AUDIT COMMITTEE AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVING AND CREDIT COOPERATIVE ORGANISATIONS IN NAIROBI CITY COUNTY, KENYA

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International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 11th November 2024

Published: 16th November 2024

Full Length Research

Available Online at: https://iajournals.org/articles/iajef_v4_i3_461_485.pdf

Citation: Muturi, J. N., Kariuki, G. (2024). Audit committee and financial performance of deposit taking saving and credit cooperative organisations in Nairobi City County, Kenya. *International Academic Journal of Economics and Finance, 4*(3), 461-485.

ABSTRACT

Savings and Credit cooperatives (SACCOs) are important players in financial intermediation and a critical indicator of how well society will fare in the future. Deposit-taking SACCOs in Kenya have been facing challenges related to financial mismanagement, fraudulent activities, and inadequate internal controls, which have jeopardized the safety and stability of these institutions. The financial performance of the SACCO sector is very weak and spread weakness to other areas, the independence, composition and technical skills of the audit committees which has often been compromised by both internal and external forces of the institutions. This study therefore1 sought to establish the effect of audit committee on financial Performance of deposit taking Saccos in Nairobi City County, Kenya. The specific objectives were the effect of audit committee independence; audit committee expertise and audit committee diversity on the financial performance of deposit taking SACCOs in Nairobi City County, Kenya. The underpinning theories of th1 study included agency theory, institutional theory and stakeholder theory. In this study, descriptive research design was adopted. The target population of this study was all deposit taking SACCOs. The unit of observation was 43 licensed deposit taking SACCOs are operating in1 Nairobi City County. The1 unit of analysis was 258 respondents1 comprising of Chief Executive1 Officers (CEOs), and audit committee1 members. The sample size of 157 respondents was attained using stratified random sampling and simple random sampling techniques. Primary data was obtained using questionnaires, which were emailed to the1 respondents. Inference from test score to a large domain of items similar to those of test is drawn using content validity which was used in this study. In order to check for reliability, the research used Cronbach alpha. The research used diagnostic tests such as stationarity test/ unit root test, normality test, multicollinearity test, autocorrelation1 test, Hausman test and heteroscedasticity test. This study utilized the descriptive and inferential statistics. Quantitative data was descriptively analyzed by use of measures of central tendencies and measures of dispersion. The measure of central tendency was the arithmetic mean while standard deviation was the measure of dispersion for data obtained from interval scales and ratio scales. Multiple regression analysis was used to analyze inferential data. The study information was displayed in tables. Throughout the research exercise, ethical principles were observed in the constitutional rights1 of every person and as such informed consent was sought from the respondents and was assured of confidentiality of the data and information to be collected. The study found that the board ensures a balanced representation of independent directors on the audit committee. The study found that it was uncertain whether there are mechanisms to ensure the independence of each committee member, and tenure limits ensure a continuous infusion of fresh ideas and skills. The study found that there is open and effective communication between the audit committee and external auditors. The study also found that audit committee meetings are not held with regular frequency. Moreover, the research found that the role of the audit committee in managing risks associated with the size of the SACCO's loan portfolio is crucial. The research concluded that audit committee expertise had the greatest effect on the financial performance of deposit taking Saccos in Nairobi City County, Kenya, followed by audit committee independence, then audit committee meetings, then audit committee diversity while audit committee diligence had the least effect to the financial performance of deposit taking Saccos in Nairobi City County, Kenya. Moreover, it was concluded that the significant relationship between audit committee and financial performance of Deposit Taking Saccos in Nairobi City County depends on size of the Sacco. The study recommended that there is need to strengthen audit committee independence by implementing fixed terms for committee members. To boost audit committee expertise, the study suggested that targeted training programs should be provided, focusing on the specific challenges and risks inherent in the SACCO sector.

Keywords: Audit committee independence, Financial performance, Audit committee expertise, Audit committee diversity, Audit committee diligence, Audit committee meetings.

INTRODUCTION

SACCOs (savings and credit cooperatives) are essential for increasing access to financial services, especially for people in lower socioeconomic groups (Osevwe-Okoroyibo & Emeka-Nwokeji, 2021). SACCOs, which function as democratically elected and autonomous cooperatives, provide major contributions to their communities through lending opportunities and savings returns. Nevertheless, because to worries about failure rates seen in Kenya and other regions—which are sometimes attributable to inadequate self-governance procedures—their economic significance has also sparked investigation of their performance (Naimah & Hamidah, 2020).

Corporate governance procedures are commonly recognized as essential for risk mitigation and financial integrity in the global context. As an essential part of sound corporate governance, the audit committee is in charge of internal control systems, risk management, and financial reporting (Sellami & Fendri, 2020). The audit committee, which is acknowledged as a subcommittee of the entire board, serves as a point of contact for the board, executive officers, fund executives, internal and external auditors, and other stakeholders. Its duties include examining and overseeing procedures to determine financial results, which include thorough financial statement analysis, internal audits, and important audit procedures (Klein, 2002). A competent and experienced audit team with the authority, resources, and supervisory skills necessary to guarantee strong risk management, internal controls, the integrity of financial statements, and the defense of stakeholder interests define an efficient audit committee (Koutoupis & Bekiaris, 2019).

An essential component of strong corporate governance (CG), the audit committee functions as the board of directors' representative and has the authority to carry out important corporate governance duties. Its supervision encompasses public, private, and non-governmental organizations and includes financial reporting, disclosure, internal and external audits, internal control, and regulatory compliance (Dakhlallh, Rashid, Abdullah & Al Shehab, 2020). The board receives crucial guidance and recommendations from the audit committee, which helps to guarantee that the business complies with laws, moral standards, and other requirements. Regulatory agencies may require public corporations to form independent audit committees in order to improve the integrity of financial information (Balagobei & Thirunavukkarasu, 2018).

International study emphasizes how important audit committees are for maximizing shareholder wealth and avoiding conflicts of interest among senior management (Khalifa, 2018; Shepardson, 2018). According to industry standards like CA (2020), a non-executive committee should have a minimum of three members, at least two of whom should be independent, to be considered functional. While a general understanding of finance is expected of the members, the chair should have experience in accounting or finance, as well as knowledge of regulatory frameworks and recent, pertinent financial reporting and control (Arumona, Lambe & Adesina, 2021). It is imperative to examine the ways in which audit committee attributes impact corporate performance. Existing research suggests that having members who are financially astute, independent, and well-resourced can improve an audit committee's efficacy (Shepardson, 2018).

