



## Internal auditor's independence, firm size and financial performance of deposit taking SACCOS in Kenya

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### ABSTRACT

Audits are essential because of the separation of ownership and control in modern economies. Shareholders or owners delegate resources to management in order to enhance their wealth under this arrangement. Therefore, they want the agents to provide authentic, precise, and impeccable reports. Therefore, research evaluated the effect of auditor independence on the performance and the moderating effect of firm size on the relationship between auditor independence and the performance of deposit-taking SACCOS in Kenya. The study was based on Agency theory. The study used a descriptive survey research technique. The study used primary data collected using structured questionnaire. A sample size of 223 was selected by a simple random sampling method from a target of 504. Descriptive and inferential statistics were used to examine the data using the SPSS 26 software. The R<sup>2</sup> of 0.512 suggests that 51.2% of the variability in the financial performance can be accounted for by the auditor's independence. Firm Size increased the R<sup>2</sup> to 0.714 an indication that it is a significant moderator on the relation between internal audit independence and performance. For each one-unit rise in Sacco size, the impact of Auditor's Independence on financial performance increases by 0.222 units substantially (P=0.000). The study concluded that Sacco size has a significant moderator in this study. The study recommended that Saccos should tailor their strategies and internal audit processes based on their size. Larger Saccos may benefit from more robust auditor independence measures and closer scrutiny of financial performance indicators.

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## Introduction

Audits are necessary due to the division between ownership and control in contemporary economies. Shareholders or owners entrust resources to management with the objective of enhancing their wealth. Managers that are opportunistic tend to hide the actual performance of the firm, which may lead to financial losses for the owners (Kinyenze & Ondabu, 2023). The auditor plays a crucial role in minimizing agency costs by mitigating information asymmetry and resolving conflicting interests between the two parties involved. Audit services aim to minimize agency expenses by verifying financial accounts via the involvement of an impartial auditor. The verification process includes the collection and assessment of evidence, which auditors use to formulate their professional opinion or judgment on the financial accounts. Ahmeti, Ahmeti and Aliu (2022) assert that the outcome of the process, namely the audit opinion expressed in the audit report, bolsters the credibility and quality of the financial statements.

Expert accountants are in a precarious position due to the high number of fraud cases uncovered at large global corporations like Enron, Worldcom, HIH insurance (Australia), and Maxwell (Alshurafat, 2019). The auditor's function has once again come to the fore as a result of a recent spate of accounting scandals and stock market crashes throughout the world. In 2001, it became public knowledge that Enron had been engaging in one of the most contentious accounting scandals of the previous decade. The business had been concealing billions of dollars in bad debt and inflating its revenues by use of accounting loopholes. Several governmental and commercial enterprises in Africa have partially collapsed due to accounting problems (Akande, Kwenda & Tewari, 2019). Some

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examples of financial institutions that fell victim to accounting scandals include the Reserve Bank of Zimbabwe, Cadbury, Intercontinental, Afribank in Nigeria, and the Board of Oceanic Bank (IMF report, 2016). An accounting fraud that lasted many years brought JSE-listed furniture and apparel retailer Steinhoff International Holdings (audited by Deloitte) to the verge of bankruptcy in 2017.

Recently, auditing firms and accountants working with publicly traded businesses in Kenya have come under fire for allegedly helping management steal money from shareholders by manipulating corporate financials. More than fifty cases have been handled by the ICPAK disciplinary team in the last two years, and six cases are now under investigation as a result of quality audits. The accounting controversy in 2015 led to the Institute of Certified Public Accountants of Kenya (ICPAK) pursuing management company Haco Tiger Brands and consulting firm PwC. The accounting company PwC was under investigation by the authorities for allegedly missing the massive, unlawful financial changes. The involvement of Ernst & Young in Mwalimu Sacco's purchase of Equatorial Commercial Bank's controlling shareholding was also investigated by the Commissioner for Co-operative Development (ICPAK, 2021). Many Kenyan organizations have been implicated in massive fraud, according to Oduor, Adoyo and Mule (2022). This has led to the collapse of corporations like Bulk Medicated Ltd and Nyaga Stock brokers, where their financial statements falsely indicated that they were strong despite their internal weaknesses.

