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Effect Of Audit Committee Characteristics On Financial Reporting Of Selected Saccos In Kisii County, Kenya

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ABSTRACT
The researcher sought to establish the effect of audit committee characteristics on financial performance among deposit taking SACCOs in Kenya. This study was supported by the following specific objectives: to determine the effect of size of audit committee, the composition of audit committee, and the independence of the audit committee. This research adopted a descriptive research design. This study target population was 166 employees working in deposit taking SACCOs. The study has shown that audit committee experience is positively associated with firm performance. Descriptive statistics and inferential statistics were used. The findings established that independent auditors have a negative influence on firm performance. It was concluded that the size of the audit committee should be embraced so as to have expertise in improving financial performance of SACCOS.

1. Introduction

Corporate governance practice is beginning to include the use of tools to monitor top management, in order to safeguard owners' wealth and attract more foreign investments (AnumMohdGhazali 2010). Previous research has indicated that the role of audit committees is a key element in corporate governance, helping to control and monitor managers' practice (Campbell &Mínguez-Vera 2008; Afify, 2013). Furthermore, audit committees can increase the quality of financial presentation and decrease audit risk, thereby improving the quality of reported earnings (Contessotto&Moroney, 2014; Abernathy et al., 2015). Therefore, audit committee play a key role in monitoring a company's management, with the aim of safeguarding the interests of shareholders (Kallamu&Saat, 2015). It has been realized that effectiveness of an audit committee will focus on enhancing the performance of a company and its competitiveness, more so in a changing business world which is beyond the control of the company (Herdjiono& Sari, 2017).
A committed audit committee is expected to emphasize optimization of shareholders' wealth and prevent managers' maximization of their personal interests (Bansal & Sharma, 2016). The primary role and responsibility of audit committees is to make recommendations on the appointment and change of external auditor; it covers wider areas including the monitoring of managers and review of the company's internal control system (DeZoort*et al.*, 2002; Aldamen et al., 2012). It has been suggested that knowledgeable audit committees help enhance the company's performance; therefore, good characteristics of audit committees are associated with good company performance (Zabri et al., 2016). In response to financial crises, audit committees were established by the Jordanian government in 2008 as part of a series of accounting reforms

to improve corporate governance practices, restore investors' confidence in listed companies and promote stock market reform in the country.

The most proper work of an audit committee is usually seen in terms of directors' connections (Liao & Hsu, 2013); risk management (Tao & Hutchinson, 2013);and quality of reporting (Abbott & Parker 2000; Ruzaidah&Takiah, 2014); the quality of audit (Ali, 1990); and the selection of external auditors (Iskandar & Abdullah, 2014). Furthermore, those studies that have examined the effect of the audit committee on a Sacco's performance in underdeveloped countries have provided conflicting results. Most previous studies have explored the relationship between various characteristics on the board and company performance with no focus on SACCOs which play a critical role in developing countries. The current study therefore sets to empirically tests the correlation between audit committee characteristics and performance of Sacco's. Thus, this study contributes to the literature by identifying the role of audit committee characteristics in organizational performance. These characteristics are size, independence and composition of the members therefore providing evidence for the view that performance is driven by specific audit committee characteristics.

Regarding on the agency theory, the conflict between managers and owners often motivates managers to act in their own best interest and against those of shareholders, especially when opportunistic behavior is involved in the process (Jensen &Meckling, 1976; Dellaportas et al. 2012). Therefore, in an environment without monitoring tools and effective market regulations, managers are more likely to deviate from protecting the shareholders' interests (Turley &Zaman, 2014; Al-Matari et al., 2012). Thus, the existence of successful and effective corporate governance practices such as an audit committee is essentially to reduce such conflicts (Al-Matari, 2013) and to achieve good performance (Ainuddin and Abdullah 2012). Previous studies reported mixed results on the relationships between audit committee characteristics and company performance (e.g. Dalton et al., 1998; Kallamu&Saat, 2015; Zabri et al., 2016). This study looks into the relationship between specific audit committee characteristics and company financial performance.

