Volume and Issues Obtainable at the Center for Sustainability Research and Consultancy

Journal of Accounting and Finance in Emerging Economies
ISSN: 2519-0318 & ISSN (E): 2518-8488
Volume 10: Issue 2 June 2024
Journal homepage: www.publishing.globalcsrc.org/jafee

Influence of Audit Committee Composition on Dividend Policy of Dt Sacco Societies in Kenya

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ARTICLE DETAILS

History
Revised format: May 2024
AvailableOnline: Jun 2024

Keywords
Audit Committee Composition, Dividend Policy, Saccos.

JEL Classification
M4, M42

ABSTRACT

Purpose: This study sought to examine audit committee composition and dividend payout of DT Saccos in Kenya.
Methodology/Approach: The study adopted causal as well as descriptive research designs. The study targeted 403 and sample of 201 stakeholders of DT Saccos in Kenya. The unit of inquiry was chairpersons and Chief executive officer. Using questionnaires as a primary data collection approach, three research assistants were involved. Data was hence processed and presented in form of tables.
Findings: A significant relationship between audit committee composition and dividend policy was ascertained P0.000<0.05.
Implications: The paper formulates that audit team structure and composition based on skills and abilities results to proper dividend payout decisions.

Recommended citation: Vuhyah, , P. A., Alala, O. B., and Bulla, D. (2024). Influence of Audit Committee Composition on Dividend Policy of Dt Sacco Societies in Kenya**.** *Journal of Accounting and Finance in Emerging Economies, 10* (2), 233-244.
DOI: https://doi.org/10.26710/jafee.v10i2.3032

Introduction

Audit committee composition refers to the audit team for the organization and its composition such as size, qualification, independence, competence. Zhou, Owusu-Ansah, and Maggina (2018) found that audit committee composition of European firms with effective governance exhibited superior performance compared to organizations with inadequate governance. The United Kingdom Report provided the initial leadership rules in 1992. Presently, the majority of developed and developing nations have adopted these recommendations to oversee and enforce best practices among corporate entities (Abraham, Marston, & Jones, 2015).

The development of the audit committee composition guidelines was informed by the considerable research conducted by many jurisdictions (Nyakeri, 2020). In Kenya, the implementation of audit committee composition principles was not driven by any instances of corporate failures or financial scandals. The rules serve as a carbon duplicate of the corporate governance codes of Hong Kong, Singapore, and Malaysia, which are replications of the Combined Code of the United Kingdom. Kenya has implemented non-statutory rules and an enforcement paradigm known as comply or explain. No attempt was made to synchronize them with the specific conditions and establishments of the local context (Outa & Waweru, 2016).

SACCOs are mostly found in Ethiopia, Kenya, Tanzania, Uganda, Zambia, and Ghana (WOCCU 2017). According to the African Corporate Governance Network (2016), Africa is now in its nascent phase with respect to audit committee composition. Nevertheless, many countries such as Egypt have implemented revised regulations and code of conduct pertaining to audit committee composition. According to a report by the African Corporate Governance Network (2016) African nations have undertaken efforts to establish and enhance their corporate governance structures in response to the unique political and economic contexts they face. South Africa remains at the forefront of corporate governance on a global scale, particularly in terms of implementing global standards in an emerging market setting.

Audit committee composition has been increasingly prominent in Kenya, similar to other countries. The investigation conducted by SASRA in Kenya revealed that Harambee Sacco's audit committee composition processes were found to be inadequate. Inadequate leadership was identified as a contributing factor to significant audit committee composition, hence posing a risk to the money of its members (SASRA, 2022). According to Otieno's (2022) findings, the collapse of Cent Sacco in Kisumu resulted in a financial loss of 60 million Kenyan Shillings for its members. The Financial Sector Development Trust Kenya study (2016) states that Kenyan SACCOs are jeopardizing the funds of its members due to the presence of inadequate accounting and control mechanisms. Shibutse et al. (2019) noted that the dividend policy in Kenyan Saccos remains enigmatic, which is the prevailing challenge.