One of the most important things for an internal audit to be high-quality is for the auditors conducting the audit to be completely independent (Almasria, 2022). The internal audit function is considered as heavily reliant on it (Al-Yazidi, Abdullah Alhebry, 2022). If an internal auditor isn't impartial, their findings, suggestions, and recommendations might be tainted. Therefore, the independence of the auditor is critical to the successful execution of internal audit. It is also crucial for auditors' reports to be reliable. If auditors weren't really and seemingly independent, no one would believe their reports, and neither would creditors nor investors. The auditor's impartiality and the organization's standing are the two primary sources of independence. When auditors are free from any bias, prejudice, or conflict of interest, they are able to do their jobs with complete objectivity.

The SASRA report (2022) indicates that the key performance parameters, specifically the comparative growth rates, reveal a notable deceleration in the performance of Deposit-Taking SACCOs (DT-SACCOs) during 2021 in contrast to the preceding year, 2020. The growth rates of various performance indicators for DT-SACCOs in 2021 were comparatively lower. For instance, the total assets of DT-SACCOs experienced a growth of 10.08% in 2021, a decline from the 12.75% growth recorded in 2020. Similarly, the total deposits and the gross and net loans of DT-SACCOs in 2021 exhibited lower growth rates compared to 2020.

Metropolitan Sacco faced significant challenges, witnessing a contraction in its asset base from Ksh. 16.73 billion in 2020 to Ksh. 10.56 billion in 2021, resulting in a drop from the 6th to the 15th position. The Sacco's inability to fulfill members' needs led to the withholding of 50% of members' dividends, and ultimately, the complete abolishment of dividend payment for the year 2021. This decision appeared perplexing, especially considering that the audit report had recommended dividend payout (SASRA report, 2021). Furthermore, discrepancies were noted in the representation of cumulative assets, with the management stating Sh28 billion, while external auditors had confirmed the figure to be slightly above Sh14 billion. Mismanagement, fraud, unethical practices, and inventive accounting strategies to conceal bad performance that audits fail to reveal were the root causes of SACCOs' poor performance in Kenya, according to SASRA (2020). As a result, many measures were taken to address the issue, such as revoking licenses, deregistering SACCOs, and placing others on a watch list. Some of the Saccos that have been affected include: Orient, Uchongaji, Elimu, Nandi Hekima, Miliki Sacco and Sukari, Ainabkoi, Goodhope, Jitegemee, Stake Kenya, Wevarsity, Telepost, and Jumuika Sacco Society Limited are among the stakeholders.

Research by Kurawa and Shuaibu (2022) indicated that internal auditor independence had a negligible and unfavorable link to performance, whereas Sidiq and Krismiaji (2020) found the opposite to be true. Elewa and El-Haddad (2019) found that the independence of internal auditors has a non-significant beneficial effect on the return on assets and return on equity of firms listed under the Egyptian Stock Exchange, which contradicts the research. Financial performance of firms listed on the Nairobi Stock Exchange was examined by Kwabena (2017) in relation to the quality of internal audits. This study aims to address a vacuum in the literature by examining deposit-taking Saccos in Kenya, since the previous research suggested doing so among enterprises not listed at the Nairobi Securities Exchange. The study examined the influence of internal auditor's independence on financial performance of Deposit Taking SACCOs in Kenya and the moderating influence of firm size on the relationship between internal auditor's independence and financial performance of Deposit Taking SACCOs in Kenya.

## Literature Review

### Theoretical Review

It was Jensen and Meckling who popularized the theory of agency (1976). Due to the fact that agents make several choices that impact the principal's finances, agency theory portrays managers as agents and stakeholders as principals (Kurawa & Shuaibu, 2022). The premise upon which agency theory rests is that managers are not obligated to maximize shareholder value. By breaking down business relationships into their component parts, the theory reveals that there are two primary sources of friction: the manager-shareholder dynamic and the shareholder-creditor dynamic. To get past their divergent views on the best way to run the business and their respective comfort levels with risk, principals and agents must align their interests. It is challenging and costly for the principle

to oversee the agent's actions due to information asymmetry, which states that the two parties possess differing quantities of knowledge (typically, the agent has access to more data than the principal) (Alshurafat, 2019).

In order to demonstrate how audit quality, and more especially auditor independence, affects SACCOs' financial performance, this research will use agency theory. The achievement of accountability is accomplished by the issuing of periodic financial reports. Since the report comes from management, it might be prejudiced and not show the company's true financial status. As a result, high-quality research is necessary. Having an impartial internal audit is crucial for ensuring the trustworthiness of the information presented. When it comes to audit assurance, auditors should always do their best to satisfy public expectations. It is important to utilize agency theory in this inquiry because it provides a foundation for extensive research that may benefit both the internal audit and SACCO professions.