In the US, audit committees are required by NYSE listing criteria to conduct a thorough examination of important matters concerning the presentation of financial statements and accounting principles. The effectiveness of internal controls, notable modifications to the choice or application of accounting standards, and special audit processes put in place in response to "material control deficiencies as defined by the NYSE are all included in these concerns (Beerbaum et al., 2019). These discussions usually take place when management examines the quarterly financial statements that are submitted to the Securities and Exchange Commission (SEC). In compiling financial statements, management's evaluations of significant financial reporting issues and decisions, including the effects of alternative Generally Accepted Accounting Principles (GAAP) techniques, must be closely examined by the audit committee. This evaluation also looks at how accounting and regulatory changes, as well as off-balance-sheet transactions, affect financial statements and overall financial performance. As a result, NYSE-listed companies have shown better performance by cutting expenses and volatility.

The Financial Reporting Council Limited (2019) in the United Kingdom has established norms that regulate the functioning of audit committees. These regulations require corporate boards to form audit committees with a minimum of three members—two for smaller businesses—who must be independent non-executive directors. The primary duties and responsibilities of the audit committee are outlined in formal terms of reference that are customized to the particulars of the business. The audit committee's efficacy must be reviewed annually by the board as well as the audit committee. It is essential for committee members to have an impartial perspective while evaluating the management team's work and the assurance offered by internal and external audit departments. Zábojníková's (2019) research indicates a noteworthy affirmative correlation between the size of the audit committee, the frequency of meetings, financial experience, and the financial success of the organization in the United Kingdom. However, there seems to be a complex dynamic in this area as audit committee independence and firm performance tend to be inversely connected.

The idea of audit committees has been incorporated regionally into the corporate governance systems of several nations. King III, the premier best practice report on corporate governance in South Africa, recommends that every company establishes an audit committee with three independent non-executive directors or more. Audit committees were established in Nigeria by the Nigerian Companies and Allied Matters Act (CAMA) of 1990 as an extra degree of certification and control to improve the acceptability and dependability of public companies' annual accounts (Adeyemi et al., 2019). The appointment of external auditors was the only regulatory requirement for the certification of annual accounts in Nigeria prior to the 1990 Act, with the goal of ensuring the auditors' independence and competency. According to research, having an audit committee has a favorable effect on a company's financial performance in Nigeria. It suggests that audit committees improve financial reporting and management, which in turn improves overall performance.

In Kenya, the importance of SACCOs cannot be emphasized enough. Approximately 80% of Kenyans receive their income from SACCO projects, either directly or indirectly, according to the Ministry of Co-operative and Marketing (Kapkiyai, Cheboi, & Komen, 2020). It is anticipated that 24.6 million individuals, or 63% of the population, will be involved in SACCO institutions, demonstrating the cooperatives' broad influence. SACCOs' governance structures must be strengthened in order for them to be in accordance with the government's aspirational goals, which are expressed in Vision 2030 and the MDGs.

Kenya's local regulatory framework has taken into account the significance of good governance in public organizations. Every public institution is required to create an Audit Committee by the Public Finance Management Regulation of 2015 and the Public Finance Management Act of 2012 (Kasimu et al., 2019). By offering an unbiased, expert evaluation of senior management actions and guaranteeing high-quality risk management, financial reporting, financial management, and internal audit procedures, this committee plays a critical part in the governance process. Ensuring that the recommendations made by the external audit are followed to the letter and that the internal audit's quality meets the necessary requirements is one of the Audit Committee's most important responsibilities. It acts as a guardian for the independence of internal audit, guaranteeing the accuracy of information made available to stakeholders so they can make well-informed decisions regarding the standard of management and the public entity's prospects for the future. Studies conducted in Kenya have indicated that having an audit committee has a beneficial effect on a company's performance. For example, a study by Kasimu et al. (2019) revealed that companies with audit committees performed better financially than those without, demonstrating the observable advantages of good governance frameworks in improving financial reporting and management.

SACCOs are essential for advancing financial inclusion and advancing national development objectives. To maintain their sustainability and optimize their impact, they must, nevertheless, strengthen their governance frameworks, especially through the establishment of strong audit committees. Strong and independent audit committees can greatly improve financial performance, risk management, and transparency, as demonstrated by research and rules in a variety of situations. In the end, this benefits SACCO members as well as the larger community.

Statement of the Problem

Kenya's deposit-taking SACCOs have faced a troubling pattern of financial mismanagement, fraud, and weak internal controls, compromising their stability and member safety (Kazungu, 2019). While regulations mandate that all DT SACCOs establish audit committees for financial oversight and compliance (Kenya Gazette, 2010), many still struggle financially (SASRA, 2019), raising concerns about the effectiveness of these committees in protecting members and the public (ICPAK, 2020).

This sector plays a crucial role in the Kenyan economy, contributing 45% of GDP (Ondieki et al., 2011). DT SACCOs alone hold over 70% of the sector's assets, deposits, loans, and turnover (Gitonga & Miano, 2020). However, a worrying trend of fluctuating performance is evident in their Return on Equity (ROE) between 2020 and 2021 (SASRA, 2021). This instability threatens their relevance and risks closure, as seen with the license cancellations of four DT SACCOs in 2021 (SASRA, 2021).

Several factors contribute to this instability, including weak corporate governance, inadequate risk management, poor internal controls, regulatory gaps, and conflicts of interest (Nyaata, 2020; Nyangau & Oluoch, 2021). Despite seemingly tight regulations by SASRA, corporate governance in Kenya remains concerning, with studies showing compromised independence, composition, and technical skills in audit committees (Nyaata, 2020).

Existing research highlights the potential link between audit committee effectiveness and financial performance but with inconsistencies across studies and contexts (Safari, 2020; Sellami & Fendri, 2020; Mnif & Znazen, 2020). Notably, much of this research focuses on developed economies with significantly different governance systems compared to Kenya (Hamdan, Sarea, & Reyad, 2021; Wan Mohammad, 2020). This lack of local studies, particularly in SACCOs, creates a knowledge gap within Kenya's critical economic sector.

While some Kenyan studies offer mixed results, focusing on different aspects of audit committee influence (Hamdan, Sarea, & Reyad, 2021; Wan Mohammad, 2020; Wakaba, 2020; Chepng'eno, 2020), this study aimed to gain deeper insights into the effect of audit committees on the financial performance of DT SACCOs in Nairobi City County. Specifically, it sought to determine whether they effectively improve performance and safeguard stakeholders' interests.