The presence of numerous instances of financially distressed money and Credit Co-operative Societies (Saccos) has brought attention to the potential loss or vulnerability of substantial amounts of members' money, amounting to hundreds of billions of shillings. Three SACCOs, namely Mwalimu, Ekeza, and Stima Investment Co-operative, have collectively incurred a financial loss exceeding Sh3.6 billion due to mismanagement or fraudulent activities perpetrated by its officers and boards. In response to the escalating situation, the State Department of Co-operatives has enlisted the assistance of the Ethics and Anti-Corruption Commission (EACC) to investigate and prosecute individuals involved in fraudulent activities. The purpose of this action is to safeguard the savings of approximately 14 million Kenyans who are members of Saccos (Kibue & Mang'ana, 2022).

Statement of the Problem

There have been reports of loss of funds, mismanagement, poor dividend policy and declining profitability among Saccos (SASRA, 2022). As a result some investors and members of Saccos have been withdrawing their membership from Saccos Societies. Challenges facing Saccos in Kenya have been explained on different contexts. Marete (2016) noted that Bandari Sacco officials engaged in a game of assigning blame on Kshs 5m. According to Anyanzwa (2018), Harambee Sacco resorted to conducting auctions of houses and land in order to enhance its cash flows. Conversely, Munaita (2018) reported that Metropolitan Sacco faced scrutiny due to financial difficulties. Three Savings and Credit Cooperatives (SACCOs), namely Mwalimu, Ekeza, and Stima Investment Co-operative, have collectively incurred a financial loss exceeding Sh3.6 billion due to mismanagement or fraudulent activities perpetrated by its officers and boards. Furthermore net income after tax declined from kshs. 17.12 billion to Kshs. 12.16 billion representing a 6 percent decline. The provision for loan loss nearly doubled from 5.22 percent to 9.77 percent from kshs. 5.08 billion to kshs. 10.6 billion (SASRA, 2021). Return on asset value for return on assets was 11 percent. Previous studies show inconsistent results, Jepkosgei (2022) examined audit committee composition of DT Saccos in North Rift Counties which was significant. However Wanjiru and Jagongo, (2022) found audit committee composition to be insignificant on dividend policy of DT Saccos in Kenya. Wanjiru and Jagongo, (2022) proposed further study on individual board characteristics entities affecting dividend policy. This study investigated the audit committee composition and dividend policy of DT Saccos in Kenya.

Objectives of the Study

To assess relationship between composition of audit committee and dividend policy of DT Sacco Societies in Kenya

Research Hypothesis

H_{01}: Audit committee compositions have no statistically significant influence on dividend policy of DT Saccos in Kenya

Literature Review

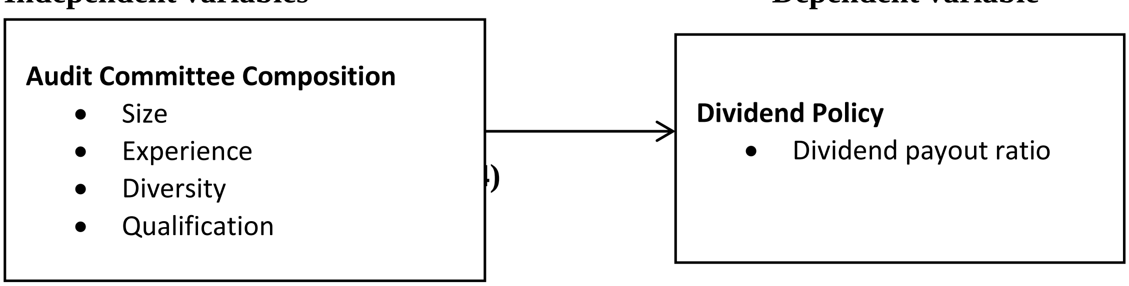
Stewardship Theory

Stewardship theory by Donaldosn, (1990) and Donaldson and Davis (1991) as cited in Chege (2015) contend that leadership is shared and this protects investor interests. It argues that directors are stewards whose interests and practices are aligned with that of their principals. By fulfilling the expectations of the principals, manager's goals shall also be met by association. Shareholder wealth is enriched and expanded through firm performance and this also benefits the manager in the organization.