### **Empirical Studies**

Research conducted by Jarrah, Jarrah, Al-Zaqeba, and Al-Jarrah (2022) examined how internal audit (IA) mitigates the impact of creative accounting (CA) on the dependability of financial statements in Islamic banks located in Jordan. Independence, objectivity, verifiability, professional care, and impartiality are all components of IA that were shown to have a contribution in reducing the impact of CA on the credibility of financial statements in Islamic banks in Jordan. The impact of impartiality and independence on the efficacy of internal audits in Malaysia was studied by Tahajuddin and Kertali (2018). There was a favorable correlation between internal audit effectiveness and independence, according to the results. There is no correlation between internal audit effectiveness and the impact of impartiality on internal audits. Findings from this research may help academics and professionals in the field of internal auditing understand the significance and impact of auditing traits on auditors' ability to do their jobs well.

Financial performance of firms listed on the Nairobi Stock Exchange was examined by Kwabena (2017) in relation to the quality of internal audits. Researchers found that the financial performance of the organizations analyzed was significantly affected by the quality of work done by internal auditors. The degree to which the internal auditors were competent professionals was one of the independent factors examined. Return on assets (ROA) served as the dependent variable. Findings indicate that auditor quality significantly affects financial performance (ROA). Financial performance was not significantly related to internal audit features, as shown by Muchiri and Jagongo (2017). Put simply, the involvement of internal auditors has no impact on ROI. The writers felt that KMC's internal auditors may need some help becoming more knowledgeable and autonomous.

When it comes to financial performance, Ado, Rashid, Mustapha, and Ademola (2020) discovered that auditor independence is more influential than auditor size. Findings from this study will help executives and managers of publicly traded firms in Nigeria prioritise auditor independence. Based on the study's findings, CEOs should hire Sacco sizes whose honesty and reliability are without doubt. Furthermore, it will aid decision-making for policy-makers and related agencies. In accordance with the results of the present research, auditor independence and conformity with auditing standards are the primary determinants of audit quality (Kinyenze & Ondabu, 2023). It was determined by Mburunga et al. (2019) that publicly listed banks' financial performance is significantly impacted by the internal audit budget, which in turn impacts the independence of internal auditors.

A study by Enekwe et al. (2020) looked at how listed Nigerian manufacturing businesses' financial performance was affected by the quality of their internal audits. Internal auditor independence and its impact on return on assets (ROA) were the foci of this research. Financial performance was favorably and considerably impacted by internal audit quality, according to the study's findings. The influence of auditor independence on return on assets of chosen Nigerian money deposit banks is positive and statistically significant ( $p < 0.05$ ), according to Ike, Salama, and Ngbede (2020). Audit quality and its effect on the financial performance of deposit-taking SACCOs in Kenya's North Rift Region was the intended focus of Serem, Fwamba, and Benedict's (2020) research. Deposit-Taking SACCOs in Kenya's North Rift Region showed a small but favorable correlation between auditor independence and financial success. Results from the study by Elewa and El-Haddad (2019) showed that the firm's ROA and ROE are unaffected by the internal auditor's status as an independent and experienced professional. The study sought to test the following null hypothesis

H<sub>01</sub>: Auditor's Independence has no significant influence on financial performance of Deposit Taking SACCOs in Kenya.

H<sub>02</sub>: Firm size has no significant moderating influence on the relationship between Auditor's Independence and financial performance of Deposit Taking SACCOs in Kenya

## **Research and Methodology**

### **Research Design**

The research employed a descriptive survey research design, which is grounded in various worldviews, as acknowledged by Creswell (2006). This study aligns with the positivist research philosophy, reflecting a particular perspective on how phenomena are observed, analyzed, and applied.

### **Population and Sample**

The study was conducted in Kenya, specifically focusing on 168 DT-SACCOs licensed by SASRA for the financial year ending on December 31, 2023. The sampling frame comprised finance managers, internal auditors, and accountants at the headquarters totaling

504 individuals possessing crucial information on SACCOs' performance and audit-related matters. The determination of the sample size adhered to Yamane's formula (Yamane, 1967), resulting in the specified sample size employed in this study.

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

Where;

n= sample size

N= population

e= Margin of error, taken as 0.05

Substituting the values in the formula;

$$n = \frac{504}{1 + 504(0.05^2)} = 223.008$$

$$1 + 504(0.05^2)$$

$$n = 223 \text{ respondents}$$

This study employed the simple random sampling technique, selecting 223 respondents randomly from 504 respondents comprising of finance managers, heads of internal audit, and chief accountants.

