

## Influence of Audit Committee Meetings on the Quality of Audit Reports of Saccos in Homabay County, Kenya

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### ABSTRACT

*Every operating organization keeps tabs on its development by producing accurate financial statements at the conclusion of each fiscal year, which are subsequently distributed to various individual users who are concerned with the organization's development. The audit procedure then confirms the accuracy of the financial accounts, and the audit committee then provides the specific business with a transparent audit report to seal the deal. The main objective of this study was to examine the influence of audit committee meetings on the quality of audit reports at Sacco's in Homabay County, Kenya. This was supported by the fact that there are numerous Sacco's in Homabay County, many of which had apparently experienced audit problems in the past. The institutional theory served as the study's compass. This study adopted a descriptive causal research design; the target population was 104 audit committee members of deposit taking Sacco's in Homabay County as of December 2021. Out of the target population determined using the Krejcie and Morgan formula, 82 members of the audit committee provided responses for the study. Primary data was collected using a research questionnaire that involved the drop-and-pick method. Descriptive statistics, including a frequency table, mean, and standard deviation, were used for data analysis, while inferential statistics included Pearson's correlation analysis. The study found that audit committee meetings in Homabay County, Kenya, had a positive and significant impact on the caliber of audit reports on Sacco's ( $r = 0.568, p < 0.05$ ). The study recommends that Sacco's audit committee members should conduct the maximum number of meetings as much as they can. In extension, those meetings should be objectively aimed at attaining quality audits.*

**Keywords:** Audit Committee Meetings, Deposit taking Saccos, Quality of Audit Reports

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### I. INTRODUCTION

In any futuristic organization, an investigative committee's main duties are to thoroughly examine each stage of the financial reporting and internal control system processes, as well as to guarantee legal and regulatory compliance (Temple, 2019). Without adequate mention of the shame's accountability, there can be no good financial management (Ambiyo, 2020). The qualities of the individual committee members are always related to the audit's quality. The majority of the committee's reports appear to be an exact replica of the traits that the board of directors portrays. Users of such comments have a significant impact on the type of report published. The reports the audit committee presents for use in decision-making typically include a number of attachments. As a result, the reports are still flawed and do not accurately represent each business.

In order to adequately unearth the material misstatements in the financial statements, an investigation committee is required by law to meet regularly with the stakeholders of the firm to significantly give value to and appreciate the tasks and work published by the accountants. Audit committee meetings are significant not only to the receiving firms but equally to the individual committee members since they provide opportunities for advancement (& Odipo, 2017). Such meetings enable the audit committees, through their independent reports, to bring to light material misstatements that might surface in the books of accounts and in the internal control systems of the firm.

The audit committee does its job well by making sure that management sets up and follows an effective internal control system and procedures. This lets an unbiased assessment of internal controls and management procedures take place. The audit committee also makes sure that external auditors review and evaluate the firm's financial reporting

practices on their own. In order to effectively audit the financial statements, the audit committee must meet with the relevant stakeholders of firms and companies. The committee must then produce a report and an unbiased opinion regarding the effectiveness and internal control systems of the firm.

### 1.1 Statement of the Problem

The agricultural sector in Vihiga has witnessed sluggish growth and poor performance, attributed to unchanging audit committees within the Vihiga Farmers Association, as reported in 2018 by the SACCO Societies Regulatory Authority (SASRA, 2021). Meanwhile, a prevalent trend emerged in the 2019 report (SASRA, 2021), where numerous Saccos linked auditors' remuneration to their visit frequency. This has resulted in cases like Nacico Sacco Society Limited facing severe growth constraints due to excessive fund allocation to auditors. Despite this, conventional factors of audit committee involvement, such as the frequency of meetings and time commitment, have shown no substantial correlation with audit quality (Dare & Efuntede, 2021). Akhidime (2018) highlighted the impact of compensation on audit committee members in determining audit quality. Similarly, Namakavarani et al. (2021) underscored a positive association between audit committee meeting frequency and the accuracy of financial information. This study seeks to address these complex dynamics within audit committees, echoing the concerns raised by Ambiyo (2020).

### 1.2 Research Objectives

To examine the influence of audit committee meetings on quality of audit reports on Sacco's in Homabay County, Kenya.

### 1.3 Research Hypothesis

HO1: Audit committee meetings has no significant influence on the quality of audit report of Sacco's within Homabay County, Kenya.'