The stewardship theory places significant importance on the function of top management as stewards. Hence, the corporate governance framework confers authority upon managers who assume the role of stewards, affording them a heightened level of control. (de Barros, dos Santos, Orso & Sousa, 2021). It is upon the management to work with the board, auditors in a transparent manner. Stewardship needs transparency. Matters regarding disclosure needs honesty. When it comes to dividend payout it is upon the stewards to give true position and advise the board and shareholders on best dividend decisions to undertake. This theory addresses the audit committee composition element for the executive and management in general.

Conceptual Framework

Independent variables **Dependent variable**



In this study, the connections between the study variables that is the independent variable which is board characteristic and the dependent variable which is dividend policy. Indicators for audit committee composition clearly spell out the dividend policy gaps. Through investigations auditors outlines their audit on dividend payout and there direct effect to liquidity position of the firm. Therefore the number of audit committee thus size, auditors experience on dividend matters, diversity and audit qualification (Omar, 2020).

Methodology

Study Design

The study used mixed design described by two analytical approaches using cross sectional and panel data (Orodho, 2008). As descriptive and correlation study, it is aimed at examining whether the relationship exists between audit committee composition and dividend policy of SACCOs in Kenya.

Target Population and Sample Size

According to SASRA 2021, the number of registered DT SACCOs is 175 spanning the production, service and agricultural sectors of the economy. The target was 403 SACCO stakeholder as follows; 2 SASRA management staff members, 2 KUSCO management staff members, 2 CAK Corporation Alliance staff members, 47 County directors for cooperatives, 175 Chairperson/Director and 175 CEO/CFO (SASRA, 2022. The board of directors was represented by one member and top management team also represented by either CEO or CFO. These participants are key decision makers on matters board characteristic and dividend policy.

The sampling unit is identified as 403 of the total participants (SASRA, 2021). Yamane (1967) sample determination formula was used to arrive at the sample size given as;

Thus

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

$$\frac{403}{1 + 403\,(0.05)^2}$$

$$\frac{403}{2.0075}$$

$$= 200.7 = 201$$

Table 1: Sample Size

Designation	Population	sample
SASRA management	2	$\frac{2}{403} \text{X } 201 = 1$
KUSCO management	2	$\frac{2}{403} \text{X } 201 = 1$
CAK Corporation Alliance	2	$\frac{2}{403} \text{X } 201 = 1$
County directors for cooperatives	47	$\frac{47}{403} \text{X } 201 = 24$
Chairpersons/Directors	175	$\frac{175}{403} \text{X } 201 = 87$
CEO/CFO	175	$\frac{175}{403} \text{X } 201 = 87$
Total	**403**	**201**

Source: (SASRA, 2024)

Instrumentation

The research employed primary data obtained through the administration of a questionnaire. This was used for this study due to the assumption that the study participants were literate and capable of providing satisfactory responses to the questions posed.

Data Analysis

The data analysis was conducted in accordance with the research objective. Inferential and descriptive statistics were used to analyze quantitative data. The information was displayed using tables.

Results and Discussion

Table 2: Response Rate

Variable	Sample	Response	None Response
Questionnaire	174(100%)	159(91.4%)	15(8.6%)
Interviews	27(100%)	19(70.4%)	8(29.6%)
Total	**201(100%)**	**178(88.6%)**	**23(11.4%)**

Authors Compilation (2024)

The study administered 174 questionnaires to respondents of the deposit taking SACCOs in Kenya out of which 159 responded giving a response rate of 91.4%. Champion and Sear (2009) considers a response exceeding 69% as a very high response hence 91.4% response exceeds 69% hence a very high response to warrant results. Furthermore out of 27 sampled to respond to interviews 19(70.4%) responded which still exceeds 69% hence a very high response. The research deemed the response rate to be sufficient for generating precise study findings, taking into account the target and sample populations.

Audit Committee Composition

The research employed a quantitative methodology to examine the data and generate descriptive statistics. Conclusions and generalizations were drawn regarding the correlation between the composition of audit committees and the dividend policies of deposit-taking SACCOs in Kenya using these descriptive statistics.

