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Effect of Audit Committee Characteristics on the Financial Performance of Deposit Taking SACCOs in Kenya

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Abstract:
This study sought to assess the effect of Audit committee characteristics on the financial performance of deposit taking SACCOs in Western Kenya. The study was anchored on Economic Value Added, Agency. Primary and secondary data was collected and analyzed using correlational research design. Purposive sampling was used to select respondents from the population and the sample size was 120 respondents drawn from the SACCO's top management. The study employed census survey technique with the response rate at 93%. Pre-validated questionnaires had a reliability alpha of α = 0.874 audit committee characteristics and α = 0.873 financial performance internal consistency. Results revealed $R^2 = .651, p = .000$ *indicating that audit committee characteristics accounted for 65.1% variance in financial performance and has a strong effect on financial performance. The study recommends that SACCOs should prioritize the implementation of internal control systems and improve the audit committee's effectiveness with focus on independence and expertise.*

Keywords: *Audit committee, financial performance*

1. Introduction

The collapse of major global Corporations such as Enron, Tyco and WorldCom, among others, affected the confidence of investors on the credibility of the financial statements. Venkataraman et al, (2013) notes that in order to rebuild the investor confidence on the financial health and credibility of the financial statement of companies, there is a need to establish audit committee to oversee the financial reporting process, internal control structures within the company. In an effort to reduce chances of financial scandals and corporate failures, there has been an increasing need to establish audit committee with requisite characteristics. Audit committee plays a key role of protecting the shareholders interest in relation to financial oversight and control (Mallin, 2007).

Audit committee as a board sub-committee is established by and among the Board of directors to oversee the accounting and financial reporting processes within the organization to carry out internal control tests and to ensure accuracy and reliability of financial statements (SOX, 2002). While the managers of the company are expected to act to the best interest of the company, audit committee has a much bigger role of ensuring that shareholders interest in relation to the quality of financial report is protected. Audit committee therefore needs to be established and empowered with the adequate authority to perform its corporate governance role by overseeing various managerial functions such as auditing, risk management and financial reporting. Rezaee (2009) acknowledges that the effectiveness of audit committee is determined by its independence, expertise and regular meetings.

Klein (2002) acknowledges that the main function of audit committees is to monitor and oversee the financial reporting process within the institution. Audit committee by having an oversight over internal controls and financial reporting process ensures that the integrity of the company's financial reporting is maintained. Rezaee (2009) considers the audit committee as a committee composed of independent, non-executive directors charged with responsibilities of not only monitoring the integrity of the financial statements but also to ensure that internal control structure is effective. Mawanda (2008) acknowledges that financial performance of an organization can be improved by putting in place an effective audit committee to monitor the internal controls within the organization.

Audit committees play a vital role of ensuring quality financial reporting and transparency within the firm. Therefore, the adoption of audit committee increases the shareholders' confidence on the quality of the financial report (Piot and Janin, 2007). Madawaki and Amran, (2013), the quality of financial reporting is pegged on the effectiveness of audit committee which is established to oversee the financial reporting process. The quality of financial reporting is enhanced by the independence of the audit committee which allows the audit committee to carry out their oversight role effectively. Mwangi (2018) notes that several stakeholders have shown a keen interest on the quality of financial reporting in Kenya and this has led to a rising need for the establishment of an effective audit committee in both public and private institutions.

Zain, Subramaniam and Stewart (2006), audit committee plays a key role of ensuring that the internal audit is empowered to carry out its internal audit functions effectively. In order to realize improved performance of the organization, audit committee is required to support the internal audit function by ensuring conformity with international internal audit (IIA) requirements and ensuring all essential resources are availed to the internal audit department (Badara and Saidin, 2014). There is a general assumption that internal audit functions with a full support of audit committee are effective and objective hence enable the internal auditors achieve their goals of identifying the true financial position of the firm (Endaya and Hanefah, 2013).

The government of Kenya in a bid to improve its fiscal probity and strengthen the financial reporting standards in Kenya not only issued the Treasury circular 16 of 2005 but also enacted the Public Finance Management Act, 2005 which requires all the public sector institutions to establish audit committees. The establishment and operationalization of audit committees in the public sector ensures that public financial management and governance process is strengthened. To strengthen corporate governance structures in the private sector in Kenya, the private sector cooperate governance trust (PSCGT) recommended companies to establish audit committees composed of independent non-executive directors (PSCGT, 2000).

