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THE EFFECT OF AUDIT COMMITTEE CHARACTERISTICS ON AUDIT COMMITTEE EFFECTIVENESS IN SAVINGS AND CREDIT COOPERATIVES IN UGANDA

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ABSTRACT

Having a mandatory Audit Committee (AC) in place, is no longer a relevant issue as it has been strongly answered in affirmative. What is now an issue all over the world, among academicians, investors and regulatory bodies, is the effectiveness of audit committees in performing their functions. The purpose of the study was to investigate the influence of AC characteristics on AC effectiveness in MFIs in Uganda. Results indicate that number of financial experts on the audit committee, frequency of AC meetings and AC independence are respectively significant predictors of AC effectiveness. The key recommendations of this study are, that the definition of financial expertise should focus on either accounting expertise, financial management or any other knowledge area, rather than the broad definition of sufficient knowledge in accounting and financial management because each of these knowledge areas may have different results as they are conceptualized differently. Regulatory practioners and policy makers should consider the appointment of members on the audit committee who have particular skills for example, in business, MFI industry, the legal or other technical fields to help strengthen the committees. frequency and length of AC meetings should be included in the regulatory guidelines of microfinance institutions (SACCOs).

Key Words: Audit committee, Audit committee characteristics, Audit Committee effectiveness, Microfinance institution, financial expertise, Audit committee frequency and Audit committee independence

Introduction

In the days of ongoing financial distress and recession all over the world, the issue of governance mechanisms is being highly discussed. Particularly, Corporate Governance (CG) practices of both big and small organizations and the roles of different committees are being closely reviewed. Effective corporate governance practices safeguard the rights of different stakeholders in getting true and fair information of the organization (Krishnan, 2005). Audit committee (AC) has become more common mechanism for ensuring good CG in firms (Chen, Duh & Shiue 2008). The basic functions of the ACs among others are to oversee the financial reporting process, monitor managers and carrying out the function of internal auditors for their firms. However, regulators have continued to question the effectiveness of the audit committees in carrying out their functions stipulated in the AC charter. In Uganda, having a mandatory AC in place (as it is in case of Savings and Credit Cooperatives), is no longer a very relevant issue as it has been strongly answered in affirmative. What is now an issue in Uganda and all over the world, among academicians, investors and regulatory bodies is the effectiveness of audit committees in performing their functions. This is due to the fact that even though the formation of audit committee is mandatory, for example, in Savings and Credit Cooperatives (SACCOs) in Uganda, their effectiveness as governance mechanisms is still being questioned.

Moreover, from studies conducted in other countries, there has been sufficient evidence to conclude that the presence of an AC alone, does not assure that the committee will perform its duties as expected (Collier & Gregory, 1998). Effective functioning of the AC is essential to mitigate the risk of corporate failures and to enhance public confidence (Mohiuddin & Karbhari, 2010). Recent studies have also argued that the characteristics of ACs have greater deal of influence towards the effectiveness of AC itself, in monitoring the financial reporting process (Mohiuddin & Karbhari, 2010).

Although many recent studies have extensively discussed the issue of AC characteristics in various contexts, they were not on AC effectiveness (Allegrini & Dhaliwal, Naiker & Navissi,2010; Fodio, Ibikunle & Chiedu Oba, 2013; and Ugbede, Lizam & Kaser, 2013). This study fills the gap on the determinants of an affective audit committee. The examination of audit committee characteristics and their effect on AC effectiveness is of relevant importance to many stakeholders including regulators, legislator and public investors to improve functioning of the audit committees especially in small firms (Jerubet, Chepng'eno & Tenai, 2017).