Table 3: Descriptive statistics for Audit Committee Composition

		5	4	3	2	1	M	S. D
1	Coordinating mechanisms have been in place to facilitate gender inclusivity	16(10.1)	52(32.7)	43(27)	48(30.2)	0(0)	3.93	1.03
2	Qualifications of board members has reinforced dividend policies among SACCOs	16(10.1)	94(59.1)	45(28.3)	4(2.5)	0(0)	3.79	1.00
3	The experience of board members has improved dividend policy formations	21(13.2)	53(33.3)	51(32.1)	34(21.4)	0(0)	3.89	1.00
4	The size of audit committee is adequate to undertake its mandate on dividend policies	16(10.1)	79(49.7)	38(23.9)	26(16.4)	0(0)	3.87	0.92
5	An increase in number of audit committee members has made dividend policy formation comprehensive	25(15.7)	52(32.7)	58(36.5)	24(15.1)	0(0)	3.49	1.06
6	The years of service of audit committee members in audit team has enhanced dividend policy implementation	18(11.3)	59(37.1)	74(46.5)	8(5)	0(0)	3.72	0.93
7	All Audit Committee members have had relevant industry experience required to steward the Sacco	29(18.2)	44(27.7)	60(37.7)	24(15.1)	2(1.3)	3.93	1.02
8	Appointment of audit committee members has always considered a diverse mix of skills required in the stewardship of the Sacco dividend policy	16(10.1)	52(32.7)	43(27)	48(30.2)	0(0)	3.95	1.01

Authors Compilation (2024)

The research results indicate a moderate level of agreement regarding the existence of coordinating mechanisms to promote gender inclusivity as evidenced by the substantial Std of 1.03 and the mean of 3.93, coordination mechanisms have been established to promote gender inclusivity.

However qualifications of board members has reinforced dividend policies among SACCOs with a mean of 3.79 and n significant standard deviation of 1.0 hence qualifications of board members has reinforced dividend policies among SACCOs.

From the study the experience of board members has improved dividend policy formations. This statement had an average score of 3.89 and a significant Std of 1.0 showing that the experience of board members has improved dividend policy formations.

On statement on whether the size of audit committee is adequate to undertake its mandate on dividend policies, the mean was 3.87 and an insignificant Std of 0.92, therefore the size of audit committee is adequate to undertake its mandate on dividend policies.

On whether an increase in number of audit committee members has made dividend policy formation comprehensive, those who agreed strongly were 25(15.7%) while those who agreed were 52(32.7%) and respondents who were neutral 58(36.5%). Conversely, respondents who disagreed 24 (15.1%) as none strongly disagreed that an increase in number of audit committee members has made dividend policy formation comprehensive. Therefore, with a mean of 3.49 and a significant Std of 1.06 hence an increase in number of audit committee members has made dividend policy formation comprehensive.

Results on the table above revealed that a mean of 3.72 and an insignificant standard deviation of 0.93, indicating the years of service of audit committee members in audit team did not necessarily enhance dividend policy implementation.

On the assertion that entire audit committee members have had relevant industry experience required to steward the Sacco a mean of 3.93 and a significant Std of 1.02, which indicate that the entire audit committee members have had relevant industry experience required to steward the Sacco.

In response to the question of whether the selection of audit committee members has consistently taken into account the variety of skills necessary for managing the Sacco dividend policy the substantial standard deviation of 1.01 and the mean score of 3.95, it is evident that the selection process for audit committee members has consistently taken into account a wide range of competencies essential for effectively managing the Sacco dividend policy.

The SACCO agencies SASRA, KUSCO, CAK Corporation Alliance and County directors for cooperatives during interview sessions confirmed that composition of audit team had members with skills and experience to enable dividend policy decisions. This was supported by one of the SASRA staff who said that: "*The SACCOs I have visited have qualified and experienced management team that exemplary performs duties*" Furthermore one of the County director for cooperatives said that "*Dividend payout in SACCOs I oversee has been transparent and effective due to existence of experienced and qualified management team*". This agrees with Eshikumo and Makokha (2021) who ascertained that audit committee composition based on experience, size and qualification was of significant impact on SACCO performance in Nairobi city.