Research Objectives

The research was guided by the following specific objectives:-

i. To examine the effect of audit committee independence on financial performance of deposit taking Saccos in Nairobi City County, Kenya.
ii. To establish the effect of audit committee expertise on financial performance of deposit taking Saccos in Nairobi City County, Kenya.
iii. To assess the effect of audit committee diversity on financial performance of deposit taking Saccos in Nairobi City County, Kenya.
iv. To determine the effect of audit committee diligence on financial performance of deposit taking Saccos in Nairobi City County, Kenya.
v. To assess the effect of audit committee meetings on financial performance of deposit taking Saccos in Nairobi City County, Kenya.
vi. To evaluate the moderating effect of Size of the Sacco on the relationship between audit committee and financial performance of deposit taking Saccos in Nairobi City County, Kenya.

Theoretical Review

In order to deepen clear understanding of the knowledge existing, theories are used in order to understand the phenomena within the limits of assumptions of critical thinking assumption. According to Tummala and Schoenher (2011), theoretical framework describes and introduces an explanation of a theory why a research problem under a study exists. This study will be hinged on agency theory, stakeholder theory, stewardship theory and the institutional theory.

1. Agency Theory

Since its introduction by Ross and Mitnick in 1973, agency theory has studied disputes that arise when one party (the principle) believes another (the agent) will act in their best interest.

Understanding the dynamic between owners (shareholders) and managers in firms is particularly important. According to Lane et al. (1998), this theory has traditionally proposed a fundamental contradiction in which managers may put their own interests ahead of those of shareholders. Numerous academic fields, including accounting and finance, have adopted agency theory (Clark, 2004). It clarifies and analyzes accounting procedures pertaining to information disclosure and monitoring (Abdo et al., 2020).

The knowledge asymmetry between the principal and the agent is the central idea of agency theory (Hussainey & Hassanein, 2020). Due to this imbalance, the agent has more opportunity to act opportunistically and hurt the interests of the principal (moral hazard) (Clark, 2020). Jensen (1993) emphasizes how the lack of monitoring in complex organizations increases this danger. Furthermore, the relationship may be made more difficult by elements like rewards, outside connections, and adverse selection (Shapiro, 2005; Gomez-Mejia & Wiseman, 2020).

The audit committee (AC) is a crucial tool for reducing these conflicts (Rezaee, 2009; Liao & Hsu, 2021). The AC lowers agency costs by keeping an eye on management and resolving information asymmetry (Abed & Al-Najjar, 2019). This perspective is supported by studies by McKnight and Weir (2009) and Henry (2010), which highlight the AC's function in addition to other corporate governance tools.

According to agency theory, independent directors are crucial for the board and the AC (Pincus et al., 1989). In the end, their expertise and experience minimize conflicts and align interests by strengthening the monitoring role (Brennan et al., 2008). Agency theory contributes to our understanding of the division of ownership (members) and management in the context of Deposit-Taking SACCOs (DTSACCOs). By supervising administration and guaranteeing compliance, the AC plays a critical role in protecting members' interests (much like shareholders in corporations).

Agency theory emphasizes how crucial it is for the board to oversee and approve management choices, which is consistent with the AC's role in DTSACCOs. It acknowledges the possibility of agents working in their own self-interest engaging in opportunistic behavior, which makes safeguards like external auditors necessary. This clarifies the idea of DTSACCO audit committee independence. Overall, agency theory provides a valuable lens for analyzing the dynamics between members, management, and the AC in DTSACCOs. It emphasizes the need for monitoring mechanisms like the AC to mitigate agency costs and ensure the alignment of interests for the benefit of all stakeholders.

2. Institutional1 Theory

Meyer and Rowan (1977) and DiMaggio and Powell (1983) developed institutional theory, which looks at how external institutions influence organizational behaviors and structures. This viewpoint is prevalent in management research and is especially useful for examining the effects of corporate governance guidelines (Solomon, 2021; Fiss, 2008). This theory explains the potential establishment of organizational structures such as audit committees (ACs), not only for practical monitoring purposes but also to achieve legitimacy and satisfy public expectations (Beasley et al., 2009; Kalbers & Fogarty, 1998). As an illustration, some contend that boards essentially carry out "administrative and "linkage duties, supervising management and tying the firm to the outside world (Stedham & Beekun, 2000).

According to institutional theory, businesses that implement new governance norms frequently encounter resistance, which can result in "decoupling, or the appearance of compliance without actual practice changes (Solomon, 2021). This emphasizes how crucial it is to take into account the historical, social, and political aspects that shape how institutions react to laws (Cohen et al., 2020).

The theory suggests that there are two primary motivations for implementing governance mechanisms such as ACs: regulatory coercion aimed at enhancing organizational effectiveness and the adoption of effective practices from other organizations (Yasser & Al Mamun, 2019; Cohen et al., 2020). This may result in firms' governance procedures being more similar to one another (Braiotta & Zhou, 2006; Lee, 2012). Nonetheless, some detractors contend that the theory's capacity to explain variations and shifts in organizational behavior is constrained by its concentration on imitation (Lee, 2012).

In the context of SACCOs, institutional theory helps us understand why ACs might exist not just for practical monitoring, but also to conform to societal expectations and gain legitimacy. However, some argue that the theory's focus on imitation might not fully explain variations in how SACCOs implement and utilize their ACs. Nevertheless, institutional theory remains a valuable lens for exploring the role and activities of ACs, particularly when combined with other perspectives like agency theory. In this study, the theory specifically informs our understanding of the concept of audit committee expertise.

3. Stakeholder Theory

Freeman (1984) developed the notion of stakeholders, which broadens the company's scope of concern beyond shareholders to include a wider range of people and organizations affected by the company's decisions. Lewis (2011) defines stakeholders as any person with an interest in an organization's operations or results, however Suter et al. (2021) describe stakeholders as those who can influence or be influenced by an organization's aims. This approach recognizes that a variety of stakeholders, including clients, suppliers, and the community, in addition to investors, both impact and are influenced by SACCOs (Fowler et al., 2015).

Stakeholder theory highlights a larger range of actors than agency theory, which focuses primarily on owner-manager relations (Mallin, 2010). Supporters contend that because organizations depend on many groups, they require the backing of society and a positive business climate in order to prosper. The SACCO may be impacted financially, economically, socially, technologically, and environmentally by lenders, clients, staff, the government, and the community (Clement, 2005). As a result, everyone whose interests are connected to the SACCO's success or failure should be taken into account when making decisions (Stovall et al., 2004).