This study examines the influence of AC characteristics (number of financial experts on the AC, frequency of AC meetings and AC independence) on its effectiveness in SACCOs (member owned MFIs) in Uganda. This is relevant because in response to continuing accounting scandals and corporate frauds, among others, regulators have been increasingly concerned with the effectiveness of ACs in monitoring financial reporting and other related issues and thus, by examining AC characteristics associated with the effectiveness of the ACs, could enhance functioning of these committees. Besides that, although the mandatory requirement for the formation of audit committees in SACCOs in Uganda is well stipulated in Cooperative Regulations 1992 and SACCOs' bye-laws, there is still lack of empirical evidence in studies regarding the effectiveness of audit committees conducted in Uganda and in small firms like SACCOs.

Moreover, even though some of the earlier studies have documented that the characteristics of the audit committees can contribute to their effectiveness in ensuring the compliance of firms' financial reporting with the regulatory requirements and accounting standards and ensuring the accuracy of annual audited accounts, limiting the manipulation of accrual accounting treatment and increasing disclosure practices (Abbott, Parker & Peters,2004; Davidson, Goodwin & Kent, 2005 and Yang & Krishnan, 2005), the effectiveness of audit committees in ensuring the successful carrying out of their functions is still questionable. The audit committees have been extensively used in organisations globally, and at local levels to monitor the financial reporting process and corporate governance. They have been in existence for a long time, but there are criticisms regarding their effectiveness as a result of the role of vetting the financial statement integrity of the entity, monitoring of financial statement fraud and carrying out the function of internal auditors for their firms. The criticisms mainly center on the recurrence of financial scandals even where such committees exist. (Ogoti Ogoro & Nanjala Simiyu, 2015). Therefore, findings from this study could be beneficial in exploring and understanding the characteristics of an effective audit committee which could thus, benefit several parties such as regulatory bodies, board of directors and other stakeholders in enhancing the effectiveness of their audit committees.

Theoretical Review

The theoretical framework upon which this study is based is the agency theory, which posits that in the presence of information asymmetry the agent (in this case in SACCO, the manager) is likely to pursue interests that may hurt the principal or shareholder (Fama, 1980; Ross,1973). Jensen & Meckling (1976) defined agency relationship as a contract under which one person (the principal) engages another person (the agent) to perform some services on his/her (the principal's) behalf.

Agency relationship is also defined as a contractual process whereby owners delegate some of their authorities and responsibilities to a team consisting of expert member(s) and expect them to exercise their expertise in the best interest of the firm's operational success (Mohiuddin & Karbhari,2010).

The central idea of this theory is that there exist a conflict of interest between owner and management. In order to align agent-principal interests, earlier agency theorists (Jensen & Meckling, 1976), suggested having an effective governance system which amongst others involves the appointment of board of directors. In SACCOs in Uganda, in addition to appointment of board of directors, the members also directly appoint an audit committee. The board of directors and audit committee, monitor managers to ensure that they discharge their duties in the best interest of members/ shareholders.

In the same vein, Tiessen and Waterhouse (1983), believe that the agency theory is developed around the concept of contractual relationship between two groups (the principals and agents) with conflicting objectives. For Tiessen and Waterhouse (1983), the main objective in agency theory is to structure the contractual relationship between these conflicting groups so that agents take actions to maximize the interests of the principals.

In a SACCO, the principals (members), delegate the management of a SACCO to agents (managers), who are supposed to run it effectively and efficiently. However, due to the individualistic tendencies of agents, the overall performance of the SACCO may run down. These agents also tend to make decisions under uncertainty and are risk averse when it comes to potentially increasing their wealth but risk seeking when dealing with potential economic loss. All these tendencies may affect the SACCO's performance and survival in the long run. The principals and the agents make contracts. However, uncertainty about the agents effort to maximize stakeholders value and uncertainty about the state of nature of an agent, lead to uncertainty about the outcomes of the agency relationships. Therefore, appointment of an effective audit committee can help to resolve the agency problems and costs. The agency theory is therefore, an aid that allows us to understand and explain how audit committee characteristics affect the effectiveness of the audit committee which improves performance of this organ so as to resolve the agency problems and maximize shareholders wealth. Academic literature suggests that audit committee effectiveness has significant positive impact in minimizing agency conflicts, protecting shareholders' interests and thus in maximizing firm's overall value (Mohiuddin & Karbhari, 2010). Dey (2008), found out that the level and intense of agency problem is less in those firms where ACs are more effective in terms of composition and functioning.