## II. LITERATURE REVIEW

### 2.1 Theoretical Framework

The study was founded on the institutional theory, which was postulated by Meyer and Rowan in 1977, as opined by Weber (2020). According to the theory, a firm's operating environment significantly influences the acceptance and execution of numerous ideas, norms, and organizational layouts inside the industry that support the key aspects of the firm. Bouaine and Hrichi (2019) expound on it further by stating that the institutional theory's fundamental principles provide recommendations for examining the context in which an organization operates. Instead of emphasizing the effectiveness of achieving organizational goals, this theory heavily relies on and bases its predictions on participating in socially acceptable activities (Chou & Buchdadi, 2017). According to Rahman (2019), the environment validates the creative organizational structures that increase technical effectiveness. Over time, all institutions and organizations grow to expect these changes.

This theory has widely been exhausted in explaining the usage and implementation of formal firms' structures, which are together with written policies, standards, procedures, and start-up organizations. One of the most crucial weapons that businesses utilize to combat the turbulence of the external environment is the audit committee. According to institutional theory, an organization's larger institutional environment includes its cultural, social, and technological surroundings (Durand, 2019). The ability of audit committees to both exercise influence over and be influenced by a number of sources is crucial to their formation and operation. Zayol and Kukeng (2017), who successfully applied this concept in their work, say that for the investigation committee to be appropriate, it must be independent.

Members of an audit committee should conduct themselves professionally to allow them to execute effectively. From the reasoning of Setiany et al. (2017) and Alex and Stephen (2019), it is supreme that the investigation committee members possess particular qualities. Integrity and professionalism are two traits that the audit committee needs in order to perform its monitoring and supervisory responsibilities. According to Chariri and Januarti (2017), an investigation committee works towards safeguarding the interests of its pertinent investors and lowering any potential integrity issues in the present Sacco's under-audit.

Institutional theory is considered pertinent to this study since it clearly demonstrates that audit committee members must critically examine the environment in which they will conduct meetings in order to be able to do it effectively.

## 2.2 Conceptual Review

To effectively carry out their obligations, the auditing committee is advised to meet frequently to enable them to do their tasks and fulfill their obligations. When compared to committees that meet frequently and have built relationships with significant elements in the business, those holding less than two meetings a year lack sufficient knowledge regarding the functioning of the industry. The investor's interests are ultimately served by these committees (Basel Committee on Banking Supervision [BCBS], 2010). Auditing committees should properly schedule their tasks so as to complete them through meetings that have been approved by the board (Chariri & Januarti, 2017). A key component of the board is the audit committee's regular meetings, which include how many times the committee meets annually. In most firms, the majority of committee meetings must be held according to the laws (Institute of Internal Auditors [IIA], 2011). Before publishing the financial statements, meetings between the committee and the auditor must be scheduled.

Also required are two in-person meetings with the external auditor in front of management (BCBS, 2010). Musallam (2020) suggested that auditors' plans would involve more work and higher billing fees for customers who might be engaging in earnings manipulation. For clients with higher corporate governance risk, there is a stronger correlation between earnings manipulation, work done, and the rates charged. In Nigeria, Bukhari (2020) discovered that firms with a high number of fraud cases convened very few auditing meetings, whereas those that met regularly had fewer fraud cases. In contrast, Ashfaq and Rui (2019) found that an increased number of auditing meetings improves the performance of cooperatives because it encourages employees to prepare reports that are timely, transparent, and free from material misstatements.

Despite the probability that their presence aided the auditors in producing quality reports, Bouaine and Hirichi (2019) discovered no significant association in their research. In a Malaysian study covering the characteristics of the auditing committee in relation to transparency and frequency of meetings in examining management behaviors, Henry (2021) recoded that absolute impartiality of the members and an increased number of meetings lower the habits of earnings control compared to other companies.

## 2.3 Empirical Review

Committees charged with the auditing task need to frequently convene meetings to successfully perform their roles and obligations (Musallam, 2020). For them to efficiently do their tasks and fulfill their obligations, this is crucial. When compared to committees that meet frequently and have built connections with significant elements in the business, those committees that meet less than five times a year have insufficient knowledge about the functioning of a firm. The investor's interests are ultimately served by these committees (BCBS, 2018). An increased number of physical contacts and arguments opens up more opportunities for the business. Haddad et al. (2021) contend that the productivity of the auditing committee can be scaled through the number of engagements it holds.