Beyond ethical duties, stakeholder theory contends that recognizing the interests of all stakeholders can increase profitability (Ayuso & Argandoña, 2009). Strong stakeholder management is associated with better governance, higher earnings quality, and less manipulation, according to researchers like Mattingly et al. (2009). Mallin (2020) goes so far as to see stakeholders as outside observers who have an impact on governance processes. Stakeholder interest in governance frameworks is probably growing as a result of crises like Enron, which hurt all stakeholders—not just shareholders—in 1998 (Lee, 1998). This emphasizes how crucial it is to meet the demands of stakeholders and cultivate a good rapport, as suggested by Alpaslan et al. (2009).

Stakeholder theory proponents continue to fight for their consideration, despite agency theory detractors' claims that it is impossible to precisely balance all interests (Sternberg, 1997; Hoque, 2006), particularly in state-owned businesses (Heath & Norman, 2004; Mbo, 2020). Stakeholder theory highlights management's wider obligation towards a wider group than simply shareholders, although both theories show management acting on behalf of others (Aras et al., 2020). All of these people are stakeholders, and the SACCO owes it to them to take reasonable measures to meet their requirements and interests. The difficulty is in devising procedures for an equitable return distribution to all parties involved.

This theory is particularly relevant to the concept of audit committee diversity. Balancing numerous stakeholder interests and achieving equitable distribution can be challenging. However, the complex relationships between stakeholders can enhance transparency in SACCO activities and performance, ultimately aiding in achieving goals like increased profitability. SACCOs are motivated to disclose information about various programs to stakeholders, demonstrating alignment with their expectations. Stakeholder-related activities are crucial for developing and maintaining good relationships with members, creditors, employees, and customers. Disclosing essential reports to stakeholders is primarily a management responsibility, as proper disclosure fosters positive relationships between owners and managers. In this way, stakeholder theory helps explain the importance of audit committee diversity.

RESEARCH METHODOLOGY

Research Design

This study adopted a descriptive research design. This approach was valuable because it allowed the researcher to systematically collect, analyze, and interpret data relevant to the characteristics and relationships within the chosen phenomenon. It enabled the researcher to not only investigate the frequency of occurrences and nature of variable interactions, but also generalize findings to a wider population, leading to a comprehensive understanding of the topic. Additionally, descriptive research provided the flexibility to gather rich data through detailed descriptions, which is crucial for identifying relevant variables and gaining a nuanced understanding of the current state of the phenomenon under investigation.

Target Population

In statistical research, the target population identified the specific group about which information is sought. As Gorard (2021) explains, this can encompass people, services, or even events under investigation. In this study, the target population encompassed all deposit-taking Savings and Credit Cooperatives (SACCOs) operating within Nairobi City County. The unit of observation was 43 licensed deposit-taking SACCOs are operating in Nairobi City County. The unit of analysis was 258 respondents comprising of Chief Executive Officers (CEOs), and audit committee members. This was because they are conversant with the management of their respective SACCOs. Table 1 showed the population.

Table1 1: Target Population

Population	Total	Percent
Chief Executive Officers	43	16.7
Audit Committee Members	215	83.3
Total	**258**	**100.0**

Sample Size and Sampling Technique

This section described the sample size and sampling procedures were used in this study. A sample is a set of a particular population selected for the purpose of the study to make conclusions about the population. The sample size of 157 was attained using (Yamane, 1967) simplified formula. This formula was used to compute the size of the sample as illustrated Table 1:

$$n = \frac{N}{1+N(e)^2}$$

Where; n is the sample size

N is the population size and

e is the margin of error.

N =258

e = 0.05

$$n = \frac{258}{1+258(0.05)^2}$$

=157.

Stratified random sampling was used to obtain a sample from each stratum. Stratified random sampling was chosen because it ensured small groups are represented in the sample. The categories formed strata from which the study sample was obtained. The formation of strata was based on the Chief Executive Officers (CEOs), and audit committee members of each of the SACCOs making each stratum a group of units with special characteristics. Then simple random sampling was used to pick respondents from each stratum. The sample was distributed among the strata as shown in Table 2.

The ration which in Table 2 was computed as follows: 157/258 = 0.389

Table[1] 2: Sample[1] Size[1]

Population	Total	Ratio	Sample
Chief Executive Officers	43	0.608	26
Audit Committee Members	215	0.608	131
Total	**258**		**157**

Data Collection Instrument

Primary data was obtained using questionnaires which were emailed to the respondents. The questionnaire primarily employed closed-ended questions which offer participants a set of predefined response options. As highlighted by Wang (2015), such questions facilitate easier analysis and comparison of data across respondents. Additionally, closed-ended questions help maintain anonymity, potentially encouraging more honest and unbiased responses.

This study did not solely rely on primary data. To augment findings and provide a richer understanding of financial performance, secondary data was sourced from publicly available annual audited financial statements. These reports, available on the SASRA website, were collected for the most recent seven-year period (2015-2022). Analyzing data from this timeframe allowed for examination of trends and potential changes in financial performance over time.

Pilot Study

This study employed a pilot test to assess the effectiveness of the research instruments in measuring target concepts. This rigorous approach ensured the accuracy and reliability of gathered data. Fifteen questionnaires were distributed to senior managers from various SACCOs, representing a 10% sample of the intended population. The valuable insights obtained from the pilot test was used to refine and improve the questionnaire items. This refinement process, as emphasized by Yin (2020), allows for deeper understanding of how respondents interpret questions and ensured that they can be consistently and accurately answered. By testing the appropriateness of the measures, the pilot test guaranteed that the final questionnaire effectively captured the intended information.

Validity

As Gorard (2021) points out, research findings only have value if the drawn inferences are both accurate and relevant. To guarantee the validity of the questionnaires used in this study, a pilot study focusing on content validity was conducted. This approach ensured that the test items truly reflect the intended domain of knowledge and skills being measured. Meyers, Gamst and Guarino (2019) identify sample population representativeness as the core concern in content validity. To address this, the test items must comprehensively cover the relevant knowledge and skills domain. In this study, expert opinions were sought from professionals, supervisors, and lecturers to assess the representativeness and suitability of the questionnaire items. Their feedback was used to refine and improve the content of the questionnaire, ensuring that it accurately captured the intended information from the chosen sample population. By ensuring strong content validity through the pilot study and expert feedback, this research aimed to collect data that was meaningful and relevant to the research question. This ultimately strengthened the accuracy and reliability of the findings, allowing for more confident inferences and conclusions.