Formation of Audit Committee in SACCOs in Uganda

In a SACCO in Uganda, the audit committee according to Article 42,of the SACCOs' bye-law, is directly elected by the annual general meeting and is independent of the board. It (AC) directly reports to the members (the supreme body of SACCOs). According to Article 42, the committee is composed of three members one of whom must be a woman. Without intervening in the administrative functions, subject to its control and supervision, the committee is permanently responsible for the SACCOs' compliance and internal control and carrying out the function of internal auditor for the SACCO.

The AC duties and responsibilities among others are to verify the discrepancies in SACCO operations; authenticate documents of the SACCO; ensure that operating loan policies and procedures are followed; ensure prudent liquidity controls; periodically inspect books of accounts and transaction documents and monitor lending operation and loan recovery. According to the same Article (42), nominees to this committee, should have sufficient knowledge and experience in accounting and financial management. However, the Cooperative Regulations and the SACCOs bye-laws are silent on how often these committees should meet and for how long.

Despite the legislation that has been enacted to establish effective audit committees with the required characteristics in SACCOs in Uganda, there have been reported cases of failures of several SACCOs due to fraudulent financial reporting and other weakness in management of these institutions. It is important to find out if these committees are effective in SACCOs in Uganda. Therefore, this study was important to address the gaps in literature concerning audit committee characteristics and their influence on audit committee effectiveness in SACCOs in Uganda

Literature Review

This section discusses the literature concerning the effectiveness of Audit Committee and the characteristics of Audit Committee. This review highlights the previous studies, which in turn, helps in clearly identifying the gaps in literature.

Audit Committee Effectiveness

Most organizations are seeking to optimize all their activities, including those performed by the ACs. Abbott, Parker & Raina,(2007), indicate that it has become important to develop more specific measures of AC effectiveness. They recognize the lack of objective measures as a limitation of previous studies on the effectiveness of audit committee. Dezoort Hermanson, Archainbeault & Reed, (2002) define an effective audit committee as follows: "An effective audit committee has qualified members with authority and resources to protect stakeholders interests by ensuring reliable financial reporting, evaluating internal controls and risk management through its diligent over sight efforts." However, effectiveness is an elusive concept that can be approached through several models, none of which is appropriate in all circumstances. For purposes of this study, effectiveness was taken to mean the ability of the Audit Committees to carry out their specific oversight roles and responsibilities as specified in the regulatory guidelines.(Cooperative Regulation 1992 and SACCOs bye-laws)

To improve performance of ACs and identify inefficiency and opportunities in order to enhance effectiveness, ACs should adopt global best practices in meeting their financial oversight and governance responsibilities. Performance assessment should be carried out to determine the individual members' contributions, skills and knowledge and bench- making their performance against best practices of other similar audit committees. The effectiveness of ACs to a large extent depends upon their diligence, independence and their knowledge as well as other attributes (Abbott et al., 2004). In fact other studies, indicate that ACs effectiveness depends mainly on how successfully they can carry out their roles and responsibilities, no matter how they are composed. However, previous literature documents that there are causal relationships between AC attributes and AC effectiveness (Abbott et al., 2004).

