigate the effect of Audit Committee Independence (AUDIND) on the performance of insurance firms in Kenya. This section presents the findings of the study under the audit committee independence variable.

Percentage Distribution for Audit Committee Independence

Table 2 presents frequency and percentage distribution of respondents' views on the relationship between audit committee independence and firm performance.

From the results, 68% of the respondents opine that the proportion of independent directors in the audit committee positively affects the performance of insurance firms in Kenya, while 29.1% were against (19.2%) or uncertain (9.9%). On the question of whether more independent directors in the audit committee leads to better firm performance, 82.9% of the respondents were positive while 15.6% were either against or uncertain (11.4%). Meanwhile, 87.7% of the respondents were positive that more independent directors in the audit committee improve corporate transparency. On the reliability of corporate disclosures, 74.5% of the respondents support that more independent directors in the audit committee ensures better/reliable corporate disclosure, while 24.3% were against (13.8%) or uncertain (10.5%) about the assertion. Further, 75.7% of the respondents agreed or strongly agreed that more independent directors in the audit committee improves quality/clarity of financial reports, as opposed to 21.6% who are either against (8.7%) or uncertain (12.9%). On the aspect of more independent directors on board effectiveness, 80.5% of the respondents agreed or strongly agreed.

Table 2: Frequency and Percentage Distribution for AUDIND

	Strongly Disagree	**Disagree**	**Uncertain**	**Agree**	**Strongly Agree**	**Missing**
The proportion (%) of independent directors in the audit committee positively affects the performance of insurance firms in Kenya	3.6%	15.6%	9.9%	51.5%	16.5%	3.0%
The more independent directors in the audit committee the better firm performance	2.1%	2.1%	11.4%	52.1%	30.8%	1.5%
More independent directors in the audit committee improves corporate transparency	0.9%	0.6%	8.4%	37.1%	50.6%	2.4%
More independent directors in the audit committee ensures better/reliable corporate disclosure	11.1%	2.4%	10.5%	33.2%	41.3%	1.5%
More independent directors in the audit committee improves quality/clarity of financial reports	2.4%	6.3%	12.9%	39.5%	36.2%	2.7%
More independent directors in the audit committee improves the effectiveness of the board	2.1%	3.0%	12.6%	53.0%	27.5%	1.8%
Audit committee should always be chaired by an independent non-executive director	3.0%	6.0%	9.0%	35.0%	44.0%	3.0%
More independent directors in the audit committee improves the internal audit process	0.9%	4.8%	7.5%	48.8%	36.5%	1.5%
More independent directors in the audit committee protects non-shareholder stakeholders	2.1%	6.0%	10.2%	38.3%	41.9%	1.5%

The study also found that 79% of the respondents support that audit committee should always be chaired by an independent non-executive director, while 85.3% confirm that more independent directors in the audit committee improves the internal audit process. Finally, 80.2% of the respondents are of the opinion that more independent directors in the audit committee protects non-shareholder stakeholders. Overall, 79% of all the respondents were of the view that more independent directors in the board improves board performance which, in turn, leads to improved firm performance.

Descriptive Statistics for Audit Committee Independence

In the last section, the study confirmed the results of the percentage distributions of audit committee independence. In this section, it reveals the descriptive statistics for audit committee independence in terms of mean, mode, median and standard deviation. The result is presented in Table 3.

Table 3: Descriptive Statistics for Audit Committee Independence

	N Valid	N Missing	Mean	Median	Mode	Std. Deviation
The proportion (%) of independent directors in the audit committee positively affects the performance of insurance firms in Kenya	334	0	3.53	4.00	4	1.212
The more independent directors in the audit committee the better firm performance	334	0	4.03	4.00	4	.967
More independent directors in the audit committee improves corporate transparency	334	0	4.29	5.00	5	.999
More independent directors in the audit committee ensures better/reliable corporate disclosure	334	0	3.87	4.00	5	1.356
More independent directors in the audit committee improves quality/clarity of financial reports	333	1	3.94	4.00	4	1.160
More independent directors in the audit committee improves the effectiveness of the board	334	0	3.96	4.00	4	.999
Audit committee should always be chaired by an independent non-executive director	334	0	4.02	4.00	5	1.234
More independent directors in the audit committee improves the internal audit process	334	0	4.11	4.00	4	.971
More independent directors in the audit committee protects non-shareholder stakeholders	334	0	4.07	4.00	5	1.089