In a study conducted by Mwangi (2018), primary and secondary data were utilized in the investigation; primary data was made possible through surveys, while annual reports including information from sixty publicly traded Malaysian companies formed part of the secondary tool. The investigation discovered a strong and advantageous association between the success of the company and internal audit experience. A conclusion was reached that members of audit committees with higher technical and educational credentials support the efficacy of the auditing function.

Bananuka et al. (2018) carried out an investigation in Uganda, utilizing correlational analysis in their study. The research equally revealed that the more meetings and agendas, the more opportunities and discussions over the company's progress. The study's findings demonstrated that statutory firms' level of accountability was significantly influenced by their internal audit function. Among the suggestions were that auditing committee convergence increased their ability to function effectively. However, the study's results showed that audit committee performance considerably increased accountability even in the absence of the internal audit function. However, the investigation concentrated on companies and not Sacco's.

Mwangi (2018) investigated how audit committee characteristics affected the standard of reporting across Kenya. The primary goal of the study was to determine how audit traits affected the caliber of the reporting entity. His investigation used the census sampling technique. He equally employed inferential and descriptive methods of analysis. The study's conclusions revealed a statistically significant linkage between auditing committee meetings and accuracy in reporting. The investigation, however, was primarily concerned with reporting, whereas my study focused on Sacco's auditing standards.

### III. METHODOLOGY

The association between the variables in this study was established using a descriptive-causal research design. The study focused on Sacco's deposit-taking in Kenya's Homabay County. Eight Saccos that were registered with the Homabay County Sacco Societies Regulatory Authority served as the study's unit of analysis. 104 members formed the target population, and simple random sampling was employed to select 82 respondents. The key data used in this investigation involved both primary and secondary data. Primary data was gathered through the use of a self-administered questionnaire. The questioners used closed-ended, five-point Likert scale questions. One represents strongly disagreeing, and five are strongly in agreement. Statistical methods and inferential analysis were used in the data analysis. The answers to the questionnaires aided in acquiring a thorough understanding of how the audit committee's qualities affected the caliber of Sacco's' audit reports in Homabay County, Kenya.

### IV. FINDINGS & DISCUSSIONS

This section presents the results for the study. It covers the responses, reliability, descriptive, regression, conclusions and recommendations.

#### 4.1 Respondents' Background

Research questionnaires were presented and collected for analysis. The questionnaires administered were 82 and a sum total of 62 research questionnaires were properly filled and returned. The response rate outcome is shown.

**Table 1**

*Questionnaire Response Rate*

Response	Frequencies	Percent
Return	62	75.6%
Not return	20	24.4%
<b>Total</b>	<b>82</b>	<b>100%</b>

The questionnaire response rate achieved was 75.6% as indicated above. According to Kothari, (2004) questionnaire response rate above 50% sufficient and adequate for the study to proceed. Thus, in regards to these assertions, the questionnaire response rate of 75.6% attained was adequately sufficient for the research study to proceed with examination.

#### 4.2 Reliability

The outcome in table 2 confirmed that the reliability results for all of the statements had been dependable for the reason that Cronbach alpha was above 0.7. Therefore, the inner consistency reliability was excellent.

**Table 2**

*Coefficient of Reliability*

	Research Variable	N of Items	Cronbach's Alpha	Remarks
	Audit committee independence	6	0.710	Accepted

#### Source Field data (2023)

The study variable depicted had Cronbach Alpha values above 0.7. The reliability data in Table 2 above suggests that the Cronbach alpha value is greater than the standard value of 0.7. This led to the conclusion that the questionnaire and its factors have been dependable in data collection for the foregoing study. Thus, the data collection instrument was dependable, as mentioned by Odipo (2017).

#### 4.3 Descriptive statistics: Audit Committee Meetings and Quality of Audit Reports

This assessed whether Audit Committee Meetings influences Quality of Audit Reports. Table 3 provides a summary of the responses.