An underlying assumption of exercising sound AC in the firm, is that it has a positive effect on the quality of financial disclosure. Previous empirical research documented a positive association between AC and the quality of financial information. A well functioning AC system leads to the improvement of corporate financial reporting and the decrease of earning management or financial frauds, as well as the increase of unqualified auditors reports, (Bedard, Chtourou & Courteau, 2004; Sharma, 2004 and Carcello & Neal, 2000)

An audit committee is an appointed body that is meant to aid the management of an entity in the role of over sighting the checks and internal controls of an entity, including the monitoring of the internal audit function. This definition is in line with the requirements of the agency theory of finance, which proposes that for the effective monitoring of the agents (management) by the principals who are the providers of resources, an effective audit committee that is well constituted as per legislation is important. (Ogoti Ogoro & Nanjala Simiyu,2015)

AC Characteristics

The study sought to relate AC effectiveness on three important AC characteristics (no of financial experts on the AC, frequency of AC meetings and AC indepence) which apply in the context of SACCOs in Uganda. For example, size of the AC does not apply in case of SACCOs because these institutions bye-laws and the Cooperative Statute 1991 and Cooperative Regulations 1992, stipulate a uniform number, of three members per SACCO. The characteristics considered in this study are discussed in details.

Number of Financial Experts on the AC

Several studies argue that AC members with expertise, is directly associated with effective functioning of AC (Bedard et al., 2004; and Beasley & Salterio, 2001). Other authorities (Felo et al., 2003 and Defond et al., 2005) provide evidence of positive relationship between members with financial knowledge and AC effectiveness particularly, their potential to ensure good quality financial reporting process and compliance to related rules. Lack of adequate knowledge causes inability and failure of AC members to understand their roles and responsibilities in the firms (Mohiuddin & Karbhari, 2010). Gendron et al., (2004) and Haron et al., (2005) also indicate that absence of knowledge also affects the technical aspects of some of the committee's roles, particularly in case of internal control evaluation.

This therefore, means people having relevant knowledge can demonstrate better performance and prove their competencies. On the other hand, numerous previous studies failed to provide strong evidence that financial expertise in the broad definition (accounting, finance and experience), positively influence the AC effectiveness (Anderson et al., 2004). Beasley et al., (2009) also suggests that it is the top management that ultimately determines the effectiveness of the AC. If the CEO, is powerful and does not want to be monitored, financial experts on the AC are unlikely to effectively perform the monitoring function, because the information sources they rely on are likely to be distorted by the CEO.

There are growing number of studies addressing the influence of expertise on effectiveness of the AC in different contexts and environments. For example, findings of Ogoti Ogoro and Nanjala Simiyu, (2015) indicated a significant negative relationship between audit committee financial expertise and committee effectiveness in public sector in Kenya. They noted that results could be explained by the argument that audit committee members with financial expertise may actually be less effective than members with other qualifications such as hands –on management experience. Therefore, we test the following hypothesis: That Number of members with financial expertise on the AC, significantly influence AC effectiveness in SACCOs in Central Uganda.

Frequency of AC Meetings

According to Cooperative Statute 1991, Cooperative Regulations 1992 and SACCOs' bye-laws in Uganda, frequency of AC meetings, is defined as the average number of meetings held by that committee in a year. An effective audit committee has to exercise professional care by working hard and meeting frequently in order to ensure good financial reporting quality (Jerubet et al., 2017) Several studies have indicated the importance of AC meeting frequency such as Anderson et al., (2004) and Spira, (2002). In the same vein, previous studies also indicate that AC meetings are not mere rituals devoid of interests to managers and auditors, but instead meaningful and substantive meetings are consistent with an agency perspective (Gendron et al.,2004 and Gendron & Bedard 2006). Chen & Zhou (2007), also argue that AC meetings are important mechanisms of corporate governance.

In Ogoti Ogoro & Nanjala Simiyu (2015) study, findings revealed a non-significant negative relationship between frequency of AC meetings and committee effectiveness and suggested that the frequency of meetings is influenced by the legislative requirements that the audit committee shall meet at least four times in a year with no significant effect on the audit committee effectiveness.