SACCOs play a critical role in the socio-economic development in the country and hence its performance has a bearing on the economic growth of the country and financial inclusion. To ensure improved performance of SACCOs, there is a need for the establishment of audit committee with requisite characteristics to oversee the internal controls. This will enable SACCOs to respond effectively to the changing needs of their members and other stakeholders and be competitive in the increasingly complex business environment. Unlike the limited liability companies where audit committee is appointed by the board of directors, SACCO members in a general meeting elect the audit committee members and hence are answerable to the members. Effective audit committee must possess key characteristics such as: independence, frequency of meetings, financial knowledge and the size of the committee (SEC., 2003). An Audit committee therefore plays a fundamental role of overseeing the firm's accounting and financial reporting processes, taking part in the process of appointing, compensating and supervising the external auditor, establishing the procedures for handling complaints arising from accounting, internal control and ensuring that appropriate systems have been put in place for effective monitoring and managing of risk (SOX, 2002).

Hamdam (2013) carried out a study which sought to evaluate the impact of audit committee characteristics on the performance of firms listed in the Amman stock exchange. The results showed that the audit committee has an impact on financial and stock performance but it does not have an effect on operating performance. The study by Zraiq and Fadzil (2018) on the impact of audit committee characteristics on firm performance also found a positive relationship between audit committee characteristics (Size and meeting) on financial performance. This study was replicated by Aanu, Odianonsen, and Foyeke (2014) who investigated the effectiveness of audit committee on firm performance in Nigeria. There were 25 manufacturing firms being selected from the year 2004-2011. The result of Pearson Moment Correlation revealed that independence of the audit committee is positively related to ROE as it claimed that company with independent audit committee will be relatively more reliable to invest in, and this will boost the performance of a company.

However, Ebere et al. (2016) carried out a study to examine audit committee and financial performance of quoted insurance companies in Nigeria during the period 2008 to 2014. Data was collected from 10 insurance companies listed in the Nigerian Stock Exchange. The findings of the study showed that audit committee size does not affect the financial performance of listed insurance companies in Nigeria. This was in line with the findings of Al-Matari et al. (2012) who examined the relationship between the internal corporate governance mechanisms related to directors, the audit committee characteristics and the performance of Saudi companies listed in the stock exchange. With the r^2- value of 0.4, the study revealed no relationship between the board of directors, audit committee characteristics and performance of a firm.

Reviewed literature on the relationship between audit committee and financial performance has mixed and inconclusive results. Studies by Aanu et al., (2014); Zraig and Fadzil, (2018) have found a positive and significant effect of audit committee characteristics and financial performance. However, studies by Ebere et al., (2016); Al-Matari et al., (2012) that sought to examine the association between audit committee characteristics and firms' performance have shown no association between audit committee characteristics and performance of a firm. The previous studies in developing countries like Kenya have focused on the relationship between audit committee characteristics and financial reporting but have not considered financial performance. This study therefore sought to investigate the effect of audit committee characteristics on financial performance of deposit taking SACCOs in Kenya.

Reviewed studies on the effect of audit committee and financial performance have produced mixed results. Despite the fact that audit committee plays a key governance role of ensuring the integrity of the company's financial reporting by having oversight of internal control and the financial reporting process, little attention has been given to audit committee characteristics and its effect on the financial performance of SACCOs in Kenya. Reviewed studies have explored the relationship between audit committee characteristics and financial reporting but failed to consider financial performance. Prior studies have also focused on the listed companies in the security exchanges in various countries. This study therefore sought to evaluate the effect of audit committee characteristics on the financial performance of deposit taking SACCOs in Kenya.

Audit committee plays a key corporate governance role by ensuring that the interests of the shareholders are protected. The fundamental role of an Audit committee is to monitor and oversee the financial reporting process within the institution. Audit committee therefore acts as a link between the board of directors and the external auditor with the aim of avoiding any information asymmetry between them (Azman & Kamarudin, 2012).

In their study Abdullatif and Al-Khadash (2010) stated that the audit committee plays a key corporate governance role by ensuring that the shareholders' financial interest is protected. The management is responsible for the preparation of the financial statements and the establishment of effecting internal controls. To ensure reliability of the financial reporting and management of risks and internal controls, there is need for the establishment of an effective audit committee (DeZoort et al., 2002).