Dividend Policy of Saccos

The participants were requested to rank their degree of agreement with the dividend policy of SACCOs on a scale.

Table 4: Descriptive statistics for Dividend Policy of SACCOs

	Dividend Policy	5	4	3	2	1	M	SD
1	SACCO maximizes on dividend source of financing to thrive	25(15.7)	52(32.7)	58(36.5)	24(15.1)	0(0)	4.09	0.81
2	The SACCO dividend saving plan is the key asset base for SACCOs	18(11.3)	59(37.1)	74(46.5)	8(5)	0(0)	3.29	1.35

3	Dividends retained has always boosted the liquidity state of SACCOs	29(18.2)	44(27.7)	60(37.7)	24(15.1)	2(1.3)	3.4	1.31
4	The amount of share determine amount of dividends to receive	31(19.5)	54(34)	42(25.4)	18(11.3)	14(8.8)	3.73	1.69
5	Dividends in some cases are retained to build up working capital for the firm	36(22.6)	45(28.3)	38(23.9)	12(7.5)	28(17.6)	3.78	1.10
6	Dividends must be paid each year no matter the performance	34(21.4)	47(29.6)	42(26.4)	8(5)	28(17.6)	3.44	0.96
7	Current dividends paid is guided by previous dividends paid	25(15.7)	52(32.7)	58(36.5)	24(15.1)	0(0)	4.09	0.81
8	Dividends are paid when profits are made	20(12.6)	81(50.9)	54(34)	4(2.5)	0(0)	3.78	1.70
9	Priority during dividends payment is based on kind of shareholding for instance preference shareholders against ordinary shareholders	22(13.8)	79(49.7)	54(34)	4(2.5)	0(0)	3.42	1.16
10	Dividends paid are guided by availability of cash and equivalents.	22(13.8)	79(49.7)	54(34)	4(2.5)	0(0)	3.44	1.35

Authors Compilation (2024)

According to the findings of the research a mean value of 4.09 and an insignificant STD of 0.81, therefore SACCO did not depend only on dividend source of financing to thrive.

However, the results revealed a mean value of 3.29 and a significant STD of 1.35, therefore the SACCO dividend saving plan is the key asset base for SACCOs.

Response on whether they agreed or disagreed with the dividend policies of SACCOs; an average score of 3.4 and a significant STD of 1.31 showing that dividends retained has always boosted the liquidity state of SACCOs.

On whether the amount of share determine amount of dividends to receive, a mean value of 3.73 and a significant STD of 1.69 implies that the amount of share determine amount of dividends to receive.

Furthermore, on whether dividends in some cases are retained to build up working capital for the firm a mean value of 3.78 and a significant STD of 1.1, therefore dividends in some cases are retained to build up working capital for the firm.

Results on the table above revealed a mean value of 3.42 and an insignificant STD of 0.96, therefore it is not a must for dividends to be paid each year as it mostly depends on performance.
Regarding whether the current dividends paid are determined by previous dividends paid. In a similar vein, the statement's mean value of 4.09 and STD of 0.81, both of which are statistically insignificant, suggest that the dividends paid in the present do not inherently hinge on those paid in the past.

Moreover, with regard to the question of whether dividends are distributed upon the generation of profits, the mean value of 3.78 and the STD is 1.70, which is statistically significant, dividends are distributed in conjunction with the generation of profits.

According to the data, with a mean value of 3.42 and a notable STD of 1.16, dividend payment priority is determined by the type of shareholding, such as preference shareholders versus common shareholders.

Lastly, on the assertion that dividends paid are guided by availability of cash and equivalents, a mean value of 3.44 and an insignificant STD of 1.35, which indicate that dividends paid are guided by availability of cash and equivalents.