However, in SACCOs in Uganda, the Cooperative Law is silent on frequency and length of AC meetings. This absence of regulatory guidelines as also noted by Sharma et al., (2009), may afford ACs considerable discretion in this area. It is argued that effective control is unlikely to come by, if an AC holds no meeting or a single yearly meeting (Deli and Gillan, 2000). Abbott et al., (2007), argued that an effective AC should meet at least four times annually. This view is supported by Sharma et al., (2009) when they suggested an average of 3.75 AC meetings annually. Due to inconsistencies in results on frequency of AC meetings and due to absence of regulatory guidelines in Uganda on frequency and length of meetings as an important issue for successful holding of meetings, this study tested the following hypothesis: That Frequency of AC meetings significantly influences AC effectiveness in SACCOs in Central Uganda.

Audit Committee Independence

It is argued that if the members of an AC are independent from management of organizations, then, they should be effective and should be able to prevent management from manipulating financial results. Prior results have indicated several advantages of an independent AC for example, Bedard et al., (2004) argue that more objective oversight of financial reporting process can be ensured, if the AC includes more independent members. This view is supported by others for example Garcia –Meca and Sanchez –Ballesta (2009), when they noted that independent AC can potentially improve the quality and credibility of financial reporting. In the same direction Gendron et al., (2004) also mentioned that members willing to be active and effective on the AC, should have probing attitudes in mind which assists in assessing various management decisions. From all the above views and arguments from different authorities, it is evident that AC's independence is needed for carrying out its monitoring responsibilities in order to add value to the firm.

Based on agency theory, Benard (2010) asserts that more independent directors are more likely to be keen in their work without outside influence hence, can be able to effectively monitor the process of financial reporting. It is attributed to the fact that independent directors on the audit committee have no other motive other than to carry out the work that they were assigned to do.

The ACs in SACCOs in Uganda, are not only independent of management, but are also independent of board of directors, because they are directly elected by the supreme authority (the AGM). In this context, they are expected to be more effective and should enhance successful carrying out of their roles and responsibilities. The study was interested to determine the influence of a wholly independent AC on its effectiveness. In this regard, the study tested the following hypothesis:

That Audit committee independence significantly influences the AC effectiveness in SACCOs in Central Uganda.

Methodology

According to Kothari (2004), the research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure, and therefore provides the glue that holds the research project together. The study took a quantitative correlation cross-sectional survey, and expost-facto design. It was quantitative because it was based on variables measured with numbers and analyzed with statistical procedures. The correlation design was chosen because the problem in the study was identifying factors that influenced an outcome that is effectiveness of ACs (Amin, 2005). The study was cross-sectional, because it was conducted across participants at a point in time and was intended to pick only some representative sample elements of the cross section of the population. It did not necessitate the researchers to make a follow up on the participants. It was thus, used on account of its rapid turn-around in data collection as Creswell (2003) advises.

The survey design enabled the collection of data from a large number of respondents. It was preferred to generalize from the sample used, to the whole target population in Central Uganda. Surveys are also amenable to rapid statistical analysis and are comparatively easy to administer and manage (Ahuja, 2005 and Shajahan, 2005). It was expost- facto since the researchers had no control over the study variables and only sought to report facts that were existing (Cooper & Schindler, 2008). In the researchers' opinion, the design worked satisfactorily in all aspects.

Questionnaires and interviews were used to solicit data from five districts of Central Uganda and a sample of 26 Savings and Credit Cooperatives were used. Different stakeholders including members, board of directors, audit committees members, staff and supervisors and regulators were involved by virtue of their different roles and responsibilities in the formation operation and management of these institutions (SACCOs). The data were analyzed using a correlation research design, since it was appropriate to testing the above stated hypotheses (Blumberg, Cooper and Schindler,2005). Documentary analysis was also done to enrich conceptualization of the problem and interpretation of data.

Findings

The paper's findings are organized and presented according to the hypotheses stated in the literature review. Descriptive, correlation and regression results are presented.