Audit committee has been defined by (SOX, 2002) as 'a committee (or equivalent body) established by and among the Board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer'. Price Waterhouse Coopers (PWC, 2003) notes that by having an oversight role over the internal control and the financial reporting process, an audit committee acts on behalf of the board by ensuring the integrity of the company's financial reporting. Rezaee (2009) considers the audit committee as a committee composed of independent, non-executive directors charged with responsibilities of not only monitoring the integrity of the financial statements but also to ensure that internal control structure is effective.

An Audit committee member is considered independent if he/or she acts independent of the activities of the management. This independence assists in ensuring that the audit committee acts in an objective and imperial manner, free from any conflict of interest or inherent bias. This can be achieved if the audit committee member is not employed by, or providing any service to the organization beyond his duties as audit committee member. The Independence of audit committee can be measured by the proportion of independent directors over the total number of directors sitting in the audit committee. According to Klein (2002) audit committee independence plays a critical role in the maintenance of integrity and quality of a firm's financial reporting. According to Abbott et al., (2004), audit committee independence is a prerequisite for an effective audit committee. Bedard et al. (2004) argue that effective and impartial oversight of financial reporting process can only be achieved if audit committee members are independent. Kang and Kim, (2011) support the view that the independence of audit committees is measured by the ratio of non-executive members who sit in the committee. The Institute of Internal Auditors (IIA, 2014) notes that Audit Committee plays a crucial role in the governance structure of the organization by providing an independent source of advice. While independence is seen as the single most important characteristic of audit committee, the literature reviewed showed mixed results. Klein (2002) found that having outside directors on the audit committee promotes and enhances corporate performance and return to shareholders. This contradicts Coles et al (2001) and Erickson et al (2005) who found that there is a negative relationship between outside directors and firm performance.

Financial expertise as audit committee characteristic consists of both experience and education. According to Dezoort and Salterio (2001), audit committees with financial expertise are in a better position to understand the auditing issues, hazards and audit procedure that are used in the organization to observe and the address risks that may affect the performance of the organization. Levitt (2000) acknowledges that audit committee with financial expertise will be instrumental in identifying and demanding questions from the management and the audit staff. A study by Krishnan and Visvanathan (2007) found that accounting expertise within boards that are characterized by strong governance contributes to greater monitoring by the audit committee and leads to enhanced conservatism. Giacomino et al., *(*2009) argues that since experience alone may not be sufficient to establish financial expertise, both experience and education are required to become a financial expert. However, research on this topic is very limited partly due to low incentives to disclose information on backgrounds and careers of directors prior to the post-Enron governance regulatory boom.

Audit committee size plays a key role of ensuring the effectiveness and improvement in the firm's performance (Kiel and Nicholson, 2003). According to Al – Nijjah (2013), large audit committee plays a key role of monitoring the firm's resources by ensuring improved quality of the financial reports. Ghosh, Moraa and Moon (2010) acknowledge that the small audit committees tend to be more participative as compared to large audit committee size. Studies on the effect of audit committee size on financial performance have been scanty and the few that are available have produced mixed results. While Anderson, Mansi and Reeb (2004) in their study found a negative association between cost of debt and audit committee size, Carcello and Neal (2000) found no association between size of the audit committee and the likelihood of receiving going-concern reports. On the other hand, Carcello and Neal (2003) found no association between size of audit committee and the optimism of disclosure by management.

Authority and resource are two key factors that determine the effectiveness of the audit committee. Most audit committee guidelines such as the Treadway Report, 1987; the Cadbury Committee, 1992; the Blue Ribbon Committee (BRC, 1999); the Sarbanes-Oxley Act, 2002; and, the Combined Code, 1999, 2003) in their recommendation noted that the audit committee should be well equipped with sufficient authority and resources for it to carry out its roles effectively (Mohiuddin, 2012). In order to perform its functions effectively, the audit committee need to be equipped with adequate resources (PWC, 2005). Andersen (1998) noted that for the audit committee to fully carry out its oversight function effectively, it is imperative that they have unrestricted access to all relevant information that they may require in the course of their duty.

According to Karamanou and Vafeas (2005), the frequency with which the audit committee meets is a clear indication of its effectiveness in monitoring the reliability of the financial reporting process. The Audit committee should meet at least four times in a year (Poonam and Yaspal, 2014). This would allow the members to express their opinion and judgment on the choice of the firm's accounting principles, disclosures and estimates and the effectiveness of the internal controls. According to Lin, Li, and Yang (2006), the number of audit committee meetings is vital in assessing their effectiveness in monitoring and this may affect the financial reporting outcome. Jackling and Johl (2009) believe that the more frequent the audit committee meets, the more likely they will achieve superior performance of the firm. Xie et al.