### Research Data

Primary data was gathered using a questionnaire featuring a five-point Likert-type scale (1-Strongly Disagree to 5-Strongly Agree). A pilot test was carried out in 8 SACCOs to determine validity and reliability, however the data obtained from this test was excluded from the final study. Including pilot respondents in the main study could introduce bias or confound the analysis. Pilot respondents were exposed to the research materials or procedures in advance, which could influence their responses in the main study. Excluding them helped in mitigating this potential bias. Furthermore, after piloting, some revisions were done to enhance reliability and validity of research instrument before administering them during main study. The questionnaire's content validity was enhanced through discussions with two randomly selected branch managers and thesis supervisors, and construct validity was verified by reviewing similar research. Factor analysis assessed the suitability of test items which was found to be 0.7692 which was considered valid (Above 0.4), and reliability for primary data was determined using Cronbach's alpha, with a value of 0.905 to be considered reliable (Above 0.7)

### Measurement of Study Variables

**Table 1:** Quantitative Measures of Variables

Variable	Type	Indicators
Internal Auditor's Independence	Independent Variable	-Provision of non-audit service -Self-interest and Review -Participation in role management - Reporting Level
Sacco Size	Moderating Variable	-Customer's Deposits
Financial Performance	Dependent Variable	-Dividend per share -Interest on member's deposit -Surplus -Membership

### Data Analysis and Hypothesis Testing

SPSS 26 facilitated statistical analysis, encompassing descriptive and inferential statistics. Descriptive measures included mean, standard deviation, frequencies, and percentages, while simple linear regression tested the first null hypothesis. The moderating effect of firm size on the relationship between Auditor's Independence and financial performance was examined through Hierarchical Multiple Regression Technique. The hypotheses were test at 0.05 significance level. Findings were presented in tables and models, aligning with the study's objectives.

### Study Models

$$Y = \beta_0 + \beta_1 X_1 + \epsilon \dots \dots \dots \text{Unmoderated Regression Model}$$

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 Z + \beta_3 X_1 Z + \epsilon \dots \dots \dots \text{Moderated Regression Model}$$

Where;

Y = Financial Performance (Independent Variable)

B<sub>0</sub> = Constant

β<sub>1</sub> to β<sub>3</sub> = Regression Coefficients

X = Auditor’s Independence (Independent variable)

Z = Firm size (the moderating variable)

X<sub>i</sub>\*Z = the interaction term between the independent variable and the moderating variable

ε = the error of term.

## Results and Discussions

### Descriptive Analysis

The respondents were required to state their level of agreement in regards to 11 statement which was used to measure Internal auditor’s independence. The results are shown in Table 2.

**Table 2:** Internal auditor’s independence

No	Internal auditor’s independence	5	4	3	2	1	Mean	S.D
1.	The absence of prejudice in carrying out auditing duties is guaranteed by express independence from auditing.	30.4 (49)	62.7 (101)	2.5 (4)	2.5 (4)	1.9 (3)	4.17	0.75
2.	Being able to effectively manage and provide feedback to auditors depends on their independence.	36.6 (59)	52.8 (85)	6.2 (10)	4.3 (7)	0 (0)	4.22	0.75
3.	Auditors’ independence fosters objectivity and integrity in the committee functions	31.7 (51)	60.2 (97)	4.3 (7)	3.7 (6)	0 (0)	4.20	0.69
4.	Auditors’ fees are based on the work done and period undertaken.	19.9 (32)	72.7 (117)	3.1 (5)	2.5 (4)	1.9 (3)	4.06	0.70
5.	Auditors’ independence fosters the financial reports quality and accountability in the public sector	36 (58)	55.3 (89)	5 (8)	3.7 (6)	0 (0)	4.24	0.71
6.	My organization does not assign non audit services to external auditors	22.4 (36)	58.4 (94)	9.3 (15)	9.3 (15)	0.6 (1)	3.93	0.86
7.	The period to which audit services are to be undertaken is standard and known	25.5 (41)	60.9 (98)	9.9 (16)	3.7 (6)	0 (0)	4.08	0.71
8.	In my company, we make sure that all of our affiliates' ties are fully disclosed	32.9 (53)	59 (95)	4.3 (7)	3.1 (5)	0.6 (1)	4.20	0.717
9.	The audit committee usually discuss and thoroughly investigate any potential independence impairments or issues.	27.3 (44)	63.4 (102)	3.1 (5)	3.1 (5)	3.1 (5)	4.09	0.84
10.	The board of directors receives audit feedback in a clear and understandable manner, which improves control and efficiency.	25.5 (41)	67.1 (108)	2.5 (4)	4.3 (7)	0.6 (1)	4.12	0.70
11.	When conducting an audit, it is the responsibility of the audit senior to guarantee a suitable setting.	35.4 (57)	57.8 (93)	1.9 (3)	4.3 (7)	0.6 (1)	4.23	0.74
<b>Summary Statistics</b>							<b>4.14</b>	

