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ASSOCIATION BETWEEN AUDIT COMMITTEE CHARACTERICTICS AND FINANCIAL PERFORMANCE OF SACCOs IN KERICHO COUNTY, KENYA

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ABSTRACT

Co-operative societies sector in Kenya play a very important role in improving the livelihoods of its members and the development of the country at large. However, these co-operative societies suffer common problems associated with poor financial management, and governance. The purpose of this study was to advance an understanding on the effects of AC characteristics and the performance Sacco Societies in Kericho County. The research design for this study was descriptive survey design employing multiple regression analysis. The target population comprised of all 83registered deposit taking Sacco societies operating in Kericho. The questionnaires were administered to the CEO of the respective Saccos. The study established that there was a significant relationship between the size of the AC (r=.414;p<0.05); independence of AC (r=.437:p<0.01); female representation in the AC (.526;p<0.01), professionalism of AC (r=.199;p<0.05) and the dependent variable, firm performance. Collectively, variations in independent variables significantly determine the variations in performance of the firm as shown (R-square 0.607;p<0.01). The study therefore concludes that professionalism, size of the AC, female representation and independence of the AC are important variables that can be manipulated to enhance governance among Saccos and ultimately improve firm performance.

Key Words: Audit Committee Characteristics, Firm Performance, SACCOs.

1.0. INTRODUCTION

A cooperative society is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically managed enterprise. The key idea behind a co-operative society is topool the scarce resources, eliminate the middlemen and to achieve a common goal or interest (Ministry of Cooperative Development and Marketing, 2007). Cooperative Societies are good vehicles for assisting the people improves their socio-economic situation. They derive their strength and validity from member solidarity cooperation and concern for each other.

According to Ouma (1989), Savings and Credit Cooperative Societies played a very significant role in money-lending to their members in the early days of their inception in 1973 in Kenya. This was largely due to the stringent borrowing requirements such as collateral by large banking institutions which many small scale Sacco savers did not have. Large lending institutions considered this category of prospective borrowers very risky and therefore never adventured into giving them credit facilities for a very long time. However, following liberalization in the financial sector in the 1990s, many SACCOs provide financial products that were traditionally reserved for large commercial lending institutions. This development has forced banking institutions to relax their lending terms and conditions in order to remain competitive. Customers including Sacco members seeking financial products such as a range of products offered, cost of the product, time taken to process the application, disbursement mode of the funds and service delivery

The Co-operatives are anchored on a well-established Cooperative philosophy based on seven principles formulated by the International Cooperative Alliance which include: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among co-operatives and finally concerned for the Community (Hans, 1976).

Savings and Credit Co-operatives (Saccos) sub-sector has over 16,000 societies with 14 million members, making it the largest in Africa. Saccos in Kenya account for 62 per cent, 65 per cent, and 63 per cent of the continent's savings, loan and assets respectively. About 28 million Kenyans, 63 per cent of the entire population, depend on the co-operative related activities, directly and indirectly, for their livelihoods.

In Kenya, Saccos control 30 per cent of the GDP and accounts for 80 per cent of the total accumulated savings. Saccos are gradually responding to the fast-changing and competitive financial environment and are adopting new approaches to the model. Membership has for long been based on common bonds which has since been opened up. Emphasis on know-your-member has enabled Saccos to manage credit risks, enforce lending contracts and reduce transaction costs. Saccos were formed to combat poverty. Recently, developing countries have emphasized their potential as a tool for sustainable poverty alleviation.

The Audit Committee (AC) plays a central 'watch dog' role to ensure adherence to set procedures on organizations. The AC is a sub-committee of the board of directors, and its establishment can be traced back over 50 years ago to the recommendations by the Securities and Exchange Commission (SEC) in the US in the 1940s (Goddard and Masters, 2000).Since the

1990s, many listed companies have voluntarily established ACs with the objective to demonstrate good governance (Razaee, Olibe and Minmier, 2003). With time the establishment of an AC as a sub-committee of the board of directors has become a compulsory requirement, and the AC would perform a crucial role as “the ultimate monitoring mechanism” in the corporate financial reporting assurance process (Tsui and Gul, 2003).