(2003) argue that audit committees will be more informed about auditing and accounting issues if they meet frequently with internal auditors. According to Zhuo and Chen (2004), audit committee meetings serve as important tools for improving and promoting corporate governance in firms. Stewart and Munro (2007) states that financial fraud would be reduced if the audit committee meets frequently and carries out its duties as required. The number of audit committee meetings per year is used as a proxy for audit committee diligence because it provides a signal regarding the efforts of an audit committee and its constituents (DeZoort et al., 2002; Méndez and García, 2007; Raghunandan and Rama, 2001; Sharma et al., 2011).

1.1. Theory Guiding the Study

The theoretical perspective relevant and applicable in the study of the relationship between audit committee characteristics and financial performance is the agency theory. The agency theory recognizes that the separation of ownership and control has led to moral hazard and this has affected the output of the agent in two ways; the agent may not act in the best interests of the principal, there may be information asymmetry between the principal and the agent. In order to curtail such behavior arising as a result of information asymmetry, there is need for the establishment of an effective internal control and effective audit committee within the organization. Payne (2003) noted that internal control is a mechanism used to address the agency problem by reducing agency costs. Agency theory shows the relationship between the principal and agent and the agent's responsibilities which include financial reporting, budgeting and providing any other additional information to the principal. Agency theory posits that optimal financial performance may be achieved by minimizing the resultant costs generated due to the conflict of interest between the firms' various stakeholders.

The use of agency theory in this study is informed by the recent global financial accounting scandals that have shown reflation on the ineffectiveness and insufficiency of the relationship between the shareholders (principals) and the management (agent). The financial accounting scandals that were witnessed in the decade prior to 2002 saw the US government act by enacting the SOX Act of 2002 to impose new regulations to the public companies and their auditors. The SACCO members (principals) have delegated to the board of management (agents) with the responsibility of being the stewards of the SACCO resources hence they expect the agents to work towards the realization of wealth maximization goals. This study therefore used the agency theory to determine the effect of audit committee characteristics on the financial Performance of SACCOs in Kenya.

1.2. Empirical Literature

Ghafran (2013) examined the impact of audit committee characteristics on financial reporting quality in the context of a large sample of UK companies over the period 2007-2010. This study utilized the audit fee and non-audit fee ratio as its proxies for audit quality and accruals based earnings management models as its proxies for earnings quality. The findings from the multivariate analysis show that audit committee meetings and financial expertise exert a significant positive impact on audit fees. Investigating expertise further, this study finds no support for the notion that accounting expertise influences audit fees, however a significant positive influence on audit fees is recorded for the non-accounting financial expertise. However, the holding of additional directorships has a significant negative impact on audit fees. This study also finds that audit committee members' financial expertise has a negative and significant impact on non-audit fee ratio suggesting a strong support of members with financial expertise on issues relating to auditor independence. The study also documents that audit committee members serving longer on the boards do not prefer to purchase high amount of non-audit services from the incumbent auditor.

Majiyebo, Okpanachi, nyor, yahaya and Mohammed (2018) in their study examined the effect of audit committee independence and size on financial reporting quality of listed deposit money banks (DMB) in Nigeria. Cross sectional data was collected from the Nigerian Stock Exchange fact books and the financial statements of fifteen (15) listed deposit money banks over a period of ten years (2007-2016). The study findings showed that audit committee independence has a negative but significant effect on financial reporting quality of listed deposit money banks in Nigeria. The study also found that audit committee size has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

Madawaki and Amran (2017) carried out a study to examine the association between audit committees and improved financial reporting quality for a sample of Nigerian listed companies prior to and after a corporate governance code mandated new regulations for audit committees in 2003. Secondary data was collected from a sample of 70 companies listed on the Nigerian Stock Exchange. The results indicate that formation of audit committees was positively associated with improved financial reporting quality. It was also found that audit committees having an independent chair and audit committee expertise were positively associated with financial reporting quality. The study however found other audit committee characteristics (meeting and size) examined being insignificantly related to financial reporting quality.

Using evidence form 100 French companies, Bouaine and Hrichi (2019) sought to examine the impact of audit committees adoption and its characteristics on financial performance. Financial performance was measured using ROE and ROA. The study using panel data sampled 100 French companies listed on the Paris Stock Exchange from 2007 to 2015. The results show that the appearance of a legal text pushes the establishment of the committee but has no significant effect on the company's performance.