Source: Field Data (2023)

According to table 2, 62.7% of the respondents believed and 30.4% wholeheartedly concurred that an auditor's duty is free from prejudice when they state their independence from the company. The responders were in agreement with the statement, with a mean score of 4.17. Researchers found that 35.6% of respondents completely concurred that autonomy for auditors allows for effective input and oversight over their activities, whereas 52.8% of responders concurred with the same assumption. Results showed that most respondents agreed with the statement (4.22 on the aggregate). Thirteen percent of responders were in strong agreement, and sixty-two percent were in agreement, with the assertion that auditors' independence promotes impartiality and responsibility in the committee's duties. Respondents agreed with the statement, with a mean and standard deviation of 4.20 values. Regardless, the survey found that the majority of participants (72.7%) concurred that auditors' remuneration should be based on the amount of time and effort put in, although a small minority (19.9%) firmly concurred. On average, participants gave the statement a 4.06 out of 5.

An overwhelming majority of respondents (55.3% to be exact) concurred that the independence of auditors improves the credibility and transparency of government financial reporting, while 36% definitely approved. The majority of those surveyed (4.24 on the scale) concurred with the claim. The findings show that 58.4% (94) of those polled concurred with the premise that their firm does not outsource non-audit services to independent auditors, while 22.4% (36) of responders definitely concurred. As a whole, respondents agreed with the statement (mean = 3.93). Additionally, 60.9% agreed and 25.5% of those people completely concurred that the time frame for audit services is standard and understood. On average, responders concurred with the statement (4.08). The survey found that of the total respondents, 32.9 percent completely concurred, and 59.5 percent acknowledged that their company makes sure all affiliate ties are fully disclosed. The majority of those who responded (mean=4.20) concurred with the claim made.

The outcomes demonstrated that 63.4% of the participants and 27.3% of the participants believed that the audit committee typically discusses and investigates any possible impairments or difficulties with independence fully. There was a 25.5% unanimous endorsement and a 67.1% accord with the clarity with which audit recommendations are communicated to the board of management, resulting in improvement and efficiency of control. A total of 4.12 votes indicated that the majority of those surveyed concurred with the claim made. Last but not least, 35.4% unanimously concurred and 57.8% acknowledged that the audit senior makes sure the setting is suitable for auditing. As a whole, participants concurred with the assertion (mean score 4.23).

**Table 3:** Firm size

No	Firm size	5	4	3	2	1	Mean	S.D
1	The Sacco provides members with attractive interest rates to encourage them to deposit more money	52.8 (85)	41.6 (67)	2.5 (4)	2.5 (4)	0.6 (1)	4.43	0.72
2	To encourage more savings among its members, the Sacco has instituted a financial education program.	37.9 (61)	57.8 (93)	0.6 (1)	2.5 (4)	1.2 (2)	4.29	0.72
3	To entice members to deposit funds, the Sacco offers a variety of savings opportunities.	32.3 (52)	63.4 (102)	0 (0)	3.7 (6)	0.6 (1)	4.23	0.69
4	In an effort to increase the savings of its members, the Sacco has partnered with an employer.	39.8 (64)	55.9 (90)	0 (0)	3.7 (6)	0.6 (1)	4.30	0.72
5	The Sacco offers incentives and rewards to encourage member's deposits	37.3 (60)	56.5 (91)	0.6 (1)	1.9 (3)	3.7 (6)	4.22	0.86
<b>Summary Statistics</b>							<b>4.29</b>	