According to Wild (1996), ACs are an integral part of the required corporate governance system to overview the financial reporting process for Australia’s S&P300 listed firms. The role of the AC is important to stakeholders as better quality disclosed financial reporting improves market performance. Pincus*et al.* 1989 posits that over time, the role of the AC has evolved and has progressively been re-defined from a voluntary monitoring mechanism employed in high agency cost situations to improve the quality of information flows to shareholders It is now a key component of the oversight function and the focus of increased public and regulatory interest (Abbott and Parker 2000). The current responsibilities of the AC are overseeing the accounting, audit and financial reporting processes of the company (Sarbanes-Oxley Act 2002, Section 2). The implied expectation is that a suitably qualified and committed independent AC acts as a reliable guardian of public interest (Abbott *et al.* 2002).

The Audit Committees normally discharge their duties by holding their meetings and reviewing certain matters relating to the operations of the organization from time to time.To achieve these benefits in the Saccos, ACs must carry out their duties and responsibilitiesto enhance investors’ expectancy of receiving improved financial reports. In Kenya, SASRA has established the duties and responsibilities of the ACs. As a result, the firm will more likely experience an increase in its earnings response coefficients. In addition, companies with an audit committee are less likely to experience errors, irregularities and other indicators of unreliable financial reporting.

Whereas the role of AC in governance of organizations including SACCOs is not in dispute, the effect of various attributes AC on the success AC in achieving its objective is surrounded by a debate. Several studies have been conducted to explain the effect of board characteristics such as size, frequency of meetings and independence. For instance, Guest, (2009) examined the impact of board size on firm performance for a large sample of 2,746 UK listed firms over 1981-2002. The UK provides an interesting institutional setting, because UK boards play a weak monitoring role and therefore any negative effect of large board size is likely to reflect the malfunction of the board’s advisory rather than monitoring role. The study found that board size has a strong negative impact on profitability, Tobin’s Q and share returns. This result is robust across econometric models that control for different types of endogeneity. The study found no evidence that firm characteristics that determine board size in the UK lead to a more positive board size – firm performance relation. In contrast, the study that the negative relation is strongest for large firms, which tend to have larger boards. Overall, these provided evidence which supports the argument that problems of poor communication and decision-making undermine the effectiveness of large boards.

According to Collins and Kofi (2012), whereas, theoretically, there is a consensus that corporate board meetings play an important role in the governance, conformance and performance of companies the empirical evidence on the impact of board meetings on corporate performance is conflicting. Collins and Kofi (2012) found an empirical support for agency theory, which suggests that corporate boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management, and thereby enhancing corporate financial performance.

In recent years, interest in gender diversity and the representation of females in leadership positions has evidenced a steep increase. Many scientific studies have investigated the relationship between female representation on corporate boards and firm financial performance, but, so far, the results are contradictory (Pletzer, *et al.,* 2015). For instance, a study by Pletzeret al., *(ibid),*using a meta-analysis showed that a higher representation of females on corporate boards is neither related to a decrease, nor to an increase in firm financial performance. Although these findings agreed with findings from a similar meta-analysis on this topic by Byron, 2015), the results do not support the business case for diversity, which suggests that diversity is associated with an increase in performance. However, they allow the conclusion that gender diversity should be promoted for ethical reasons to promote fairness. If a larger representation of female directors does not matter with regard to firm performance, females, if equally qualified, should be given priority when promotion decisions are made.

Saccos play an important role in the society by assisting to mobilize resources and advance credit to Small and medium scale businesses, helps to empower the society thus contributing to the growth of the economy. Kericho is mainly agricultural country in which Saccos play a critical role in its economy. However Saccos have been faced with governance challenges leading to inefficiency. Establishment of Audit committees and oversight boards been advanced to alleviate this issue (Tripathi&Shivnath 2013).

Although the subject of corporate governance has attracted many scholars, the majority of the studies have focused on the effect of board structures on firm performance and corporate governance in general with very little focus on audit committee characteristics despite the fact that audit committee is an important aspect of corporate governance. Given the limited studies in Saccos linking audit committees characteristics and firm performance, there is inadequate evidence in the literature as to the role of audit committee in corporate governance and how it translates to firm performance specifically in Saccos in Kericho County. Despite the increased debate on the inclusion of women in boards of organizations, there is no empirical evidence as to the effect of women representation in the AC of organizations. Inclusion of this variable in the model will. Overall, this study, therefore seeks to advance an understanding on the effects of AC characteristics on the performance of Saccos in Kericho County as the title suggest.