Reliability

As emphasized by Wang (2015), reliability refers to the consistency and dependability of a research instrument in measuring its intended target construct. To address this concern, this study conducted retest reliability testing. This involved administering the questionnaire to a randomly selected group of SACCO staff at two different time points. Following the guidelines suggested by Song, Coit, Feng, and Peng (2020), a Cronbach's alpha coefficient of 0.7 or higher was used to assess the internal consistency and adequacy of the constructs measured by the research instrument. This widely accepted threshold indicated that the questions within each construct are measuring the same underlying concept consistently.

Data Collection Procedure

Upon receiving approval from the University academic panel, the data collection process commenced. To gain access to participant organizations, an official introductory letter from the university was presented to each potential respondent. This formal approach ensured transparency and legitimacy. Research assistants involved in questionnaire administration underwent comprehensive training. This focused on developing strong relational skills such as establishing rapport, respectfully persuading respondents to participate, and seeking clarification to ensure accurate data collection. This training approach, as advocated by Wang (2015), promotes effective communication and a positive research experience for participants. To enable participants to offer comprehensive and well-considered responses, the "drop and pick method was employed. This involved delivering questionnaires beforehand, allowing respondents ample time for reflection, and then retrieving them at a scheduled appointment. Research assistants scheduled these appointments at least two days in advance to ensure participant convenience and availability.

Data Analysis and Presentation

This study utilized the descriptive and inferential statistics. Quantitative data was descriptively analyzed by use of measures of central tendencies and measures of dispersion. The measure of central tendency was the arithmetic mean while standard deviation was the measure of dispersion for data obtained from interval scales and ratio scales. The standard deviation determine how strong or weak data is from the measure of central tendency which was arithmetic mean.

Panel analysis was employed for inferential data analysis in this study. Panel analysis allowed for the examination of relationships between independent and dependent variables over time or across different entities. This approach was chosen due to its suitability for handling data with time-series or cross-sectional dimensions. The use of panel analysis provided a more comprehensive understanding of the dynamics and variations in the relationships between the variables. The study findings were presented in tabular form to facilitate a clear and organized representation of the panel analysis results.

Ethical Considerations

In this study, confidentiality by way of non-disclosure of participant's names or institutions was offered to participating institutions and respondents. This allowed access to the study report without compromising identities of respondents (Yin, 2020). Further, all participants were assured of voluntary participation and their liberty to withdraw from the study at whatever stage without penalty. There were no coaxing of participants and informed consent were sought from participants in addition to government institution such as the National Commission for Science, Technology and Innovation (NACOSTI). A summary of final report on the study was also available to the institutions and participants upon request. Throughout the research exercise, ethical principles were observed in the constitutional rights of every person and as such informed consent was sought from the respondents and was assured of confidentiality of the data and information to be collected.

RESEARCH FINDINGS AND DISCUSSIONS

The study aimed at collecting primary data from the respondents. To achieve this, questionnaires were issued to 157 out of which 114 questionnaires were completed and submitted back. This represents a response rate of 72.3%. This implies that the response rate obtained was good and enabled generalization of the findings as it is in line with Yin (2017) who holds that a response rate above 50% is good for data analysis to be done. The response rate was as shown in Table 3.

Table 3: Response Rate

	Number of respondents	Percent
Response	114	72.3
Non-Response	43	27.7
Total	**157**	**100.0**

Source: Survey Data (2024)

Tests for Regression Assumptions

This section contains diagnostic tests for testing the regression assumptions such as multicollinearity test, heteroscedasticity, normality test, sampling adequacy, and autocorrelation test.

Tests of Normality

Normality can be defined as the shape of the data distribution for an individual metric variable and its correspondence to the normal distribution, the benchmark for statistical methods. Normality is one of three assumptions for multivariate analysis. Regression assumes normality between the variables under analysis (Hair et al., 2010).

Table 4: Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Financial performance of deposit taking Saccos	.129	113	.213	.965	113	.671
Audit committee independence	.106	113	.412	.942	113	.508
Audit committee expertise	.138	113	.098	.932	113	.745
Audit committee diversity	.084	113	.203	.991	113	.620
Audit committee diligence	.118	113	.113	.965	113	.805
Audit Committee Meetings	.183	113	.021	.907	113	.610
Size of the Sacco	.171	113	.016	.902	113	.530

Source: Survey Data (2024)

As shown in Table 4, the significance level (P-value) of the Shapiro-Wilk test for financial performance of deposit taking Saccos was 0.671, 0.508 for audit committee independence, 0.745 for audit committee expertise, 0.62 for audit committee diversity, 0.805 for audit committee diligence, 0.610 for audit committee diversity and 0.530 for size of the Sacco. For normally distributed data, Gujarati and Porter (2009) recommend that the P-value should be greater than 0.05 at 95% confidence level. Since all the variables had a significance level of greater than 0.05 at 95% confidence level, the study concludes that for all the variables data was normally distributed.

Multicollinearity

Problem may arise when two or more predictor variables are correlated. Heteroscedasticity means that previous error terms are influencing other error terms and this violates the statistical assumption that the error terms have a constant variance. Greene (2013) argues that the prediction is not affected, but interpretation of, and conclusions based on, the size of the regression coefficients, their standard errors, or the associated z-tests, may be misleading because of the potentially confounding effects of multi collinearity. In the presence of multi collinearity, Mason and Perreault (2011) demonstrate that the coefficient estimates may change erratically in response to small changes in the model or the data. However, the decision to finally drop an item also depends on a second step, where the variance inflation factor (VIF) is applied according to Greene (2013). The VIF detects multi collinearity by measuring the degree to which the variance has been inflated. A VIF greater than 0 is thought to signal harmful multi collinearity as suggested by Baum (2006).

Table 5: Coefficients

Model	Collinearity Statistics	
	Tolerance	VIF
Audit committee independence	.955	1.047
Audit committee expertise	.963	1.038
Audit committee diversity	.954	1.049
Audit committee diligence	.876	1.142
Audit committee meetings	.927	1.079
Size of the Sacco	.466	2.146

Source: Survey Data (2024)

The Variance inflation factor (VIF) was checked in all the analysis which is not a cause of concern according to Baum (2006) who indicated that a VIF greater than 10 is a cause of concern. The basic assumption is that the error terms for different observations are uncorrelated (lack of autocorrelation). The findings show that audit committee independence had a VIF of 1.047, audit committee expertise had a VIF of 1.038, audit committee diversity had a VIF of 1.049, audit committee diligence had a VIF of 1.142, audit committee meetings had a VIF of 1.079 and size of the Sacco had a VIF of 2.146. Based on the results, there is no collinearity between the independent variables that can affect their predictive power, hence all the independent variables are appropriate for regression analysis.