1.2 Statement of the Problem.

Corporate governance literature always argue that audit committee participates, not only in the process whereby management disseminate information to the auditors and releasing unbiased information reducing information asymmetry between insiders and outsiders; but also play an important role in ensuring that statutory auditors are not in the influence of management, therefore audit committees can be used as a mechanism to reduce agency problems faced by firms (Jensen &Meckling, 1976). The composition and character of the audit committee play significant role in influencing quality of an organization performance (Cadbury, 1995).

In the midst of recent economic downturn, there has been increased demand for good corporate governance and accountability (Braiotta, 2014). Additional regulations have also been increased (Braiotta, 2014). Several studies and reports have emphasized that the audit committees characteristics and composition to consist of independent non-executive directors, who are less likely to be influenced by the managers and therefore get desired financial performance. Prior studies in developing countries such as Kenya have shown a challenge that many audit committee members do not possess the required skills, education and expertise to act as members of audit committee and perform their roles optimally (Cascarino& VanEsch, 2005). They also showed the existence of management challenge to an apparent lack of available non-executive directors (NEDs) with the required business acumen and accounting background who are willing to serve on audit committees, Njunga (2000). Therefore this research study sought to know the effect of audit committee characteristics to organizational performance among the SACCOs in Kisii County.

1.3 Objectives of the study

This study was supported by the following specific objectives:

i. To determine the effect of size of audit committee on financial performance among deposit taking SACCOs in Kenya.
ii. To investigate the audit committee members' compositions on financial performance among deposit taking SACCOs in Kenya.

2. Literature Review

The agency theory was proposed by Jensen and Meckling (1976) assert that putting apart how businesses are owned and managed could result into disagreements among managers and stakeholders. Varying people that have the same goal or function in doing a specific task have different motivations, and these differences can manifest in divergent ways. Agency theory is therefore concerned with contractual relationship between people that are termed as agents and are assigned to do functions to represent another individual who has employed them. This makes many firms and organizations to come up with methods through which they can establish controls so as to reduce costs that come with irregularities (Kalbers& Fogarty, 1998). Similarly Pincus et al. (1989) argue that audit committees are used primarily in situations where agency costs are high to improve the quality of information flows from the agent to the principal.

According to the agency theory, to ensure the effectiveness of an audit committee, managers are encouraged to come up with financial statements that clearly show the amount of revenues that a company gets within a specific period in time. Ensuring that the audit committees do their functions allows the company to create and putting place accurate financial records and statements to achieve high performance. According to Felo et al. (2003) there is a positive correlation between the existence of audit committee and the accuracy of financial statements. However, Salah (2010) in Rauf et al. (2012) suggests that, management could use earnings to mislead shareholders by showing a different image of the company's earnings. For the purpose of this study, agency theory is adopted. This is due to the fact that it enlightens the relationship between the principal (shareholders) and the agents (management). In the same vein, audit committee, apart from serving as monetary measures, equally represents the shareholders who are the principal since their composition constitutes equal number of shareholders and directors.

The directors therefore are acting on behalf of the shareholders. While the other aspect of the agency theory are the management (agents) who are responsible for the preparation and fair presentation of financial statements in accordance with IFRS, they also supposed to ensure financial statements are free from material misstatement, whether due to fraud or error. This is concluded by the audit committee subject to confirmation, review and verification in order to make sure that the accounting policies are in line with the legal requirements and ethical practices. Therefore agency theory is found to be relevant because it explains the audit committee which functions as a monitoring mechanism to reduce agency cost (Menon Williams 1994).

In line to the agency theory, many researches on audit committees have been based on an institutional theory perspective (Scott, 1995 and Zaman, 2002). The principle of institutional theory is defined by the fact that an organization consists of cultural, social and symbolic that constitutes its broader institutional environment (DiMaggio et al., 1983). Similarly Zaman (2002) states this perspective can enhance the role of professional bodies and the promotion of regulatory audit committees, there is need of certain traits which are to the members that form the audit committee. Furthermore, the report Vienot (1995) provides that the audit committee's main task is "to ensure consistency and relevance of the accounting policies adopted for the consolidated financial statements and the company's social and verifies that the internal procedures for collecting and monitoring information guarantee them. In the same furrow, Spira (2003) states that the audit committee has the ultimate aim of defending the interests of investors and reduce agency problems of companies characterized by informational asymmetries. In addition, Spira (2003) showed that the audit committee is an effective body to protect the interests of shareholders and ensure the reliability of information disclosed.