In Malaysia, Al-Mamun et al. (2014) carried out a study to examine the relationship between audit committee characteristics and financial reporting among public listed companies in Malaysia. Data was collected from 75 firms and covered the fiscal years 2008-2010. The study employed Economic Value Added (EVA) as a performance measurement tool and F-test to obtain the results. The research concluded that audit committee independence was significantly connected with financial reporting because independent audit committees can reduce biased accounting information which will improve the investment.

Hamdan et al. (2013) carried out a study on the relationship between audit committee characteristics and a firm's performance. The study sample was collected from 106 firms from the financial sector in listed companies in the Amman Stock Exchange market during the year 2008 – 2009. The study concluded that there was a positive correlation with statistical significance between audit committee characteristics and financial performance in the financial sector listed firms in Amman Stock Exchange market. The study also revealed that there was no correlation between the audit characteristics and operational performance and that there was a positive relationship with statistical significance between audit committee characteristics and stock performance.

In their study on the audit committee characteristics and firm performance of public listed companies in Malaysia, Chiranga and Chiwira (2014) sought to identify the link between multiple directorships and firm performance. The target population selected for this research is the public listed companies in Malaysia. Secondary data was collected from annual reports published on Bursa Malaysia. The data collected was subsequently analyzed by adopting correlation and multiple regression analysis. Pearson Correlation Analysis and Multiple Linear Regression Analysis were used to analyze the data collected. The study found that multiple directorships did not affect a firm's performance as there was no value added in the presence of multiple directorships.

Baccouche, Hadriche, and Omri (2013) conducted a study to empirically investigate the effect of the multiple directorships held by audit committee directors on the level of earnings management of listed French companies. The data was collected from a sample of 88 non-financial firms in the year 2008. Correlation regression analysis has been conducted and it found that a busy audit committee has a negative effect to firm's performance as they have less capacity to monitor and control the actions of the management. The study therefore found that audit committee cannot provide effective monitoring of earnings management when its members held many additional outside directorships.

In their study on the Complicated Relationships among Audit Committee Independence, Nonfinancial and Financial Performance, Wang and Huynh (2013) sought to explore the moderating role of the audit committee independence in the influence of nonfinancial performance on financial performance. The firm's performance was classified into financial and non-financial performance. A Sample size of 25 listed companies from year 2004 to 2011 was chosen whereby data was collected from financial reports. The study utilized multiple regressions (F-test) to test the hypotheses. The results indicated that the independence of the audit committee can positively affect a firm's performance due to diverse background and expertise.

A study conducted by Abdullaha, Halim and Nelson (2014) aimed at examining the consequences of new regulations on earnings management. Audit committee independence was tested as one of the variables of study. Data was collected form 708 sets of annual reports in the year 2009 to 2011. The periods used included before and after the creation of the new regulation. The results showed that audit committee independence cannot lower the management earnings.

In a research done by Vlaminck and Sarens (2015), they studied how audit committee characteristics related to quality of financial statements. They collected data of 60 listed companies as samples. The Pearson's correlation tested the relationship between multiple directorships of audit committees. Results concluded that there will be a better financial reporting if the audit committee holds more than 3 directorships as they will focus more on management behavior to avoid manipulation as well as protecting their own reputation, thus increasing the confidence of investors to invest more.

Baxter, et al (2009), examined whether the existence of an audit committee is associated with earnings quality. Tests of this association do not differentiate between whether (i) the audit committee impacts earnings quality or (ii) firms with high-quality earnings are more likely to form an audit committee. They found that the formation of an audit committee reduces intentional earnings management, but not accrual estimation errors. In addition, they found some differences in the associations between audit committee accounting expertise and the earnings quality measures and that other audit committee characteristics examined are not significantly related to any earnings quality measures.

Anchored on agency and Institutional theory, Wakaba (2014) conducted a study to establish the effect of audit committee characteristics on financial performance. The study adopted exploratory design and secondary data was collected form 46 companies listed at the Nairobi Securities exchange for the period 2008 – 2013. The study findings revealed that audit committee characteristics has a significant effect on firm performance.

In their study, Kipkoech and Rono (2016) sought to establish the effect of audit committee size and experience on firm performance among listed firms in Nairobi securities exchange, Kenya. The study adopted agency theory and institutional theories and was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2006 to 2011. Multiple Regressions was used to test hypothesis. Study findings showed that audit committee experience had positive significant effect relationship with firm performance ($r = 0.310$ which is significant at $\alpha = 0.01$). However, the study found that Audit committee size was negatively correlated to firm performance (r -0.193significant at $\alpha = 0.01$).