Descriptive Results

Table 1: Descriptive statistics

<table>
<tr><th colspan="2"></th><th>Mean</th><th>Standard deviation</th></tr>
<tr><td colspan="2">Overall on all AC roles and responsibility (AC effectiveness)</td><td>2.82</td><td>0.554</td></tr>
<tr><td colspan="2">Number of financial experts on the AC</td><td>0.810</td><td></td></tr>
<tr><td colspan="2">Frequency of AC meetings</td><td>6.29</td><td></td></tr>
<tr><td colspan="4">t- tests on mean difference between urban and rural SACCOs</td></tr>
<tr><td rowspan="3">Overall on all AC roles and responsibility (AC effectiveness)</td><td></td><td>Mean</td><td>Standard deviation</td></tr>
<tr><td>Urban</td><td>2.94</td><td>0.585</td></tr>
<tr><td>Rural</td><td>2.70</td><td>0.495</td></tr>
<tr><td rowspan="2">Number of financial experts on the AC</td><td>Urban</td><td>1.08</td><td></td></tr>
<tr><td>Rural</td><td>0.545</td><td></td></tr>
<tr><td rowspan="2">Frequency of AC meetings</td><td>Urban</td><td>6.25</td><td></td></tr>
<tr><td>Rural</td><td>6.32</td><td></td></tr>
</table>

Effectiveness in this study, was defined as the ability of the ACs to perform their oversight roles and responsibilities entrusted to them by the supreme authority, the (AGM). The key functional areas where SACCOs ACs contribute and as specified in the Audit committee charter are, periodically inspecting books, records and transaction documents; evaluating internal operations and controls and carrying out the function of internal Auditors for their SACCOs. On average, all the AC roles and responsibilities Table 1, were rated moderately on a scale of 5 (mean =2.82, S.D = 0.554, t= 5.090) at 0.01 or 1% significance level. Descriptive results on overall performance of AC roles and responsibilities, suggest that the ACs were averagely carrying out their roles and responsibilities.

Descriptive results further revealed that on average, there is almost one person with accounting and financial management knowledge on each committee (mean =0.810). However, the situation was worse in rural SACCOs, when results revealed that on average there was almost no financial expert on each of the 13 rural SACCOs against one expert on average in each of the 13 urban SACCOs. Results on number of financial experts on AC were contrary to Cooperative Regulations 1992 and SACCOs' bye-laws which clearly stipulate that nominees to this committee should be three and who are sufficiently knowledgeable in accounting and financial management. Absence of financial experts on these ACs suggests that members of these committees may not carry out their roles and responsibilities successfully as mandated by Article 42 of the SACCOs bye-laws in Uganda. For example, due to absence of financial experts on these committees, members may fail to carry out the function of internal auditors for their SACCOs.

Interview results confirmed absence of financial experts on the ACs. The different stake holders interviewed, expressed their concern, that the requirement that one of the nominees on the AC being a woman makes it even difficult to have all the three members sufficiently knowledgeable in accounting and financial management in addition to regulatory guidelines being silent on the qualification and experiences of these financial experts.

On average ACs in SACCOs in Uganda were holding meetings 6 times a year (mean=6.29). Although, the regulatory guidelines in Uganda in SACCOs are silent on frequency of AC meetings, results supported previous recommendations of for example, Abbott et al., (2007) and Sharma et al., (2009), who recommend 4 and 3.75 annual AC meetings, respectively.

Correlation Results

Table 2: correlation results

	Pearson correlation	No. of financial experts on the AC	Frequency of AC meeting	AC independence	AC effectiveness
No. of financial experts on AC	Pearson correlation	1.000	0.067	0.055	0.099(**)
Frequency of AC meeting	Pearson correlation	0.067	1.000	0.008	0.122(**)
AC independence	Pearson correlation	0.055	0.008	1.000	0.198(**)
AC effectiveness	Pearson correlation	0.099 (**)	0.122(**)	0.198(**)	1.000

(**) Correlation significant at 0.01

Correlation results Table 2, revealed that all the three AC characteristics have weak positive associative relationships with the effectiveness of the AC, but all of them significant at 0.01 significance level. The respective strengths of association of number of financial experts on the AC, frequency of AC meetings and AC independence with AC effectiveness were 0.099, 0.122 and 0.198 respectively. The above positive associative relationships, suggest that if all the three characteristics of the AC (number of financial expert on AC; frequency of AC meetings and AC independence) are improved, AC effectiveness also improves.