Heteroscedasticity Test

This test checks whether the variance of the dependent variable varies across the data (test the assumption of equal variance). To test for heteroscedasticity, the Levene test was used where if P-value< 0.05 is an indication of presence of non-uniform variance. The test results were as shown in Table 6.

Table 6: Levene Test Results

	Levene Statistic	Df1	Df2	Sig.
Audit committee independence	0.183	1	113	0.021
Audit committee expertise	2.171	1	113	0.014
Audit committee diversity	3.172	1	113	0.031
Audit committee diligence	4.238	1	113	0.003
Audit committee meetings	1.211	1	113	0.047
Size of the Sacco	3.122	1	113	0.002
Financial performance of deposit taking Saccos	2.331	1	113	0.034

Source: Survey Data (2024)

From the findings, the p-value for all the variables (audit committee independence, audit committee expertise, audit committee diversity, audit committee diligence, audit committee meetings, size of the Sacco and financial performance of deposit taking Saccos) were less than 0.05 hence the null hypotheses for equal variances were rejected. This further shows that the data set had no heteroscedasticity and is therefore suitable for modeling of regression equation

Autocorrelation Test

Furthermore, the researcher tested the autocorrelation assumptions that imply zero covariance of error terms over time. That means errors associated with one observation are uncorrelated with the errors of any other observation. As noted by Gujarati (2004), the best renowned test for detecting serial correlation is Durbin Watson test. Accordingly, if the d computed nearest to 2 in application, it is assumed that there is no autocorrelation problem.

Table 7: Autocorrelation Test

Model	Durbin-Watson
1	1.875

Source: Survey Data (2024)

As per this test expressed in Table 7, the value of Durbin--Watson for the model is 1.875 which is within range of 1.5-2.5. Thus, the null hypotheses were rejected for the model so there is a problem of autocorrelation.

Sampling Adequacy

Kaiser-Meyer-Olkin measure (KMO) and Bartlett's Test of Sphericity tests were performed to establish sampling adequacy of the research data. KMO measure varies between 0 and 1, and values closer to 1 are better with a threshold of 0.5. Williams, Brown and Onsman (2012) stated that KMO of 0.50 is acceptable degree for sampling adequacy. Bartlett's Test of Sphericity tests the null hypothesis that the correlation matrix is an identity matrix; that is, it analyzes if the samples are from populations with equal variances. These results are presented in Table 8.

Table 8: Sampling Adequacy

Factors	KMO Test	Bartlett's Test of Sphericity			Determinant
		Approx. Chi-Square	df	Sig.	
Audit committee independence	.880	3976.661	113	0.000	0.000
Audit committee expertise	.921	2338.081	113	0.000	0.013
Audit committee diversity	.560	969.697	113	0.000	0.004
Audit committee diligence	.870	1407.898	113	0.000	0.000
Audit committee meetings	.802	510.767	113	0.001	0.034
Size of the Sacco	.759	382.052	113	0.000	0.006

Source: Survey Data (2024)

The sampling adequacy was assessed using the Bartlett's Test of sphericity which analyses if the samples are from populations with equal variances produced p-values less than 0.05 ($p < .001$). Since the Bartlett's test significances were less than 0.05 further indicates an acceptable degree of sampling adequacy (sample is factorable).

Multiple Regression

Multiple regression analysis was carried out to determine the effect of audit committee independence, audit committee expertise, audit committee diversity, audit committee diligence, and audit committee meetings on financial performance of deposit taking Saccos in Nairobi City County, Kenya. The findings were presented in Table 9, 10, and 11.

Table 9: Model Summary

Model	R	R Square	Adj. R Square	Std. Error of the Estimate
1	.867	.751	.739	1.618

a. Predictors: (Constant), Audit Committee Independence, Audit Committee Expertise, Audit Committee Diversity, Audit Committee Diligence, Audit Committee Meetings

Source: Survey Data (2024)

The outcome of Table 9 found that the adjusted R-Square value (coefficient of determination) is 0.739, which indicates that the independent variables (audit committee independence, audit committee expertise, audit committee diversity, audit committee diligence, and audit committee meetings) explain 73.9% of the variation in the dependent variable (financial performance of deposit taking Saccos in Nairobi City County). The other 26.1% are explained by other factors outside the scope of this study.

Table 10: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	884.022	5	176.804	65.124	5.11E-31
Residual	293.209	108	2.715		
Total	**1177.231**	**113**			

a. Dependent Variable: Financial performance of deposit taking Saccos

b. Predictors: (Constant), Audit Committee Independence, Audit Committee Expertise, Audit Committee Diversity, Audit Committee Diligence, Audit Committee Meetings

Source: Survey Data (2024)

The results are shown in Table 10 which found that the model had predictive value and thus it was significant. This was because its p-value was less than 5%, p=5.11E-31 and F calculated (65.124) was significantly larger than the critical F value (2.2984). Since the p-value is less than the significance level, the sample data provides sufficient evidence to conclude that the regression model fits. This has helped to recognize a biased model by identifying problematic patterns in the residual plots.

Model coefficients provide unstandardized and standardized coefficients to explain the direction of the regression model and to establish the level of significance of the study variables. The results are captured in Table 11.

Table 11: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	21.502	6.880		3.125	0.002
Audit committee independence	0.689	0.314	0.674	2.194	0.030
Audit committee expertise	0.711	0.213	0.682	3.338	0.001
Audit committee diversity	0.633	0.095	0.533	6.663	0.000
Audit committee diligence	0.618	0.230	0.512	2.687	0.008
Audit committee meetings	0.638	0.237	2.085	2.692	0.002

a. Dependent Variable: Financial performance of deposit taking Saccos

Source: Survey Data (2024)

As per the SPSS generated Table above, the equation ($\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon}$) becomes:

$$\mathbf{Y = 21.502 + 0.689X_1 + 0.711X_2 + 0.633\ X_3 + 0.618X_4 + 0.638X_5}$$

The findings showed that if all factors (audit committee independence, audit committee expertise, audit committee diversity, audit committee diligence, and audit committee meetings) were held constant at zero, financial performance of deposit taking Saccos in Nairobi City County, Kenya will be 21.502. The findings also show that a unit increase in audit committee independence would lead to a 0.689-increase in financial performance of deposit taking Saccos in Nairobi City County. This variable was significant since 0.030<0.05. Therefore, the null hypothesis that states that there is no statistically significant relationship between audit committee independence and financial performance of deposit taking Saccos in Nairobi City County, Kenya, was rejected. These findings corroborate findings by Abdo et al. (2020), who argue that independence is crucial for ensuring unbiased oversight and effective governance, ultimately supporting better financial outcomes. This aligns with the study's findings where audit committee independence significantly increases financial performance, confirming the critical role of independence in enhancing organizational accountability and effectiveness.