The general objective was to determine the effect of ACs characteristics on the financial performance of operating Saccos in Kericho County. Specifically, the study sought to determine the effect of audit committee size on the financial; to determine the effect of the frequency of audit committee meetings on the financial performance; to establish the effect of independence of the audit committee on the financial performance of Saccos and to determine the effect of gender representation in the AC and the firm performance.

2.0. RESEARCH METHODOLOGY

2.1. Introduction

This chapter presents research design, research area, target population, sample and sampling procedures, data collection instruments, validity and reliability of the research instruments, ethical considerations, data collection procedures and data analysis procedures.

2.2. Research Design

A research design encompasses the method and procedures employed to conduct scientific research. The design of a study defines the study type, descriptive, correlation, semi-experimental. A cross-sectional survey design was adopted for this study. This research design enabled the researcher to collect data using questionnaires from different Saccos at a point in time and draw conclusions regarding the phenomena under investigation. It helped the researcher to bring out the status and characteristics of the subject under study.

This design also integrated causal research in which the relationship between the dependent and independent variables were ascertained using correlation and multiple regression analysis.

2.3. Study area

The study was carried out in Kericho County. The study targetedall the operating Saccos in the entire county. There are 83 registered deposit taking operating Saccos in Kericho County according to the ministry of Cooperative Societies.Kericho County covers an approximate area of 417 square kilometers with a population of 504,359 people according to 2009 National census. This area is preferred because it is one of county with most operating Saccos and it is a representative of the whole country. Furthermore, the Saccos in Kerichocounty are centered around Tea farmers. Tea is an important crop in kenya which contributes significantly to the GDP of Kenya and is one of the biggest source of foreign exchange.

2.4. Population of the Study

The target population was all 83deposit taking operating Saccosin KerichoCounty. Therefore generalizations were made to all the operating Saccosin KerichoCounty and any other regions with similar characteristics

2.5. Sample and Sampling Techniques

All the 83 Saccos will be targeted in this study. The study therefore employed a cencus sampling techniques to survey all the Saccos and purposive sampling to select the CEOs of the Saccos as respondents as they were considered to be key informants who had information regarding ACs in their Saccos as well as firm performance. A structured questionnaire will be self – administered to the CEO of each of the Saccos to collect primary quantitative data.

2.6. Data collection instruments

Primary data was used in the study since it is the most accurate and preferable. The primary data was collected using questionnaire. The respondents were allowed to either fill the questionnaire on his or her own or ask the respondent the questions in the questionnaire and fill their responses.

This was also supplemented with secondary data. This was obtained from various publications of the Saccos, SASSRA as well as the financial statements of the participating Saccos.

2.7. Validity and Reliability of the instruments

The term validity defines the degree of stability and consistency that is attributable to the conclusion drawn from the study which is likely to be to be confirmed by a different researcher (Yin, 1994). Often the work must be ascertained by the researcher that when another researcher carries out the same work, the conclusion will be the same or not differ very much and that similar conclusion can be drawn on a repeated research.

The study was conducted based on data from all the members of the population, Questionnaires will be useful in the examination of the nature of relationship between or among the variable, and to determine if there was an association between dependent variable and independent variable. Respondents would fill in answers in written form which will be collected with complete information. The questionnaires were distributed to the respondents by the researcher, give time to complete answers then gather them after the response have been given.

Content validity of the instrument was achieved by reviewing the contents of research instruments with a panel of experts from corporate governance sector and the supervisors. The reliability of the research instrument in was achieved while reliability was achieved by pre-testing the questionnaire. Cronbachalpha which measures the internal consistency reliability test was measured. The finding of the Cronbach alpha was 0.87 which was considered sufficient to support validity aspect of the instrument.