The above assumption made it necessary to establish whether the above relationships were predictive or not. This involved carrying out a linear regression analysis. Results are presented in Tables 3

Table 3 : Regression results of AC characteristics on AC effectiveness

(a) A Nova Table

Model	Sum of square	Degrees of freedom (df)	Mean square	F_c	F_t	Interpretation
Regression	7.284	5	1.058	7.889	3.020	Significant
Residual	107.420	373	0.288			
Total	114.704	378				

$R^2 = 0.064$, Adjusted $R^2=0.051$

(b) Coefficients

	Unstandardized coefficients	Standardized coefficients	t	Interpretation
	B	Beta		
Constant	1.939		9.393	Significant
No of financial experts on the AC	0.051	0.094	1.867	Significant
Frequency of AC meetings	0.017	0.113	2.244	Significant
AC independence	0.204	0.185	3.686	Significant

Regression results Table 3, show that AC characteristics (number of financial experts on the AC; frequency of AC meetings and AC independence) are collectively explanatory variables of AC effectiveness. Table 3, indicates that F computed F_c (7.889) is greater than F tabulated F_t (3.020). The causal relationship is significant when the computed F (F_c) is equal to or greater than the tabulated F(F_t) at the given significance level. Table 3, also shows that the AC characteristics accounts for only 5% of variation in AC effectiveness (adjusted R=0.051), which is also supported by the regression value of 7.284 compared to the residual value of 107.420, suggesting that there are other factors which strongly influence AC effectiveness other than AC characteristics considered. However, the computed F ratio (7.889) is greater than tabulated F value (f_5 373; 0.01= 3.020), suggesting that the obtained F ratio is likely to occur by chance with a $P<0.01$.

Table 3, shows that AC independence has the most influence on AC effectiveness (beta = 0.185,t=3.686) at 0.01 or 1% significance level, followed by frequency of AC meetings (beta= 0.113, t=2.244) at 0.05 or 5% significance level and then, number of financial experts on the AC (beta =0.094, t=1.867) at 0.10 or 10% significance level. All the three AC characteristics were significant predictors of AC effectiveness which led to confirmation of all the hypotheses tested in this study (H_I: that number of financial experts on AC significantly influences AC effectiveness: H_2: that frequency of AC significantly influences AC effectiveness and H_3: that AC independence significantly influences AC effectiveness). There were therefore, statistically significant positive relationships between the respective AC characteristics and AC effectiveness. This implies that the AC will be effective in carrying out its roles and responsibilities, if the AC characteristics considered are in place and well implemented.

Findings on positive relationships of number of financial experts on AC and AC effectiveness support previous studies which argue that AC members with expertise is directly associated with effective functioning of AC (Bedard et al.,2004; Beasley and Salterio, 2001; Dezoort and Salterio, 2001; Felo et al.,2003; Deford et al.,2005). Essentially, the studies argue that AC members' knowledge/ expertise is directly associated with effective functioning of the ACs. Results on number of financial experts on AC are also at par with authorities such as (Mohiuddin and Karbhari, 2010; Gendron et al., 2004; and Haron et al.,2005), who mainly argue that lack of adequate knowledge causes inability and failures of AC members to understand their roles and responsibilities in the firm. They also indicate that absence of knowledge also affects the technical aspects of some of the committees' roles, particularly, in case of internal control evaluation.