Mwangi (2018) researched on the effect of audit committee characteristics on quality of financial reporting in non-commercial state corporations in Kenya. The study was anchored on 6 theories: agency, stewardship, policeman, lending credibility, inspired confidence and stakeholder theory. The study adopted descriptive research design and the target population was all the 72 non-commercial state corporations. The correlation and regression analysis revealed that audit committee independence, audit committee diversity, audit committee financial competence and audit committee meeting had statistically significant relationship with quality of financial reporting.

Empirically, a number of studies have looked at the relationship between audit committee and financial performance. The studies however have produced inconclusive results. While studies by Mammun et al., (2014); Wang and Huynh (2013); wakaba, (2014); Hamdan et al., (2013) have found a positive and significant relationship, studies by

Kipkoech and Rono (2018); Baccouche et al., (2013) found a negative association. Studies by Madawaki and Amran (2017); Baxter et al., (2009); Majiyebo et al., (2018) have produced insignificant results. The reviewed literature has shown that the studies on audit committee characteristics have focused on listed companies in the security exchange but little has been done on SACCOs in Kenya. The study therefore seeks to examine the effect of audit committee characteristics on financial performance of DT- SACCOs in Kenya.

Despite the fact that audit committee characteristics have been researched a lot globally based on the reviewed literature, the findings however have been both positive and negative. Prior studies have focused on listed companies in security exchanges in various countries. However, similar studies in Kenya and especially in SACCOs are lacking. While previous studies have focused on the association between audit committee characteristics and financial reporting, little has been done on financial performance. This study therefore sought to examine the effect of audit committee characteristics on financial performance of DT- SACCOs in Kenya.

2. Methodology

The study adopted the correlation research design. Quantitative approach was used since audit committee characteristics and internal controls can be quantified (Fabozzi, Focardi, & Ma, 2005). The research was carried out in Western Kenya and focused particularly on the Deposit Taking SACCOs (DT-SACCOs) registered by SASRA. The population of this study comprised 40 deposit taking SACCOs in western Kenya. For the purposes of this study, the unit of analysis was 120 senior managers comprising the chief executive officers, finance managers and internal auditors from each of the 40 DT-SACCOs in Western Kenya. Primary data was collected from the three (3) Senior Managers of each DT-SACCO in Western Kenya. The study targeted Senior Managers since they are well conversant with operations of the SACCO and are well versed with information concerning the performance of audit committee.

The study employed census on all the forty (40) Deposit taking SACCOs in Western Kenya. A sample of the three (3) Senior managers comprising the chief executive officers, Finance managers and Internal auditors from every Deposit taking SACCOs in Western Kenya was selected to be the respondents. The data collected was analyzed, with respect to the study objectives, using inferential statistics. Pearson's correlation coefficient was used to measure the strength and direction of the relationship between the dependent and independent variables.

In order to investigate the effect of audit committee characteristics on financial performance of SACCOs, the researcher used the following model:

$Y = \beta_0 + \beta_1\mathbf{Z_i} + \beta_2\mathbf{Z_{2i}} + \beta_3\mathbf{Z_{3i}} + \beta_4\mathbf{Z_{4i}} + \beta_5\mathbf{Z_{5i}} + e$…………………………………….... (i)

Where:

Y	=	Financial performance
β_0	=	Model intercept
$\{\beta_{i;I}$	=	1,2,3,4,5} = coefficient for moderating variables ACE, ACI, ACD, ACAR, ACM
e	=	error term. This is assumed to be normally distributed with mean Zero and constant variable.
Z_i	=	Audit committee expertise
Z_{2i}	=	Audit committee independence
Z_{3i}	=	Audit committee diligence
Z_{4i}	=	Audit committee authority and resources
Z_{5i}	=	Audit committee meeting

Source: Adapted from Aiken and West (1991)

3. Findings

The data was collected from 40 SACCOs registered and licensed by SASRA and with headquarters in Western Kenya. The target population was 120 Senior Managers, out of whom 10% were used for piloting. From this total, responses were received from 100 respondents translating into 93% response rate. The response was considered appropriate since Bailey (2000) asserts that any response above 70% is classified as very good. This is also in line with Mugenda & Mugenda (2003) that observes that any response rate above 70% is rated as very good.