**Table 3***Summary Data for Meetings of the Audit Committee*

Statement	5	4	3	2	1
1 The audit team holds meetings four- six times a year.	5(8.1)	35(56.5)	9(14.5)	9(14.5)	4(6.5)
2 The audit committee makes every effort to hold meetings at the required intervals	7(11.3)	38(61.3)	2(3.2)	10(16.1)	5(8.1)
3 Every meeting of the audit team attempts to have a predetermined agenda	3(4.8)	33(53.2)	9(14.5)	10(16.1)	7(11.3)
4 Audit committee almost never meets without the chairperson present	6(9.7)	37(59.7)	6(9.7)	9(14.5)	4(6.5)
5 Before sessions begin, the audit team makes every effort to attain the necessary quorum	6(9.7)	34(54.8)	8(12.9)	8(12.9)	6(9.7)
6 Audit committee always endeavor to involve the directors in most of their meetings	7(11.3)	39(62.9)	4(6.5)	10(16.1)	2(3.2)

According to Table 3, the majority of respondents (56.5%) concur that the audit committee meets 4-6 times per year. However, 8.1% of respondents disagreed with the implication that there may be instances where fewer meetings are held, which would prevent them from providing accurate audit reports for Sacco's. Furthermore, 53.2% of respondents agreed that all audit reports adhere to IAS, which was supported by 61.3% of respondents who agreed and 11.3% who strongly agreed that the audit committee always tries to meet the required frequency of meetings. This delivers the Sacco reports that are unquestionably of the highest quality, and all audit questions may be resolved during meetings.

Additionally, the majority of respondents (59.7%) strongly agreed (9.7%) that the audit committee rarely convenes meetings without the chairman, which was supported by 54.8% of respondents who concurred that the audit committee always tries to have an agenda that has been predetermined for each audit committee meeting. This suggests that the leadership of the audit committee was respected and had a significant impact.

Last but not least, a significant majority of respondents (62.9%) displayed strong agreement (11.3%) with Waweru's (2018) observation that the audit committee consistently involves directors in their sessions. This study reinforces Waweru's earlier findings, highlighting the favorable influence of audit committee meeting attributes on both Kenyan county governments' performance and board diversity. Mwangi (2018) demonstrated a statistically significant correlation between audit committee meetings and the accuracy of financial reporting. This finding differs from Chou and Buchdadi (2017), who found features of the audit committee and Indonesian banks' performance to be insignificant. However, this could be aligned with the fact that this study was on banks and not Sacco's.

#### 4.4 Descriptive statistics: Quality Audit Report

This assessed whether quality of audit reports was experienced. Table 4 provides a summary of the responses.

**Table 4***Descriptive statistics: Quality Audit Report*

Statement	5	4	3	2	1
1 Audit reports frequently reveal all significant flaws	6(9.7)	35(56.5)	10(16.1)	8(12.9)	3(4.8)
2 The audit reports frequently uncover all significant scams	8(12.9)	33(53.2)	8(12.9)	7(11.3)	6(9.7)
3 The audit report frequently satisfies the audit report user group's expectations	7(11.3)	37(59.7)	7(11.3)	6(9.7)	5(8.1)
4 Within audits, there are frequently insufficient application standard gaps	5(8.1)	39(62.9)	4(6.5)	10(16.1)	4(6.5)
5 The audit reports frequently contain discrepancies	11(17.7)	34(54.8)	5(8.1)	7(11.3)	5(8.1)
6 I can attest to the audit report's trustworthiness report	7(11.3)	40(64.5)	7(11.3)	4(6.5)	4(6.5)

Table 4 shows that the majority of respondents (56.5%) strongly agreed (9.7%) that audit reports often uncover all material errors, implying that stakeholders executed their tasks effectively. Secondly, a good number agreed (53.2%) and firmly concurred (12.9%) that audit reports often unearth all material frauds, implying that audit tasks were done



with all the required approaches to yield results. The audit report frequently satisfies the audit report user group's expectations, as most respondents agreed (59.7%). Most respondents agreed (62.9%) that there were often deficient application standard gaps within audits that could negatively affect the quality of audit reports.

More so, 54.8% and 17.7% of respondents concurred and strongly agreed, respectively, that there were often disparities in the respective audit reports. Lastly, the majority of respondents (64.5%) and those who strongly agreed (11.3%) said they could generally attest to the trustworthiness of the audit report. This finding agrees with Machora and Oluoch's (2019), who discovered that the audit committee's independence, makeup, and meetings had a considerable impact on the audit report's quality. This further agrees with Musallam (2020), who found that audit reports frequently contain discrepancies among firms.