Results on frequency of AC meetings, support previous studies (Anderson et al.,2004; Spira, 2002; Gendron et al.,2004; Gendron and Bedard, 2006 and Chen and Zhou, 2007), who generally indicate the importance of frequency of AC meetings to the successful carrying out of AC roles and responsibilities. The number of annual AC meetings of 6 which supported recommendations by previous studies (Abbott et al.,2007 and Sharma et al.,2009) was considered enough, given the sizes of the SACCOs considered in this study and their small volumes of business. Moreover, the regulatory guidelines are silent on frequency and length of AC meetings.

Results on AC independence concur with previous studies (Bedard et al.,2004; Garcia-Meca and Sachez –Ballesta, 2009; and Gendron et al.,2004), who argued that more objective oversight of financial reporting process can be ensured, if the AC includes more independent members and that AC independence can potentially improve the quality and credibility of financial reporting. They further indicated that members willing to be active and effective on the AC should have probing attitudes in mind which helps in assessing various management decisions.

Conclusion and Recommendations

The purpose of the study was to examine the influence of AC characteristics (number of financial experts on the AC; frequency of AC meetings and AC independence) respectively on AC effectiveness. The AC characteristics are significant predicators of AC effectiveness. Thus, the AC characteristics culminate into changes in AC effectiveness. If these characteristics are in place and well conducted and implemented, they bolster the successful functioning of the AC. Findings are consistent with the agency theory which recommends appointment of strong monitoring mechanism to ensure that managers discharge their duties in the best interest of members/ shareholders. The findings resulted in a more improved understanding of the concept of audit committee effectiveness in SACCOs and suggested various ways of improving the effectiveness in their roles and responsibilities in SACCOs.

All the AC characteristics (number of financial experts on AC; frequency of AC meetings and AC independence) should be emphasized in SACCOs in Uganda, because they lead to an effective AC which should successfully carry out its roles and responsibilities as specified in Article 42, of the SACCOs bye- laws

The study recommends that the definition of accounting and financial expert should be properly operationalised and where possible zero down on the specific definitions, for example, accounting, financial management, etc, rather than the broad definition of sufficient knowledge in accounting and financial management because each of these knowledge areas may have different results as they are conceptualized differently.

Further, while financial knowledge is an essential skill for AC members, it does not necessary mean that all AC members must have this knowledge (Bedard et al., 2004). Regulators, practioners and policy makers should consider the appointment of members on the AC who have particular skills for example in business, microfinance industry, the legal or other technical fields, to help strengthen the committees. Every member should have skills and experiences in some area pertinent to the SACCOs business (Zhang et al., 2007). It is necessary to urgently create an efficient legal framework that requires an audit committee to have a variety of trained skills in different fields to enhance audit committee effectiveness. Further, the regulatory guidelines should be clear on frequency of AC meetings and length of these meetings, if the frequency of AC meeting is to bolster the effectiveness of the AC.

Although our study makes contributions to the understanding of the relationship between audit committee characteristics and audit committee effectiveness in SACCOs, it has limitations and therefore findings should be used with caution to the extent of the following limitations; First, the study, is essentially a cross-sectional study that examines the audit committee phenomenon at a particular point. This may not give a complete picture of the phenomenon studied and limits some of the conclusions obtained. Secondly, the study is restricted to member owned Microfinance Institutions (MFIs) only, (the SACCOs), where the audit committee is mandatory, leaving out other MFIs. Thirdly, the nature of the sampling units under study cannot be generalized to a large population as only 5 districts were examined out of 112 districts in Uganda.

In view of the limitations, the study opens up areas for further research. One, future studies should explore appropriate econometric methods that improve the understanding of effectiveness of SACCOs audit committees across the country. Secondly, future studies should extend the model to other types of MFIs and even other organizations because having a mandatory audit committee as it is in SACCOs, is no longer a relevant issue as it has been answered in affirmative. The issue is the effectiveness of audit committees in performing their functions. Lastly, large sample size, should be used for more accurate findings and which is more generalisable nationwide.

More constructs may also be added into the model based on literature and be tested empirically to increase an understanding of an effective audit committee.

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