**Source:** Field Data (2023)

The survey results indicate that 52.8% of the respondents expressed strong agreement with the notion that the Sacco provides competitive interest rates to improve member deposits, while 41.6% agreed. The respondents' agreement with the statement was indicated by a mean of 4.43 and a standard deviation of 0.72. According to the survey results, 37.9% of the participants highly agreed and 57.8% agreed that the Sacco has implemented financial literacy to improve its members' deposits. The respondents exhibited a consensus with the statement, as shown by a mean of 4.29 and a standard deviation of 0.72. In relation to the Sacco's efforts to attract member deposits, 32.3% of the respondents highly agreed, while 63.4% agreed. The respondents' agreement with the statement was indicated by a mean of 4.23 and a standard deviation of 0.69. However, a significant proportion of the respondents, namely 39.8%, strongly agreed, while 55.9% agreed, that the Sacco has established collaborations and partnerships with employers to improve the deposit base of its members. The respondents' agreement with the proposition was indicated by a mean of 4.30 and a standard deviation of 0.72. Finally, a significant proportion of the respondents, namely 37.3% expressed strong agreement, while 56.5% expressed agreement, regarding the Sacco's provision of incentives and awards to motivate members' deposits. The respondents' agreement with the proposition was evident, as shown by a mean of 4.22 and a standard deviation of 0.86.

### Simple Linear Regression Analysis

Finding out how auditor independence affects the bottom lines of Kenya's Deposit Taking SACCOs was the primary goal of this study. In order to achieve this goal and, by extension, evaluate the null hypothesis dictating  $H_0$ : Auditor's Independence has no significant influence on financial performance of Deposit Taking SACCOs in Kenya.

**Table 4:** Simple Linear Regression- Auditor's Independence

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.715 <sup>a</sup>	.512	.508	.39483		
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.954	1	25.954	166.491	.000 <sup>b</sup>
	Residual	24.786	159	.156		
	Total	50.740	160			
Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	1.150	.231		4.982	.000
	Auditor's Independence	.713	.055	.715	12.903	.000

a. Dependent Variable: Financial Performance

**Source:** Field Data (2023)

A determination coefficient (R<sup>2</sup>) of 0.512 was computed using the data presented therein. Which means that 51.2% of the variance in the financial performance of deposit-taking Saccos in Kenya may be explained by the independence of the internal auditors according to this research. Table 3 includes details on the model's overall fit, such as the F-statistic and p-value that go along with it; these numbers assess the model's overall significance. According to the results in the ANOVA table, the model had a good fit since it was statistically significant at the 95% confidence level (F(1,159)= 166.491, p < 0.05). The independence of internal auditors regression equation is;

$$Y_{Per} = 1.150 + 0.713X_1$$

Regression coefficients for independent variables are considered statistically significant when the t-statistic is significant. After taking into account all of the independent variables in the model, this indicates that the dependent variable is significantly related to the independent variable. The regression equation indicates that there is a positive and statistically significant link (P<0.05) between the internal auditor's independence and financial performance, meaning that for every one unit increase in independence, financial performance would rise by 0.713 units. The results of the regression and correlation analyses demonstrate a strong positive link between the independence of the internal auditors and financial success.

Other investigations have reached similar conclusions; for example, Kwabena (2017) found that auditor quality significantly affects financial performance (ROA). The impact of auditor independence on financial performance is stronger than that of auditor size, according to Ado, Rashid, Mustapha, and Ademola (2020). The research conducted by Enekwe et al. (2020) shown that the financial performance was favorably and considerably affected by auditor independence. Results are consistent with previous research, nevertheless, showing that audit quality is unaffected by independence factors (Kertarajasa, Marwa and Wahyud, 2019). Factors related to auditors' ethics do not mitigate the relationship between audit quality and auditors' competence, experience, independence, appropriate professional care, and honesty. There was no statistically significant correlation between the features of internal audits and financial outcomes, as shown by Muchiri and Jagongo (2017).

#### Moderating Influence of Firm Size on the Relationship between Auditor's Independence and the Financial Performance

This research delves into whether the size of a Sacco as measured using member deposits influences the impact of "auditor independence" on the financial performance of Kenyan Deposit-Taking SACCOs. Employing "hierarchical regression analysis," the study seeks to understand if firm size moderates the relationship between an auditor's independence and the SACCO's financial performance. In other words, does the size of the Sacco size play a role in how strongly auditor independence affects a SACCO's financial performance? This intriguing exploration aims to shed light on potential nuances within the audit process and its connection to financial performance in these vital Kenyan institutions.