Further, the findings shows that a unit increase in audit committee expertise would lead to a 0.711 increase in financial performance of deposit taking Saccos in Nairobi City County. This variable was significant since 0.001<0.05. Therefore, the null hypothesis that states that there is no statistically significant relationship between audit committee expertise and financial performance of deposit taking Saccos in Nairobi City County, Kenya, was rejected. This result is consistent with Clark (2004), who found that knowledgeable committee members are better equipped to handle complex financial oversight, contributing positively to organizational financial health. This supports the rejection of the null hypothesis concerning the impact of audit committee expertise on financial performance.

The study found that a unit increase in audit committee diversity would lead to a 0.633 increase in financial performance of deposit taking Saccos in Nairobi City County, Kenya. This variable was significant since 0.000<0.05. Therefore, the null hypothesis that states that there is no statistically significant relationship between audit committee diversity and financial performance of deposit

taking Saccos in Nairobi City County, Kenya, was rejected. This resonates with the findings of Cohen et al. (2020), who highlight that diversity brings a variety of perspectives that can lead to more innovative solutions and robust problem-solving, enhancing the overall financial performance. This supports the study's rejection of the null hypothesis regarding diversity, aligning with broader research that emphasizes the benefits of diverse leadership in governance contexts.
Further, the findings show that a unit increase in audit committee diligence would lead to a 0.618 increase in financial performance of deposit taking Saccos in Nairobi City County, Kenya. This variable was significant since $0.008<0.05$. Therefore, the null hypothesis that states that there is no statistically significant relationship between audit committee diligence and financial performance of deposit taking Saccos in Nairobi City County, Kenya, was rejected. These findings align with insights from Rezaee (2009), who suggests that diligent monitoring and proactive governance can significantly mitigate risks and enhance financial integrity. This finding upholds the importance of diligence as outlined in the literature, emphasizing its role in maintaining stringent oversight and compliance processes that directly influence financial performance.

The results also revealed that a unit increase in audit committee meetings would lead to a 0.638 increase in financial performance of deposit taking Saccos in Nairobi City County, Kenya. This variable was significant since $0.002<0.05$. Therefore, the null hypothesis that states that there is no statistically significant relationship between audit committee meetings and financial performance of deposit taking Saccos in Nairobi City County, Kenya, was rejected. These findings are supported by Liao and Hsu (2021), who argue that regular and effective meetings are essential for timely and effective decision-making. This study's findings confirm that more frequent and strategically focused meetings contribute to better financial outcomes, reinforcing the importance of consistent and engaged committee interactions as discussed in existing governance literature.
As per the findings, at 95% confidence level, all the variables were significant as the p-value was less than 0.05. The study inferred that audit committee expertise had the greatest effect on the financial performance of deposit taking Saccos in Nairobi City County, Kenya, followed by audit committee independence, then audit committee meetings, then audit committee diversity while audit committee diligence had the least effect to the financial performance of deposit taking Saccos in Nairobi City County, Kenya.

Moderating Effect of Size of the Sacco on the Relationship between Audit Committee and Financial Performance of Deposit Taking Saccos

The hypothesis stating, “There is no moderating effect of size of the SACCO on the relationship between audit committee and financial performance of deposit taking Saccos in Nairobi City County, Kenya”. The aim is to examine how the independent variables vary when a moderating variable is introduced in the model. The model was expressed as:

$Y = \beta_0 + \beta_1 X_1 * (X_6) + \beta_2 X_2 * (X_6) + \beta_3 X_3 * (X_6) + \beta_4 X_4 * (X_6) ++ \beta_5 X_5 * (X_6)\ e$

Where: Y = Financial performance of Deposit Taking Saccos in Nairobi City County

a = Constant

β = Coefficient

X_1 = Audit committee independence

X_2 = Audit committee expertise
X_3 = Audit committee diversity
X_4 = Audit committee diligence
X_5 = Audit committee meetings
X_6= Size of the Sacco
e = error term

Stepwise regression technique consisting of three models was used to test the moderating effect of size of the Sacco on the relationship between audit committee and financial performance of deposit taking Saccos in Nairobi City County, Kenya.

Step one: Influence of Audit Committee on Financial Performance of Deposit Taking Saccos in Nairobi City County

In step one, the independent variable audit committee was regressed on financial performance of Deposit Taking Saccos in Nairobi City County. The results are presented in Table 12.

Table 12: Combined Audit Committee and Financial Performance of Deposit Taking Saccos in Nairobi City County

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.867	.751	.739	1.618

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	884.022	5	176.804	65.124	5.11E-31
	Residual	293.209	108	2.715		
	Total	**1177.231**	**113**			

Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	21.502	6.880		3.125	0.002
	Audit committee independence	0.689	0.314	0.674	2.194	0.030
	Audit committee expertise	0.711	0.213	0.682	3.338	0.001
	Audit committee diversity	0.633	0.095	0.533	6.663	0.000
	Audit committee diligence	0.618	0.230	0.512	2.687	0.008
	Audit committee meetings	0.638	0.237	2.085	2.692	0.002

Predictors: (constant), Audit Committee Independence, Audit Committee Expertise, Audit Committee Diversity, Audit Committee Diligence, Audit Committee Meetings

Dependent Variable: Financial performance of Deposit Taking Saccos

Step Two: Influence of Combined Audit committee and Size of the Sacco on Financial performance of Deposit Taking Saccos in Nairobi City County

In step two the influence of the moderator (Size of the Sacco) was introduced into the model between audit committee and financial performance of Deposit Taking Saccos in Nairobi City County. The results are presented in Table 13.