2.8. Data analysis

First preliminary analysis was undertaken to edit and code the data. This paved way for other statistical analysis to be performed. Descriptive analysis was then performed to establish the measures of central tendency and the measures of dispersion. The arithmetic mean and weighted mean is worked out to help in determining the averages of the responses from all respondents. To determine the extent to which the responses varied, variance analysis is used. Frequencies and percentages were also used.

2.9. Model specification

A multiple regression model was used to analyze the data. Regression analysis helped in establishing the nature and relationship between the performance of operating Saccos and the independent variables.

The following regression model was used;

$\mathbf{Y} = a + b_1(x_1) + b_2(x_2) + b_3(x_3) + b_4(x_4) + b_5(x_5) + e$

Y= the dependent variable (firm performance measured ROA))

A = constant

b_1 – b_4 = regression coefficient in Y by each variable of X
X_1 = AC size
X_2 = AC independence
X_3 = AC financial expertise
X_4 = AC meeting frequency
X_5 = female representation in the AC
e=error term

2.10. Ethical considerations

The information volunteered by the respondents was used with utmost confidentiality and only for the purposes of this research. The respondents were assured that research findings would be shared with the respondent at their request. Necessary permission was sought from the University. Anonymity of the identity of the respondents was assured and kept. The study would be of benefit to various stake holders of the Saccos, potential investors, government, academicians and the regulatory bodies.

3.0. **RESULTS**

The study sought to establish the background information of the respondents who mainly comprised of the chief executive officers (CEOs) of the participating Saccos. The information sought included respondents gender, age, length of service in their current Sacco, as well as the age of the Saccos themselves.

The study targeted 83 Saccos operating in Kericho County, Kenya. The responses were received from 60 Saccos representing 73% response rate. Section 4.2 presents the characteristics of the sample, data which was obtained from the background information sought in the research instrument. Appreciation of the characteristics of the sample was considered useful for it since the responses may be influenced by the demographic characteristics of the sample.

The study sought to establish the representation of the respondents in terms of gender. The findings are shown in Table 1.

Table 1: Distribution of respondents by gender

Gender	**No.**	**%**
Male	54	90%
Female	6	10%
Total	**60**	**100%**

Source, Survey data, 2016

The results indicate that the majority of the respondents were male (90%) compared to female (10%). This results suggests that the top management of Saccos in the study area are male dominated. These findings however indicate that the sample was represented by either gender.

The research instrument requested the respondents to indicate their age brackets. This was categorized between 18-25 years, 26-33 years, 34-41 years and above 41 years. This was important as it helped the researcher to understand the age representation of the sample. The age dynamics of the sample may have effect on the responses. The results of the responses adduced are shown in Table 2.

Table 2: Distribution of respondents by age

Age	**No**	**%**
18-25 years	0	0%
26-33 years	12	20%
34-41 years	28	47%
>41 years	20	33%
Total	60	100%

Source, Survey data, 2016

As it can be observed from Table 2, the majority of the respondents were aged between 34 – 41 years of age represented by 28(47%) of the respondents. This was followed by respondents who were over 41years (33%). Collectively the study established that the majority of the respondents were at least 34 years of age. Notably, none of the respondents were 25 years of age or less.

This observation leads to the conclusion that most of the CEOs represented in the sample had substantial experience and that Saccos consider age in selection of their top executives. Regarding how representative the sample was, these findings shows that safe for ages below 25 years, the sample was representative of a wider range of age brackets.

Respondents were also requested to indicate the length of service as CEO. This was necessary as it helped the researcher to access the experience of the respondents. The experience of the respondents has a bearing on the knowledge of the respondents as to the operations of the Sacco. Table 3 presents the summary of the findings.

Table 1: Duration of service of the CEO

Duration as CEO	**No**	**%**	**Cum %**
Less than 1 year	2	3%	3%
1-4 years	16	27%	30%
5-8 years	28	47%	77%
More than 8 years	14	23%	100%
Total	60	100%	100%

Source, Survey data, 2016

The findings reveal that the majority of the respondents (70%), had served as CEOs for a period not less than 5 years. This percentage is represented by 28(47%) who had served for 5-8 years and another 14(23%) who stated that they had served for more than 8 years. Only a total of 18(30%) of the respondents had served for 4 years or less with a meagre 3% having experience of less than one year. This finding leads to consistent conclusion that most of the Sacco CEOs in the sample have long experience as concluded in the investigation on the ages of the respondents. This findings gives the researcher the comfort that the data is supplied by respondents who have adequate knowledge on pertinent facts regarding the firms under survey.