This finding concurs with interview results whereby one of the SASRA official reported that "Dividend payout depends on profits made and furthermore most Saccos determine dividends to be paid which may not be in tandem with profits earned". The result from one of the KUSCO staff stated "Dividend policies are flexible in a manner that some SACCOs take part of profits earned for investment purposes making dividend goals a mirage"

Table 5: Pearson Correlation Matrix

		Audit Committee Composition	Dividend policy
Audit Committee Composition	PC		
	Significance at two tailed		
	N	159	
Dividend policy	PC	**.718****	
	Significance at two tailed	**.000**	
	N	159	159

Authors Compilation (2024)

In the same way, a R of 0.718 and p value less than 0.05 indicated that the audit committee composition and dividend policy of SACCOs in Kenya are significantly and positively correlated. This result is consistent with that of Nduviri (2022), who discovered that audit committee characteristics have a substantial impact on NSE performance. It was determined that composition of audit team had a significant and positive effect on dividend policy. The research revealed that the ownership structure and dividend policy of SACCOs in Kenya are significantly and positively correlated. Consistent with the findings of Alhileen (2020), this study examines the impact of ownership structures, including foreign ownership, government ownership, private ownership, and family ownership, on the dividend policies of Jordanian firms listed.

Simple Linear Regression For Composition

The impact of Audit Committee Composition on the dividend policy of SACCOs in Kenya was ascertained through regression analysis. As shown in Table 6, the outcomes are presented.

Table 6: Simple Linear Regression for Audit Committee Composition(ACC)

Model Summary

M	R	R^2	Adj ^{R2}	Estimate Err	Difference R^2 Diff	F diff	df1	df^2	Sig. Diff	F
1	.718[a]	.515	.512	.55868	.515	166.770	1	157	.000	

a. ACC

ANOVA[a]

Model		Sum^2	df	$Mean^2$	F	Sig.
1	Regression	52.053	1	52.053	166.770	.000[b]
	Residual	49.004	157	.312		
	Total	101.057	158			

a. DP
b. ACC

Coefficients[a]

Model		Unstd B	Std. Er	Std Beta	t	Sig.
1	(Constant)	.474	.244		1.940	.054
	AuditCommitteeComposition	.896	.069	.718	12.914	.000

a. Dependent Variable: Dividend policy

Authors Compilation (2024)

Presentation shows that the ACC substantially explains as much as 51.5% in dividend policy (R^2=0.515, P=0.000). Hence ACC has a substantial impact on the dividend policy. The F test result (1, 159) = 166.770, P=0.00<0.05, provides evidence that ACC affects dividend policy. Furthermore, it implies that the composition of the audit committee can serve as a valuable indicator in forecasting dividend policy.

The (β) value for Audit Committee Composition was 0.474, as shown in Table 4.23. The corresponding significance level was p <.05. This finding suggests that a dividend policy adjustment of 0.474 would be the consequence of a one-unit change in audit committee composition. Hence:

Dividend policy= 0.474+0.896 Audit Committee Composition
There is a statistically significant positive correlation between the dividend policy of SACCOs in Kenya and ACC, according to the study. Hence, the composition of audit team exerts a substantial effect on the dividend policies of SACCOs operating in Kenya. This discovery is consistent with the results reported by Nelson (2019). In addition, it concurs with the findings of Al-Jalahma (2022). Contrary to the findings of Zraiq and Fadzil (2018), who found that audit committees and firm performance in Jordanian firms, this disagreement is due to the sectoral disparity between the Jordanian and Kenyan regions. In addition, the scope and distinctions between firms and SACCOs include dividend policy and performance of the dependent variable.

Conclusion

The make-up of the audit committee affects the payout policy of DT Saccos in Kenya. Respondents concurred that Saccos consistently sought to increase the gender, education, and experience of their audit committees. The analysis using the R square coefficient of determination revealed that the audit committee composition explains a significant proportion, of up to 51.5%, of the variance in dividend policy (R2=0.515, P=0.000). Therefore composition of audit committees plays a substantial role in predicting the dividend policy of SACCOs in Kenya. From the findings it is evident that Saccos always sought to improve its audit committee composition by offering competent members on basis of skills and experience. Furthermore Saccos always strive to have a positive reputation through audit committee composition. Hence conclusion that audit committee composition has a positive significant effect on dividend policy of deposit-taking SACCOs in Kenya.

Recommendations

The study recommends Sacco's to continuously refine audit committee. Well composed audit committee on basis of skills and experience would add value on corporate governance of D.T SACCOs.

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