Table 3 above shows that the mean ranged from 3.53 to 4.29. The median of the study is 4.00 while the mode is 4. The standard deviation ranged from 0.967 to 1.356. This means that there was a relatively small dispersion between the opinions of the respondents on the statement that the more independent directors in the audit committee the better firm performance.

Cross-Tabulation between Demographic Information and AUDIND

Table 4 presents a cross-tabulation data between level of education and audit committee independence. The results show that 79.2% of the respondents with bachelor's degree are positive that the more independent directors in the audit committee the better firm performance, a finding supported by 81.4% of master's degree holders, 93.8% of PhD holders and 72.2% of holders of other professional qualifications. Notably, 28.8% of the respondents who hold other professional qualifications were uncertain about whether more independent directors in the audit committee leads to better firm performance.

Table 4: Cross-Tabulation between Education and AUDIND

		The more independent directors in the audit committee the better firm performance						Total
		Missing	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree	
Highest level of Education	Bachelor's degree	3	3	2	3	20	22	53
		5.7%	5.7%	3.8%	5.7%	37.7%	41.5%	100.0%
	Master's degree	2	4	5	26	110	52	199
		1.0%	2.0%	2.5%	13.1%	55.3%	26.1%	100.0%
	PhD	0	0	0	4	35	25	64
		0.0%	0.0%	0.0%	6.3%	54.7%	39.1%	100.0%
	Any Other	0	0	0	5	9	4	18
		0.0%	0.0%	0.0%	27.8%	50.0%	22.2%	100.0%
Total		5	7	7	38	174	103	334
		1.5%	2.1%	2.1%	11.4%	52.1%	30.8%	100.0%

Overall, 83% of all respondents were positive (agreed/strongly agreed) about statement that 'The more independent directors in the audit committee the better firm performance', implying that more independent directors in the audit committee leads to better financial performance of insurance firms in Kenya.

Factor Analysis (EFA) for Audit Committee Independence

Table 5 below illustrates the suitability of the data for running factor analysis on the effect of audit committee independence on firm performance using the KMO test and Bartlett's test of sphericity that tests for sampling adequacy. The study showed KMO statistics value of 0.881 and a Barlett's test of sphericity of p-value of 0.000 < 0.01.

Table 5: KMO and Bartlett's Test for Audit Committee Independence

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.881
Bartlett's Test of Sphericity	Approx. Chi-Square	1456.091
	df	36
	Sig.	.000

Table 6 shows the loading for the measurement model with coefficients ranging between 0.680 and 0 .869, indicating that the variables are almost perfectly related to factor pattern and clear factor structure with an acceptable level of cross loadings.

Table 6: Component Matrix for Audit Committee Independence

	Component	
The proportion (%) of independent directors in the audit committee positively affects the performance of insurance firms in Kenya	.869	2
The more independent directors in the audit committee the better firm performance	.728	1
More independent directors in the audit committee improves corporate transparency	.803	1
More independent directors in the audit committee ensures better/reliable corporate disclosure	.755	1
More independent directors in the audit committee improves quality/clarity of financial reports	.839	1
More independent directors in the audit committee improves the effectiveness of the board	.775	1
Audit committee should always be chaired by an independent non-executive director	.694	1
More independent directors in the audit committee improves the internal audit process	.680	1
More independent directors in the audit committee protects non-shareholder stakeholders	.777	1
Extraction Method: Principal Component Analysis.		
a. 2 components extracted.		

Chi-Square Test for AUDIND and Firm Performance

In this section, the chi-square test of independence shows evidence of the relationship between audit committee independence and firm performance. The results in Table 7 confirms that firm performance is dependent on audit committee independence as it proves that the p-value is less than 0.05. The null hypothesis that audit committee independence and firm performance are independent is rejected.