Respondents were requested to state how long their firm has been in existence. The study findings regarding this question indicated that majority of the firms in the sample had been in existence for more than five years. Table 4 shows the distribution of ages of the Saccos which participated in the study.

Table 2

Distribution of the distribution of the Saccos by Age

Duration of the Sacco	**No**	**%**	**Cum %**
Less than 5 year	2	3%	3%
5-10 years	14	23%	27%
11-15 years	18	30%	57%
More than 15 years	26	43%	100%
Total	60	100%	100%

Source, Survey data, 2016

As shown in Table 4, only 3% of the Saccos were newly formed, as they had been in existence for only 5 years or less. Saccos which had been in existence for 5-10 years were 23% while those which had existed for 11-15 years accounted for 30% of the Saccos. The majority of the Saccos, 43% had lasted for more than 15 years. These findings suggest that the disparity of firm performance could not be adversely affected by their age because the majority of the Saccos were already established.

The study sought to establish the relationship between the size of Audit Committee and the firm performance. To achieve this objective, the study collected data on the sizes of ACs of the participating firms and correlated with firm performance. Table 5 shows the sizes of various ACs of the firms in the sample.

Table 3: Size of AC

Size	**No**	**%**	**Cum %**
1 to 2	0	0%	0%
3 to 4	12	20%	20%
5 to 6	8	13%	33%
7 to 8	16	27%	60%
9 and above	24	40%	100%
Total	60	100%	100%

Source, Survey data, 2016

The findings indicate that none of the firms in the sample had less than three AC members. Interestingly, the findings reveal that the majority (40%) of the firms in the sample had 9 or more audit committee members. Further, the findings revealed that 12(20%) of the firms had 3 to 4 Audit Committee Members, while 8(13%) had 5-6 members and 16(27%) of the firms in the sample had 7-8 AC members.

The finding that most of the firms had more than 5 Audit Committee members seems to suggest that most firms in the Sacco industry in the study area had bloated AC membership. In order to ascertain the relationship between the audit size and firm performance, correlation analysis was conducted. The results of the correlation are indicated in Table 4.8. As seen from the table, the findings established that there is a negative relationship between audit size and firm performance. This relationship is significant as shown by r=.414(p<0.05).

This finding leads to the conclusion that the larger the audit committee, the poorer the performance and vice-versa. This finding is consistent with the findings of (Vafeas 1999) which assert that larger audit committees can also lead to inefficient governance, thus yielding more frequent AC meetings. They find a positive association between the higher risk of financial misreporting and AC size, institutional and managerial ownership, financial expertise and independence of the board. It argued that the number of members on the AC and number of meetings can potentially have a positive impact on firm performance.

These findings were consistent with the findings of the current study and the findings of Guest, (2009) in UK which examined the impact of board size on firm performance for a large sample of 2,746 UK listed firms over 1981-2002. Guest (2009) found that board size has a strong negative impact on profitability, Tobin's Q and share returns. This result is robust across econometric models that control for different types of endogeneity. The study found no evidence that firm characteristics that determine board size in the UK lead to a more positive board size – firm performance relation. In contrast, the study that the negative relation is strongest for large firms, which tend to have larger boards. Overall, these provided evidence which supports the conclusion that problems of poor communication and decision-making undermine the effectiveness of large boards.

The study also intended to establish the relationship between the composition of Audit committee in terms of gender and firm performance. The composition of women in the ACs of Saccos were categorized into 1-2, 3-4, 5-6, 7-8, and 9 and above. The responses received indicted that all these categories were represented. Preliminary survey of the composition of the AC in terms of gender is summarized in Table 6

Table 4: Composition of AC in terms of Gender

	Male		Female	
Membership in AC	No.	%	No.	%
1 or 2 Members	4	7%	18	30%
3- or 4 Members	12	20%	30	50%
5 - 6 Members	10	17%	8	13%
7-8 Members	20	33%	2	3%
9 and above	12	20%	0	0%
Missing score	2	3%	2	3%
Total	*60*	*100%*	*60*	*100%*