Table 13: Combined Audit committee, Size of the Sacco and Financial performance of Deposit Taking Saccos

Models Summary

Model	R	R Square	Adjusted R Square	Std. Error	F	p-value
1	0.867	0.751	0.739	1.618	134.785	.000
2	0.929	0.862	0.858	0.949	260.874	.000

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	884.022	5	176.804	65.124	5.11E-31
	Residual	293.209	108	2.715		
	Total	**1177.231**	**113**			
Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig**
2	Regression	909.918	6	151.653	111.833	9.09E-44
	Residual	145.099	107	1.356		
	Total	**1055.017**	**113**			

Regression Coefficients

		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig
2	(Constant)	1.278	0.191		6.691	.000
	Audit committee independence	0.817	0.311	0.718	2.627	.009
	Audit committee expertise	0.612	0.217	0.609	2.820	.005
	Audit committee diversity	0.599	0.278	0.489	2.155	.032
	Audit committee diligence	0.789	0.316	0.611	2.497	.013
	Audit committee meetings	0.769	.352	3.213	2.185	.001
	Size of the Sacco	0.576	0.104	0.459	5.538	.000

Predictors: (constant), Audit Committee Independence, Audit Committee Expertise, Audit Committee Diversity, Audit Committee Diligence, Audit Committee Meetings, Size of the Sacco

Dependent Variable: Financial performance of Deposit Taking Saccos

The results in Table 13 indicated that after introduction of size of the Sacco into the relationship, and the interaction term in model 2 increased the R square by 0.111. This implies that the interaction between size of the Sacco and combined audit committee explains 11.1% variations in financial performance of Deposit Taking Saccos. F was at F (6, 107) =111.833, p<9.09E-44<0.05) and therefore the overall moderating influence was significant. Clark (2004) suggests that as organizations grow, the challenges associated with managing and overseeing their operations also increase, necessitating more robust and potentially diverse governance practices to ensure effective oversight. This is consistent with the observed increase in explanatory power when the size of the SACCO is included as a moderator.

The null hypothesis was therefore rejected and it was concluded that the significant relationship between audit committee and financial performance of Deposit Taking Saccos in Nairobi City County depends on size of the Sacco.

Conclusions

The study concluded that audit committee independence had a significant effect on the financial performance of deposit taking Saccos in Nairobi City County, Kenya. The study concluded that balanced representation and transparency in director selection contribute positively to governance. However, the lack of fixed terms for audit committee members and uncertainties around the transparency of the chairman selection process may pose risks to sustained independence and effectiveness. To enhance governance and financial performance, it would be beneficial for SACCOs to implement clearer guidelines and perhaps introduce term limits to ensure ongoing renewal and independence within the committee.

The study concluded that audit committee expertise had a significant effect on the financial performance of deposit taking Saccos in Nairobi City County, Kenya. The study deduced that the audit committees are generally well-equipped with financial literacy and auditing experience, which are crucial for effective financial oversight. However, the lack of industry-specific expertise could hinder the committee's ability to fully understand and manage industry-related risks. SACCOs should consider targeted recruitment or training to bridge this gap, ensuring that their audit committees possess comprehensive expertise that includes sector-specific knowledge to enhance decision-making and financial performance.

The study concluded that audit committee diversity had a significant effect on the financial performance of deposit taking Saccos in Nairobi City County, Kenya. The study concluded that diversity within audit committees, in terms of age and professional background, has been positively associated with independent decision-making and enhanced governance. However, the uncertain effectiveness of mechanisms to ensure member independence and the effectiveness of tenure limits suggests a need for stronger governance structures. Implementing more robust systems to regularly assess and reinforce the independence of audit committee members can help maximize the benefits of diversity.

The study concluded that audit committee diligence had a significant effect on the financial performance of deposit taking Saccos in Nairobi City County, Kenya. The study concluded that effective communication with external auditors and proactive oversight of internal controls are foundational for robust financial governance. Nonetheless, the ambiguity regarding adherence to financial reporting timelines and the timeliness of financial reports indicates potential areas for improvement. SACCOs might focus on enhancing their financial reporting processes and ensuring that diligence extends to all areas of financial communication and compliance.

The study concluded that audit committee meetings had a significant effect on the financial performance of deposit taking Saccos in Nairobi City County, Kenya. The study concluded that are foundational for robust financial governance. Nonetheless, the ambiguity regarding adherence to financial reporting timelines and the timeliness of financial reports indicates potential areas for improvement. SACCOs might focus on enhancing their financial reporting processes and ensuring that diligence extends to all areas of financial communication and compliance.

The study concluded that size of the Sacco moderates the relationship between audit committee and financial performance of deposit taking Saccos in Nairobi City County, Kenya. The study concluded that larger SACCOs face unique challenges that require tailored risk management and governance approaches. The findings suggest that while substantial assets and large loan portfolios are managed effectively, the impacts of branch number and membership size on governance are less clear. This calls for a strategic evaluation of how governance structures can be optimized according to the size and complexity of the SACCO to ensure effective oversight across all levels of the organization.

Recommendations

The study recommended that there is need to strengthen audit committee independence by implementing fixed terms for committee members. This measure would ensure a regular infusion of fresh perspectives and help maintain independence. Additionally, enhancing the transparency of the selection processes for audit committee chairs and members is crucial. Establishing clear, documented, and openly communicated criteria and processes would augment trust and accountability among stakeholders.

To boost audit committee expertise, the study suggested that targeted training programs should be provided, focusing on the specific challenges and risks inherent in the SACCO sector. This could include regulatory updates and market trends. Furthermore, the recruitment of industry experts with substantial experience in the financial cooperative sector or similar fields would enrich the committee's overall effectiveness by bringing in relevant, sector-specific expertise.

Formalizing diversity policies to ensure a broad representation of professional backgrounds, cultural perspectives, and age would help broaden the range of viewpoints within the committee. Regular evaluations and strengthening of mechanisms that ensure each committee member's independence are also necessary. This could involve annual conflict of interest assessments and independence declarations.

Further, improving audit committee diligence through regular compliance training would keep members informed about new and existing compliance requirements, focusing on the latest financial reporting standards and regulatory updates. Also, stricter controls and oversight mechanisms should be implemented to ensure timely and accurate financial reporting, potentially supported by technological solutions to automate and streamline processes.

The study highlighted the need to optimize audit committee meetings by establishing a consistent and regular meeting schedule that aligns with significant financial reporting deadlines and operational planning cycles. Ensuring meeting agendas are strategically relevant and involve senior management in the agenda-setting process would guarantee coverage of all pertinent financial and operational issues.

Also, adapting governance structures to the size of the SACCO is vital. Developing scalable and adaptable governance frameworks would cater to the unique needs of larger operations, involving advanced risk management strategies and frequent risk assessments. For larger SACCOs, sophisticated financial modeling tools and regular reviews of risk management policies are recommended to address the complexities of larger scale operations.

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