Table 7: Chi-Square Test for AUDIND and Firm Performance

Chi-Square Tests			
	Value	**df**	**Asymp. Sig. (2-sided)**
Pearson Chi-Square	24.696[a]	15	.024
Likelihood Ratio	28.195	15	.020
Linear-by-Linear Association	.659	1	.417
N of Valid Cases	334		
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 22.			

One-Way ANOVA on AUDIND and Firm Performance

Table 8 shows that audit committee independence has a significant mean score difference with firm performance $F(26, 307) = 6.144, p = 0.000 < 0.05$.

Table 8: One-Way ANOVA for AUDIND and Firm Performance

ANOVA					
Audit Committee Independence					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	67.474	26	2.595	6.144	.000
Within Groups	129.682	307	.422		
Total	197.156	333			

Correlations between AUDIND and Firm Performance

In this section, the study assesses the significance of the relationship between firm performance and audit committee independence. From the results in Table 9, it is clear that audit committee independence has a statistically significant effect on firm performance. It shows that audit committee independence correlates with firm performance (r= 0.468**, p< 0.01, N= 334). This finding implies that audit committee independence significantly enhances the performance of insurance firms in Kenya.

Table 9: Correlations between AUDIND and Firm Performance

Correlations			
		Firm Performance	Audit Committee Independence
Firm Performance	Pearson Correlation	1	.468**
	Sig. (2-tailed)		.000
	N	334	334
Audit Committee Independence	Pearson Correlation	.468**	1
	Sig. (2-tailed)	.000	
	N	334	334
****. Correlation is significant at the 0.01 level (2-tailed).**			

Regression Analysis, Hypotheses Testing for AUDIND and Firm Performance

Regression Analysis

The R^2 of the model was 0.219 as presented in Table 10. This means that 21.9 percent of the variation in the performance in insurance companies in Kenya is explained by the number of independent audit committee members in the board. The results indicate that the calculated F-Statistic is $F(1, 332) = 93.097, p = 0.000 < 0.05$. A unit increase in the number of independent audit committee members causes an increase of 0.016 in firm performance. The study indicates that audit committee independence positively and significantly improves the performance of insurance firms in Kenya.

Table 10: Regression Analysis for Audit Committee Independence

Variables	**B**	**Std. Error**	**t**	**Sig.**
(Constant)	3.537	.006	561.695	.000
The proportion (%) of independent directors in the audit committee positively affects the performance of insurance firms in Kenya	.009	.001	8.592	.000
The more independent directors in the audit committee the better firm performance	-.004	.002	-2.423	.016
More independent directors in the audit committee improves corporate transparency	.002	.002	.934	.351
More independent directors in the audit committee ensures better/reliable corporate disclosure	.008	.001	6.438	.000
More independent directors in the audit committee improves quality/clarity of financial reports	-.005	.002	-2.946	.003
More independent directors in the audit committee improves the effectiveness of the board	.001	.002	.907	.365
Audit committee should always be chaired by an independent non-executive director	.001	.001	.817	.414
More independent directors in the audit committee improves the internal audit process	-.001	.002	-.400	.689
More independent directors in the audit committee protects non-shareholder stakeholders	.006	.001	4.068	.000
Audit Committee Independence	*0.016*	*0.002*	*9.649*	*.000*
F statistics (p value)	93.097(0.000)			
R squared	0.219			
Dependent Variable: Firm Performance				

Hypothesis Testing for Audit Committee Independence

The hypothesis was tested at 95% confidence level based on the results of the linear regression model whose results were presented in Table 10. The requirement for this study was to reject the null hypothesis if the calculated p-value was greater than the critical p-value of 0.05. The null hypothesis stated that audit committee independence does not significantly affect the performance of insurance in Kenya. The calculated p-value was found to be less than the critical p-value of 0.05. This led to the rejection of the null hypothesis, and the conclusion made that audit committee independence significantly affects firm performance.