Min	2	1
Max	14	7
Mean	6.65	3.21

Source, Survey data, 2016

The findings revealed that the average number of AC among the participating Saccos was 6.65 male and 3.21 female. The minimum number of AC membership was 3 with minimum of 2 male and minimum of 1 female. The findings show that in all the participating firms, the female representation was less than male. Despite the fact that the majority of firms as seen previously had more than 5 audit committee members, 30% of the firms had 1-2 female AC members and 50% had 3-4 audit committee members. This implies that about 80% of the female audit committee members in the sample fall below 5 in number.

There was a striking contrast in the trend of male as compared to female. The composition of male is higher as shown by only 4(7%) of the Saccos having 1-2 male members, but the numbers seem to increase for 3-4 members accounting for 20% male. Generally, there were more male AC members than among the firms in the sample. The respondents expressed concern on the poor representation of the female in the saccos.

In order to determine the relationship between the composition of the AC in the Saccos and firm performance, correlation analysis was conducted. The findings of the correlation analysis are found in Table 4.8. The study established that there was a significant positive relationship between female representation in the AC and firm performance. This can be shown by $r=.526(p<0.01)$. The study therefore concludes that more female representation in AC leads to improved performance in the Saccos.

Most previous studies including Sharma *et al*, (2009), Vafeas (1999), Raghunandan and Rama (2007) among others focused on the size, independence and professionalism. Little attention had been put to the role of gender in AC. However, Kim *et al.* (2010), found an indirect association between female representation and firm performance due to the fact that more female representation reduces the external audit fees.

In recent years, interest in gender diversity and the representation of females in leadership positions has evidenced a steep increase. Many scientific studies have investigated the relationship between female representation on corporate boards and firm financial performance, but, so far, the results are contradictory (Pletzer, *et al.*, 2015). For instance, a study by Pletzer et al., *(ibid),* using a meta-analysis showed that a higher representation of females on corporate boards is neither related to a decrease, nor to an increase in firm financial performance. Although these findings agreed with findings from a similar meta-analysis on this topic by Byron, (2015), the results do not support the business case for diversity, which suggests that diversity is associated with an increase in performance. However, they allow the conclusion that gender diversity should be promoted for ethical reasons to promote fairness.

The findings of this study affirms the assertions of Pletzer et al., (2015) to the effect that, even if a larger representation of female directors does not matter with regard to firm performance, females, if equally qualified, should be given priority when promotion decisions are made.

The study also sought to establish whether the professional background of the Audit committee had a bearing on the performance of the firm. The study considered that, AC members with background in accounting, Finance and Auditing had the required qualification to comprehend matters relating to AC. The study found out that all the participating firms had at least one member with professional qualifications in the specified field.

Table 5: Professional qualification of AC Members

Professional Qualification	**No.**	**%**
Accounting ,Finance and Auditing	248	51%
Law	16	3%
Business	138	28%
Other	88	18%
Total	*490*	*100%*

Source, Survey data, 2016

Specifically, the study established that 248(51%) of the audit committee members in the sampled firms had background in accounting, finance or auditing, while 3% had background in Law and 28% had training in Business related field. The rest of the AC members (18%) had did not have background in any of the specified disciplines. The findings are consistent with DeZoort (1998) who found that a majority of the directors surveyed had a Master's degree, although a large portion of directors lacked any professional certification or licensing.

The study found no significant relationship between the professional qualifications of the AC members and the firm performance. This was shown by $r=0.108 (p>0.05)$ in the correlation matrix as presented in Table 8.

This finding leads to the conclusion that as long as the firm has at least one, member with professional, the professional qualification of the AC members does not influence the performance of the firm.

However, when correlation analysis was run between professionalism of the AC and firm performance, the study revealed that there is a significant relationship between the AC professionalism and the firm performance. This was shown by $r=0.199 (p<0.05)$. This finding therefore leads to the conclusion that whereas professional qualifications of the AC member has no significant effect on firm performance, professionalism of the AC members is of essence as it significantly affects performance. It is therefore recommended that in selecting the AC members, the firm should consider the integrity of the member and their professionalism rather than their professional qualifications.