**Table 5:** Hierarchical Regression Model Summary

Model	R	R <sup>2</sup>	Adj. R <sup>2</sup>	Change Statistics					
				Std. Error of the Estimate	Change	F Change	df1	df2	Sig. F Change
1	.239 <sup>a</sup>	.057	.051	.54854	.057	9.631	1	159	.002
2	.745 <sup>b</sup>	.554	.549	.37825	.497	176.387	1	158	.000
3	.814 <sup>c</sup>	.662	.656	.33028	.108	50.227	1	157	.000
4	.845 <sup>d</sup>	.714	.706	.30522	.051	27.843	1	156	.000

a. Predictors: (Constant), Period of Service

b. Predictors: (Constant), Period of service, Auditor's Independence

c. Predictors: (Constant), Period of service, Auditor's Independence, Sacco size

d. Predictors: (Constant), Period of service, Auditor's Independence, Sacco size, Auditor's Independence\* Sacco size,

**Source:** Field Data (2023)

According to the findings in Table 5, Model 1 showed a strong and statistically significant positive correlation between the duration of service and financial performance (p=0.002). This model yielded an R<sup>2</sup> value of 0.057. Model 1 demonstrated an ability to account for 5.7 percent of the variability seen in the dependent variable, namely financial performance. The R<sup>2</sup> value of 0.497 was achieved in Model 2. The inclusion of the independent variable in the model accounted for 49.7% of the variance, resulting in an increase in the R square value to 55.4% (R square=0.554). This increase was statistically significant, with a p-value of 0.000. The results of Model 3 suggested that when Sacco size was included as a moderator, there was a substantial and combined relationship between duration of service, Auditor's Independence, the Sacco size, and financial performance (p<0.05). The R<sup>2</sup> value increased from 0.544 (54.4%) to 0.662 (66.2%), indicating that an extra 0.108 (10.8%) was included in the model.

Ultimately, in order to examine the impact of firm size on the connection between Auditor's Independence and financial performance, the regression model included the interaction term of the independent variable (Auditor's Independence) and the moderator (Firm size) to get model 4. The model's results showed that the interaction between Auditor's Independence and Firm size explains a significantly larger amount of variance compared to just firm size and Auditor's Independence alone (R<sup>2</sup> = 0.714, p = .000). This suggests that Firm size potentially has a significant moderating effect on the relationship between Auditor's Independence and the financial performance of Deposit Taking Saccos.

**Table 6:** Regression Coefficient of Moderating influence

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.621	.161		22.554	.000
	Period of service	.131	.042	.239	3.103	.002
2	(Constant)	.772	.241		3.195	.002
	Period of service	.114	.029	.208	3.904	.000
	Auditor's Independence	.704	.053	.706	13.281	.000
3	(Constant)	.374	.218		1.713	.089
	Period of service	.081	.026	.147	3.120	.002
	Auditor's Independence	.337	.069	.338	4.863	.000
	Firm Size	.474	.067	.499	7.087	.000
4	(Constant)	-2.006	.494		-4.061	.000
	Period of service	.088	.024	.161	3.689	.000
	Auditor's Independence	1.210	.177	1.214	6.822	.000
	Firm Size	1.111	.136	1.169	8.192	.000
	CNE*Firm Size	.222	.042	1.464	5.277	.000

a. Dependent Variable: Financial Performance

Source: Field Data (2023)

On the basis of the regression coefficient found in Table 6, the second regression model for the research is presented as follows.

$$Y = -2.006 + 1.210X_1 + 1.111Z + 0.222X_1Z$$

Where:

Y=Financial Performance of Deposit taking Saccos

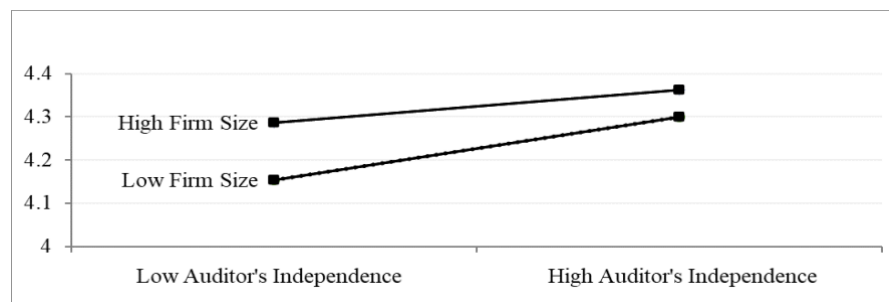
X<sub>1</sub>=Auditor's Independence

Z= Firm size

In the initial step of the analysis, incorporating the variable "period of service" demonstrated a positive and statistically significant predictive power ( $\beta=0.131$ ,  $P=0.002$ ). Subsequently, in the second step, the inclusion of "Auditor's Independence" also revealed positive and significant predictive power ( $\beta=0.704$ ,  $P=0.000$ ). Introducing "Sacco size" in the third step exhibited a positive and significant impact on financial performance ( $\beta=0.474$ ,  $P=0.000$ ), indicating that a one-unit change in Sacco size leads to a significant 0.474-unit change in financial performance in the same direction. Moving to the fourth step and introducing the interaction term (cross-product between Sacco size and Auditor's Independence), Sacco size remained significant with increased predictive power ( $B=1.111$ ). Also, there was a substantial interaction term. The results of model 4 show that the association between auditor independence and financial success is moderated by the size of the sacco. This indicates that the impact of auditor independence on financial performance grows by 0.222 units ( $P=0.000$ ) for every unit rise in Sacco size.