For the study objective, the research sought to investigate the relationship between audit committee characteristics and financial performance of SACCOs in Western Kenya. The dimensions used to investigate audit committee characteristics were expertise, independence, diligence, authority and responsibility and meetings, while dimension of financial performance was capital adequacy, asset quality, earning ratings and liquidity ratings. The findings are revealed in Table 1 below.

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
Financial Performance	1	5	3.59	0.911	-0.150	-0.365
Audit committee expertise	3	5	4.01	0.823	-0.019	-1.523
Audit committee independence	2	5	3.69	0.849	0.545	-1.214
Audit committee diversity	2	5	3.82	0.702	0.087	-0.593
Audit committee authority and resources	2	5	3.83	0.766	-0.524	0.249
Audit committee meeting	2	5	4.27	0.679	-0.591	0.124

Table 1: Overview of Audit Committee Characteristics and Financial Performance
Source: Field Data (2020)

From Table 1 above, the minimum and the maximum statistics for performance was 1 and 5 with a mean of 3.59 and a standard deviation of 0.911. It was normally distributed although with a thin tail. Audit committee expertise had a minimum value of 3 and a maximum value was 5 with a mean of 4.01 and a standard deviation of 0.823. The variable was normally distributed although with a thin tail given the level of skewness and kurtosis.

Audit committee independence had a minimum of 2 and a maximum of 5. The mean was 3.69 and with a standard deviation of 0.849. The skewness value indicated a normal distribution although with a thin tail. Audit committee diligence had a minimum of 2 and a maximum of 5 with a mean of 3.82 and a standard deviation of 0.702. It was also normally distributed with a thin tail. Audit committee authority and resources had a minimum of 2 and a maximum of 5 with a mean of 3.83 and a standard deviation of 0.766. The distribution was normal and also had a thin tail. Audit committee meeting had a minimum of 2 and a maximum of 5 with a mean of 4.27 and a standard deviation of 0.679. The distribution was also normal although with a thin tail.

3.1. Correlation Analysis between Audit Committee Characteristics and Financial Performance

The objective of this study was to examine the effect of audit committee characteristics on financial performance of DT-SACCOs in Kenya. To achieve this objective, the scores obtained from the five categories of audit committee characteristics were correlated with financial performance using bivariate correlations, Pearson correlation of two-tailed significance. The findings are shown in Table 2 below.

	Financial Performance	AC Expertise	AC Independence	AC Diversity	AC Authority and Resources	AC Meeting
Financial Performance	1	.679**	.552**	.531**	.232*	.556**
AC Expertise		1	.597**	.406**	.371**	.393**
AC Independence			1	.295**	.384**	.217*
AC Diligence				1	-.020	.251*
AC Authority & resources					1	.128
AC Meeting						1

Table 2: Correlation between Audit Committee Characteristics and Financial Performance
***. Correlation Is Significant at the 0.01 Level (2-Tailed)*
** Correlation Is Significant at the 0.05 Level (2-Tailed)*
Source: Research Data (2020)

From the Table 2 above, the results indicated that there was a strong positive and significant correlation between financial performance and the audit committee expertise ($r = 679$, $p < .05$). Financial performance and audit committee independence revealed a strong positive correlation ($r = .552$, $p < .05$). The result also indicated that financial performance and audit committee diligence had a strong positive correlation ($r = .531$, $p < .05$) as was the case with financial performance and audit committee meeting ($r = .556$, $p < .05$) with regards to the association between financial performance and audit committee authority and responsibility, there was a significant yet weak association ($r = .232$, $p < .05$). The study findings imply that financial performance was positively correlated with every aspect of audit committee characteristic. Therefore, the more the SACCOs put in place effective audit committee the better the financial performance. The relationship between audit committee expertise and financial performance was stronger than others. This implied that the financial performance of the SACCOs is heavily dependent on the expertise of the audit committee.