This finding is consistent with the New York Stock Exchange (NYSE), AC Charter amended June 2012, which stipulates that each member of the Audit Committee shall in the judgment of the Board of Directors be financially literate, as such qualification is interpreted by the Company's Board in its business judgment, have a basic understanding of finance and accounting and be able to read and understand the Company's fundamental financial statements but not necessarily a financial expert. At least one member of the Committee shall in the judgment of the Board of Directors be an audit committee financial expert in accordance with the rules and regulations of the SEC, and at least one member (who may also serve as the Audit Committee financial expert) shall in the judgment of the Board of Directors have accounting or related financial management expertise in accordance with the NYSE listing standards.

These findings however indicate some contrast with the findings of study by Chan and Li (2008) who classified AC member into two groups; those with and those without finance-trained directors. They find a significant impact for finance trained directors as members of an independent AC (Chan and Li 2008).

Table 6:

Correlation and Regression results

Var	**Y**	**X1**	**X2**	**X3**	**X4**	**X5**	**X6**
Y	1.000						
X1	.-414*	1.000					
X2	.526**	-.066	1.000				
X3	.108	-.158	.035*	1.000			
X4	.387	.302*	-.016	-.016	1.000		
X5	.437**	-.067	-.140	.180	.293	1.000	
X6	.199*	-.019	-.257	.243	.330	.797	1.000
R	.779[a]						
R^2	.607	*Y*	*Firm performance*				
Adj R^2	.562	*X1*	*Size_of_AC*				
SE	.107	*X2*	*Prop' of Female*				
Sign	.000	*X3*	*Prop' of Professionals*				
		X4	*Freq' of Meetings*				
		X5	*Independence*				
		X6	*Professionalism*				

**Coefficient is significant at 0.05; **Coefficient is significant at 0.01; N=58; Dependent variable: Firm performance*

Source, Survey data, 2016

The study also sought to investigate the influence of independence of Audit Committee members from the management of the firm and the firm performance. The results indicate that there is a strong positive correlation between independence of the AC and the firm performance. This was shown by r=0.437 ($p<0.001$) in the correlation matrix (Table8). This finding was well in agreement with most of the respondents in the open ended question in the instruments who recommended that there was need for independence of AC members from the management. The findings suggest that most ACs in Sacco industry is closely related to the management.

The study also sought to investigate the relationship between audit committee frequency of meetings and firm performance. The results of the correlation indicate that, there is no significant relationship between frequency of meetings and the firm performance. This finding is supported by r=.387($p>0.05$) as may be seen in the correlation matrix (Table 8).

These findings tend to holding many meetings yearly does not guarantee good governance. Many meetings may imply micro-management and reduces independence of the AC committee and thus compromises governance. The audit committee should meet as frequent as may be necessary and not too much.

These findings contradicts the findings of Collins and Kofi (2011) which investigated the impact of corporate board meetings on corporate performance for a sample of 169 listed corporations from 2002 to 2007 in South Africa (SA). Collins and Kofi *(ibid)* found a statistically significant and positive association between the frequency of corporate board meetings and corporate performance, implying that SA boards that meet more frequently tend to generate higher financial performance. A further investigation indicates a significant non-monotonic link between the frequency of corporate board meetings and corporate performance, suggesting that either a relatively small or large number of corporate board meetings impacts positively on corporate performance.

The striking differences in findings may be explained by the contextual and geographical differences. The Focus of this study was Saccos in Kericho County. The corporate governance of limited liability companies is quite different from that of Saccos.

The results of the regression analysis are shown in Table 4.9. The findings in the model summary indicate that this model accounts for 60.7% of the variations in the dependent variable, firm performance. Collectively, variations in independent variables significantly determine the variations in performance of the firm as shown (R-square 0.607;$p<0.01$).

The study therefore concludes that professionalism, size of the AC, female representation and independence of the AC are important variables that can be manipulated to enhance governance among Saccos and ultimately improve firm performance significantly.

4.0. DISCUSSIONS

The study established that there was a significant inverse relationship between the size of the AC and firm performance this was shown by r=.-414(p<0.05).