### Moderation Using Hayes Model

Within the scope of this investigation, the Hayes macros technique was used to employ graphical representation in order to explore the moderating impact on each variable.



**Figure 1:** Moderating Effect of SACCO Size on Auditor's Independence; Source: Field Data (2023)

The link between financial performance and the independence of the internal auditor is found to be substantial when the size of the Sacco is large. On the other hand, when the Sacco size is small, it is discovered that the independence of the internal auditor has a



favorable impact on performance. An investigation on the link between performance and the independence of internal auditors revealed that the size of the Sacco had a beneficial impact on the relationship. On the other hand, moderation is robust at high levels of the independence of the internal auditor.

The findings are consistent with another prior research. Saleh (2021) discovered that the influence of the audit methodology on earnings comparability is enhanced when the business size is taken into account as a moderating factor. However, this impact does not change based on the moderating factors of leverage and profitability. Santosa (2020) found that firm size moderators enhance the impact of independent variables, resulting in a positive effect on company value for liquidity and audit committees. Nevertheless, the study presented findings that are in opposition to earlier research. For instance, Madawaki, Ahmi, and Ahmad (2022) discovered that the size of a company does not have an impact on the connection between the internal audit function and business success. Shatnawi, Hanefah, Eldaia, and Alaaraj (2022) demonstrated that the variable of size did not have a moderating effect on the relationship between ACE and Tobin's Q. It is essential for decision makers to ensure the adoption of Enterprise Risk Management (ERM) in Jordanian enterprises in order to enhance their financial performance.

## Conclusions

The study's conclusion emphasizes that internal auditor's independence plays a significant role in influencing the financial performance of DT-Saccos in Kenya. This implies that when internal auditors operate independently, they are better positioned to detect and report financial irregularities and weaknesses, ultimately contributing to enhanced financial performance. The size of the Sacco moderates the impact of independence. This means larger Saccos experience a magnified positive effect on performance when their auditors are highly independent. Management of Sacco should adopt policies and procedures that safeguard the autonomy of internal audit activities, such as ensuring direct reporting lines to the board of directors or audit committees rather than management. Further, management should ensure that the auditors maintain their independence from the executive and by preventing them from participating in the day-to-day activities and procedures of the organizations that are responsible for controlling their internal operations. In addition, in order to guarantee the function's independence, the internal audit function need to be granted unrestricted access to any data and information that they want. While all SACCOs benefit from independent internal audit, the optimal strategy may differ based on size and resources. Large SACCOs can invest in dedicated internal audit departments with specialized skills, while smaller SACCOs might consider outsourcing or collaborating with other institutions.

The study, however, suffered some limitations in respondent selection and data collection methods. The study targeted three specific groups within SACCOs: finance managers, heads of internal audit, and chief accountants. While these individuals possess relevant knowledge, excluding other potentially valuable perspectives (e.g., Board members, external auditors) could limit the comprehensiveness of the data. Primary data was collected through self-administered questionnaires. Respondents' answers may be influenced by personal biases, memory limitations, or a desire to present themselves or their organization in a positive light. The use of a Likert scale with options like "strongly agree" and "strongly disagree" can introduce social desirability bias. Respondents might choose answers they believe are more socially acceptable, potentially skewing the results.

Although this study has produced valuable contributions, it also emphasizes several factors that should be taken into account by future studies. The study focused on auditor's independence as independent variable and Sacco size as moderating variable. Future studies could explore additional factors that may influence the financial performance of SACCOs beyond auditor independence. For example, examining the impact of corporate governance practices and technological innovations as either moderating or mediating variable. Longitudinal studies are needed to assess the long-term impact of auditor independence on SACCO performance with size as a moderator. Tracking changes in auditor independence practices and financial performance over time can help identify trends, patterns, and causal relationships that may not be apparent in cross-sectional analyses.

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