The objective of this study was to examine the effect of audit committee independence on the performance of insurance firms in Kenya. The study found that audit committee independence significantly influences firm performance in Kenya. This variable was analyzed in terms of proportion of independent directors, firm performance, corporate transparency, corporate disclosure, clarity of financial reports, board effectiveness, non-executive director, internal audit process, and protection of non-shareholder stakeholders. The mean for parameters of audit committee independence ranged from 3.53 to 4.29. The study also reveals that the standard deviation ranged from 0.967 to 1.356, which means that the variables were highly dispersed. Furthermore, the findings from the One-way ANOVA reveals that there is a statistically significant mean score difference between audit committee independence and firm performance with a p-value of 0.000, which is significant at 0.01. The audit committee independence caused 21.9 percent variation in firm performance, (R^2=0.219). The linear regression analysis shows that audit committee independence significantly predicts firm performance $\beta = 0.624$, $t(334) = 9.649$, $p<0.000$.

Discussions

This study found that audit committee independence is significant in enhancing organizational performance. It reveals that the proportion of independent directors in the audit committee positively and significantly affects the performance of insurance firms in Kenya. This finding supports that of Al-Matari et al., (2012) who examined the relationship of the internal corporate governance mechanism in relation to the board of directors, the audit committee characteristics and firm performance and found a positive but statistically insignificant relationship with firm performance measured by ROA and ROE. Fadun (2013), on the other hand, examined the relationship between corporate governance and performance of insurance firms and confirmed the findings of Al-Matari et al., (2012) that there exist a positive and significant relationship between audit committee independence and firm performance, implying that firm performance is enhanced through robust implementation of the audit function.

Further, the current study is contrary to Aanu et al., (2014) who explored the influence of audit committee effectiveness on firm performance of 25 manufacturing firms in Nigeria and found that committee size and number of meetings showed no significant relationship with the performance. Similarly, the finding of current study contradicts that of Glover-Akpey and Azembila (2016) who investigated the effect of audit committees on the performance of firms using the number of meetings, financial expertise and number of independent members of the audit committee and found that there is a statistically significant but negative relationship between independent members of the audit committee with the firm performance.

The current study examined whether more independent directors in the audit committee improves the effectiveness of the board and found that there is a positive but insignificant relationship between the size of the independent board members in the audit committee and the effectiveness of the board. This finding differed from Aanu et al., (2014) who found that there was positive significant relationship between independence and financial expertise of the audit committee and ROA and ROE. Contrary, Fama and Jensen (1983) in their study found that the independence of a non-executive director is a crucial quality that contributes to the effectiveness of audit committee monitoring function.

The AUDIND variable also assessed the effect of more independent directors in the audit committee improves the reliability corporate disclosure. The study found that more independent directors in audit committee positively and significantly affects reliability corporate disclosure. This finding is consistent with Ebere et al., (2016) who examined audit committee and financial performance of quoted insurance companies in Nigeria and found a statistically significant relationship between audit committee independence and firm performance in terms of return on assets (ROA) and return on equity (ROE). E.M. Al-Matari et al., (2014) examined the relationship between audit committee characteristics, such as independence, on the performance of firms listed in the Muscat Security Market and found insignificant relationship between audit committee independence and ROA.

Finally, the study examined the effect of more independent directors in the audit committee and how that affects the quality and clarity of financial reports. The findings revealed a negative and significant relationship between the two variables. This finding is inconsistent with the finding of Fama and Jensen (1983) who found that audit committee independence is an essential quality of the audit committee which enables it to effectively perform its oversight role.

Conclusions

The study examined the effect of audit committee independence on the performance of insurance firms in Kenya and concluded that independence of the audit committee has a positive and significant effect on firm performance. It established that independent directors protect the interests of shareholders and other stakeholders. Hence, the research concludes that more independent directors in the audit committee is healthy for the better performance of insurance firms in Kenya.

The study recommends that insurance companies should be keen on the proportion of independent directors in the audit committee since it was established that more independent directors in the audit committee enhances firm performance. Firm performance is also enhanced by being more transparent, reliable and effective in ensuring that quality and clarity of financial reports are achieved.

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