The study also sought to ascertain the role of inclusion of female in the AC on the firm performance. The study established a significant positive relationship (r=.526p<0.001) between the proportion of women in the AC and firm performance.

Regarding the professional qualification of the AC, the study found no significant relationship (r=.109;p>0.05) between the professional qualifications of the AC members and the firm performance. However, when correlation analysis was run between professionalism of the AC and firm performance, the study revealed that there is a significant relationship (r=.199p<0.05) between the AC professionalism and the firm performance.

With regard to the relationship between audit committee frequency of meetings and firm performance the study found no significant relationship between frequency of meetings and the firm performance. This was shown by r=385 which was not significant at 95% confidence level (p>0.05)

These findings tend to holding many meetings yearly does not guarantee good governance. Many meetings may imply micro-management and reduces independence of the AC committee and thus compromises governance. The audit committee should meet as frequent as may be necessary and not too much.

Following the finding that there was a significant inverse relationship between the size of the AC and firm performance, the study concludes that the higher bigger the size of the audit committee, the poorer the performance and vice-versa. This implies that, while focusing on inclusivity and representation is important, this should not be done at the expense of bloated committee. Overall, these findings provided evidence which supports the conclusion that problems of poor communication and decision-making undermine the effectiveness of large boards.

Following the finding that there was a significant positive relationship between the proportion of women in the AC and firm performance, the study concludes that gender balance in the composition of AC is an important variable influencing effectiveness of Audit Committees. The audit committees can therefore be more effective when the proportion of women is increased. This conclusion was against the finding that in all the Saccos in the sample the proportion of women was less than men in all instances.

The finding that professional qualifications of the AC members has no significant effect on firm performance leads to the conclusion that as long as the firm has at least one, member with professional, the professional qualification of the AC members does not influence the performance of the firm. However, whereas a professional qualification of the AC member has no significant effect on firm performance, professionalism of the AC members is of essence as it significantly affects performance.

Following the finding that there is no significant relationship between frequency of meetings and the firm performance leads to conclusion that that holding many meetings yearly does not guarantee good governance. Many meetings may imply micro-management and reduces independence of the AC committee and thus compromises governance. The audit committee should meet as frequent as may be necessary and not too much.

The finding that professional qualification has no significant effect on firm performance and that professionalism of AC does leads to the recommendation that in selecting the AC members, the firm should consider the integrity of the member and their professionalism rather than their professional qualifications. Although the regulations stipulate the board meetings, it is usually common for audit committees of the board to meet more frequently. There is anticipated deterrent effect of frequent meetings, but the findings of this study do not support.

The study also concluded that women representation in the Boards improves firm performance. It is therefore recommended that Saccos should increase the number of women in the ACs. Further, the study recommends that future studies on the AC characteristics should also include gender as one of the characteristics to be investigated.

Stemming from the leads to conclusion that holding many meetings yearly does not guarantee good governance, the study recommends that the audit committee should meet as frequent as may be necessary and not to the extent of compromising professionalism and their independence. Many meetings may imply micro-management and reduces independence of the AC committee and thus compromises governance. The audit committee should meet as frequent as may be necessary and not too much.

The scope of this study was Saccos operating in Kericho County. It is recommended that a similar study could be conducted among Saccos in other study areas

Further insights regarding the phenomenon could be adduced from a similar study conducted using a longitudinal research design where data is collected on similar respondents over a longer period of time. The time frame should cover the periods prior and after regularization regime in the Saccos sector.It is also important for future researchers to control for the effect of size when performing correlation analysis using longitudinal studies.

The study can also be replicated in audit committees of other entities other than Saccos such as financial institutions, manufacturing concerns and other industries. Further, the measures of performance relied on by the study was profits and return on total assets. Future researchers in this field may also consider using other measures of performance such as Tobin's Q, Return on capital Employed.

This study also relied on primary data collected by self-administered questionnaires. However, this study was highly quantitative and substantial amounts of data could be collected using secondary data. This is in light of the limitations of using questionnaires to collect data. When a similar study is conducted on firms listed in Nairobi Securities Exchange or any equivalent in different jurisdiction, data relation to firm performance and corporate governance in general can easily be obtained from published accounts.

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