#### 4.5 Pearson Correlations

**Table 5**

*Pearson Correlations*

		Audit Committee Meetings	Quality Audit Reports
Audit Committee Meetings	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	62	
	Sig. (2-tailed)	.000	
	N	62	
Quality Audit Reports	Pearson Correlation	.568**	1
	Sig. (2-tailed)	.000	
	N	62	62

The findings showed a strong positive link between high-quality audit reports and audit committee meetings, as shown by ( $r = 0.568, p < 0.05$ ). This suggested that audit committee meetings would result in a significant increase in the quality of audit reports. This finding agrees with Ombati (2016), who found the characteristics of the audit committee meetings to be positive and significant in terms of the ethnic diversity of the board and the performance of Kenyan county governments. According to Mwangi's (2018) research suggestions, audit committee meetings had a statistically significant link with the accuracy of financial reporting. This research contradicts Chou and Buchdadi's (2019) conclusions that the audit committee's influence on the performance of Indonesian banks was minimal. This might, however, be explained by the fact that banks, not Sacco's, were the focus of the investigation.

#### 4.6 Linear Regression for Audit Committee meetings

**Table 6**

*Model Summary for Audit Committee meetings*

Model Summary <sup>b</sup>									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.568 <sup>a</sup>	0.322	0.311	0.41743	0.322	28.547	1	60	0

a. Predictors: (Constant), Audit committee meetings

b. Dependent Variable: Quality audit reports

The goal of the research was to establish the influence of Audit committee meetings on quality of audit reports of Sacco's within Homabay County, Kenya. The null hypothesis was:

H01: Audit committee meetings have no significant influence on quality of audit reports of Sacco's within Homabay County, Kenya

Table 6 findings showed a positive relationship between the quantity of audit committee meetings and their quality, with an  $R=0.322$ . Audit committee meetings accounted for 32.2% ( $R^2 = 0.322$ ) variations in the quality of audit reports. A 0.322 unit change in the quality of audit reports was credited to a shift in units in the Audit committee

meetings. As a result of these findings, the null hypothesis was rejected because a positive, linear, and significant relationship between these two variables was found (p-value less than 0.05). The test model is as follows:

**Table 7**  
*ANOVA for Audit Committee Meetings*

ANOVA <sup>b</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.974	1	4.974	28.547	.000 <sup>a</sup>
	Residual	10.455	60	0.174		
	Total	15.429	61			

a. Predictors: (Constant), Audit committee meetings

b. Dependent Variable: Quality audit reports

Table 5 findings showed that compressed audit committee meetings and the quality of audit reports were positively related (ANOVA,  $F = 28.547$ ). As a result of these findings, the null hypothesis was rejected because a positive, linear, and significant relationship between these two variables was found (p-value less than 0.05).

**Table 8**  
*Coefficients for Audit Committee Meetings*

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.571	0.391		4.017	0
	Audit committee meetings	0.582	0.109	0.568	5.343	0

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Whereby:

$Y$  = quality of audit reports,  $X_1$  = Audit committee meetings,  $\beta_0$  = constant,  $\beta_1$  is coefficients of regression whereas  $\varepsilon$  is the standard error.

The fitted equation was as follows:

$$Y = 1.571 + 0.582X_1$$

This research supports Waweru's 2018 results that the performance of Kenyan county governments and the board's ethnic diversity were both positively impacted by the audit committee meetings' characteristics. According to Weber (2020), there is a statistically significant correlation between the frequency of audit committee meetings and the accuracy of financial reporting. This finding contrasts with that of Chou and Buchdadi (2017), who concluded that the impact of the audit committee's features on the performance of Indonesian banks was negligible. However, this could be aligned with the fact that this study was on banks and not Sacco's.

## V. CONCLUSIONS & RECOMMENDATIONS

### 5.1 Conclusion

This study concluded that audit committee meetings have a significantly positive influence on the quality of audit reports for Sacco in Homabay County. Similarly, Sacco's audit committee members should conduct the maximum number of meetings as much as they can. In extension, those meetings should be objectively aimed at attaining quality audit reports.

### 5.2 Recommendations

The study recommends that similar research should be done on other Sacco's in different areas. Other financial entities, such as banks and microfinance firms, can be the subject of similar research.

## Limitation

Lack of funding for the study, which was a significant drawback given Homabay County's extensive geographic location and the Sacco's' dispersed locations, was one of the study's primary weaknesses. Time was also a huge issue for me because I had to balance working on the research with my other tasks and obligations.

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