3.2. Regression Analysis on the Relationship between Audit Committee Characteristics and Financial Performance

For the study objective, the study sought to examine the relationship between audit committee characteristics and financial performance. Regression analysis was therefore conducted to ascertain the magnitude of the effect the correlation between the two variables accounted for. The summary model findings are presented in Table 3 below using coefficient results.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.807[a]	.651	.632	.553	.651	35.038	5	94	.000	2.017
a. Predictors: (Constant), audit committee meeting, authority and resources of audit committee, audit committee diversity, audit committee independence, audit committee expertise										
b. Dependent Variable: performance										

Table 3: Summary Model on the Relationship between Audit Committee Characteristics and Financial Performance
Source: Field Data (2020)

The study findings in Table 3 above revealed that there was a positive significance multiple correlation between the five constructs of audit committee characteristics and financial performance (R = 0.807). The variation of financial performance was explained by audit committee meeting, authority and responsibility, diversity, independence and expertise as explained by 65.1% of the overall increase in the financial performance. ($R^2 = 0.651$). The study shows that audit committee characteristics through its dimensions explains 63.2% of variation in Financial performance (adjusted R^2 = .632). The goodness of fit, given by the F-statistics was 35.038 and significant at 0.000, an indication that the results from this study can be replicated elsewhere. The Durbin – Watson statistics was also at 2.017 which meant that there was no problem of autocorrelation within the study variables. It can thus be concluded from the findings that audit committee characteristics explain a bigger percentage of financial performance of SACCOs in Kenya. It is therefore necessary to establish an efficient and effective audit committee with requisite characteristics within the SACCOs.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-1.765	.487		-3.624	.000
Audit committee expertise	.358	.095	.324	3.770	.000
Audit committee independence	.233	.084	.217	2.766	.007
Audit committee diversity	.332	.090	.256	3.704	.000
Audit committee authority and resources	-.009	.082	-.007	-.105	.917
Audit committee meeting	.427	.089	.318	4.774	.000

Table 4: Summary Model Results on the Relationship between Audit Committee Characteristics on Financial Performance
a. Dependent Variable: performance
Source: Research Data (2020)

The established regression was
Y = -1.765 + 0.358ACE + 0.233ACI + 0.333ACD – 0.009ACAR + 0.427ACM………… (i)

From Table 4 above, the results indicated that in the absence of audit committee characteristics constructs, performance would deteriorate by -1.765. This outcome is significant (p=0.000). With regards to audit committee expertise, a unit increase on it, results into a significant increase in financial performance by 0.358 (p = 0.000 <0.05). A unit increase in audit committee independence leads to a significant increase in financial performance by 0.233 (p = 0.000 <0.05). A unit increase in audit committee diligence leads to a significant increase in financial performance by 0.332 (p = 0.000 < 0.05). A unit increase in audit committee authority and resources leads to an insignificant decrease in financial performance by 0.009 (p =0.917 < 0.05). A unit increase in audit committee meeting leads to a significant increase in financial performance by 0.427 (p = 0.000, <0.05)

The regression results revealed that there is a positive relationship between audit committee characteristics and financial performance of SACCOs in Kenya. The coefficient of determination proved that the independent variable contributed to 63.2% of the variation of financial performance as explained by adjusted R square of 0.632 which shows that the model was a good predictor. This is supported by Wakaba (2014) who evaluated the effect of audit committee characteristics on financial performance of companies listed at the Nairobi Securities Exchange. Data was analyzed using regression model and the result of analysis exhibited a positive relationship between audit committee characteristics and financial performance. These findings also support the study by Mwangi (2018) who examined the effect of audit committee characteristics on quality of financial reporting in non-financial corporations in Kenya. The study concluded that audit committee characteristics have an impact on financial reporting.

The study therefore suggests that establishment of audit committees with requisite characteristics should be a key requirement of all DT-SACCOs. The concludes that DT-SACCOs should set up audit committees that have independence, financial expertise, diversity and frequency of meeting in order to carry out their roles effectively and to enhance the quality of financial reporting.

4. Study Findings

The study sought to examine the effect of audit committee characteristics on financial performance. The study findings revealed that the four constructs of audit committee characteristics had a unique positive and significant multiple correlation association with financial performance. The findings therefore suggest that in the establishment of audit committees more emphasis should be placed on independence, financial expertise, diversity and quality of meetings in order to enhance the quality of financial reporting

From the study hypothesis: there is no significant relationship between audit committee characteristics and financial performance of deposit taking SACCOs in Western Kenya. Audit committee serves as an important tool of promoting corporate governance within SACCOs. This is because audit committees play an integral role of monitoring the SACCO's resources by ensuring improved quality of financial reporting. The study findings revealed that audit committee characteristics had a strong positive effect on financial performance and therefore a strong determinant of financial performance of deposit taking SACCOs.

The study concluded that DT-SACCOs should set up audit committees that have independence, financial expertise, diversity and frequency of meeting in order to carry out their roles effectively and to enhance the quality of financial reporting.

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