2.1. Determinants of Firm Performance

Based on Almajali et al. (2012) study in Jordan the study examined how financial and non-financial factors like liquidity, the size of the company and age, have an effect on the firms' financial performance. Almajali et al. (2012) chose these factors because they can be easily measured using the data in the financial statements. Ghosh, Nag and Sirmans (2000), Berger and Bonaccorsi di Patti (2006) showed a positive relationship between leverage and financial performance, while Gleason et al. (2000), Simerly and Li (2000) showed negative relationship between firms performance and leverage level.

A study by Ibrahim (2013) based on a sample of non-financial Egyptian listed firms from 1997 to 2005 reveals that capital structure choice decision, in general terms, has a weak to- no impact on firm's performance. According to Simerly and Li (2000), there is vast literature available that examines relationship of capital structure and performance of firms in developed nations but very less has been tested empirically for developing and emerging economies. Liargovas and Skandalis (2008) reported that with high level of liquidity a firm will be able to deal with unexpected contingencies and to cope with its obligations during periods of low earnings. Almajali et al (2012) found that there is significant statistical impact of liquidity on Financial Performance of insurance companies. The result suggested that the insurance companies should increase the current assets and decrease current liabilities because the positive relationship between the liquidity and financial performance.

Based on a theoretical model by Jovanovic (1989), suggest that a moderate amount of liquidity may propel entrepreneurial performance, but that an abundance of liquidity may do more harm than good. Therefore, they concluded that the effect of liquidity on firms' financial performance is ambiguous. Almajali et al. (2012) argues that the size of the firm affects its financial performance in many ways. Large firms can exploit economies of scale thus being more efficient compared to small firms. In addition, small firms may have less power than large firms; hence they may find it difficult to compete with the large firms particularly in highly competitive markets. On the other hand, as firms become larger, they might suffer from inefficiencies, leading to inferior financial performance. Theory, therefore, is equivocal on the precise relationship between size and financial reporting (Majumdar, 1997).

Almajali et al. (2012) found that the age of company has no effect on financial performance. New companies shouldn't pay attention to age because of the negative relationship between age of company and financial performance. Loderer et al. (2013) found that there is a positive and significant relationship between the age of a company and its profitability as measured by ROA. Similarly, Swiss Re (2008) indicated that larger firms are found to grow faster than smaller and

younger firms found to grow faster than older firms. In contrast, Al-Shami (2008) found no significant statistical relation between age and profitability of firm.
Pastor and Veronesi (2003) report that profitability and market-to-book ratios decline with firm age as investors learn and uncertainty declines. Consistent with that, the variability of stock returns is negatively related with incorporation age (Adams, Almeida, and Ferreira, 2005) and with listing age (Cheng, 2008). It could also be that older firms are incapable of solving collective action problems. As in the case of nations (Olson, 1982), firms might increasingly become organizations of rent-seeking factions as they get older. On balance, it is therefore unclear whether aging helps firms prosper or whether it dooms them.

2.2 Functions of Audit Committee

The main function of an audit committee is monitoring the firm's financial performance and financial performance. It is also ensuring independence, and the resolution of disputes between auditors and executive management. Also audit committees should review and agree upon chosen accounting policies. As well as they tend to persuade a company's approach to financial performance, levels of disclosure, and adherence to the accounting standards. Also, besides monitoring the reliability of the company's accounting processes, audit committees should ensure the compliance with corporate legal and ethical standards, including the maintenance of preventive fraud controls (Turley & Zaman, 2014). Many major studies have discussed the importance of audit committees. For instance; Wild, (1996), stated that forming an audit committee enhances investors' expectancy of receiving improved financial reports. As a result, the firm will more likely experience an increase in its earnings response coefficients. Similarly, McMullen, (1996), finds that companies with an audit committee are less likely to experience errors, irregularities and other indicators of unreliable financial reporting.

2.3 Conceptual Framework

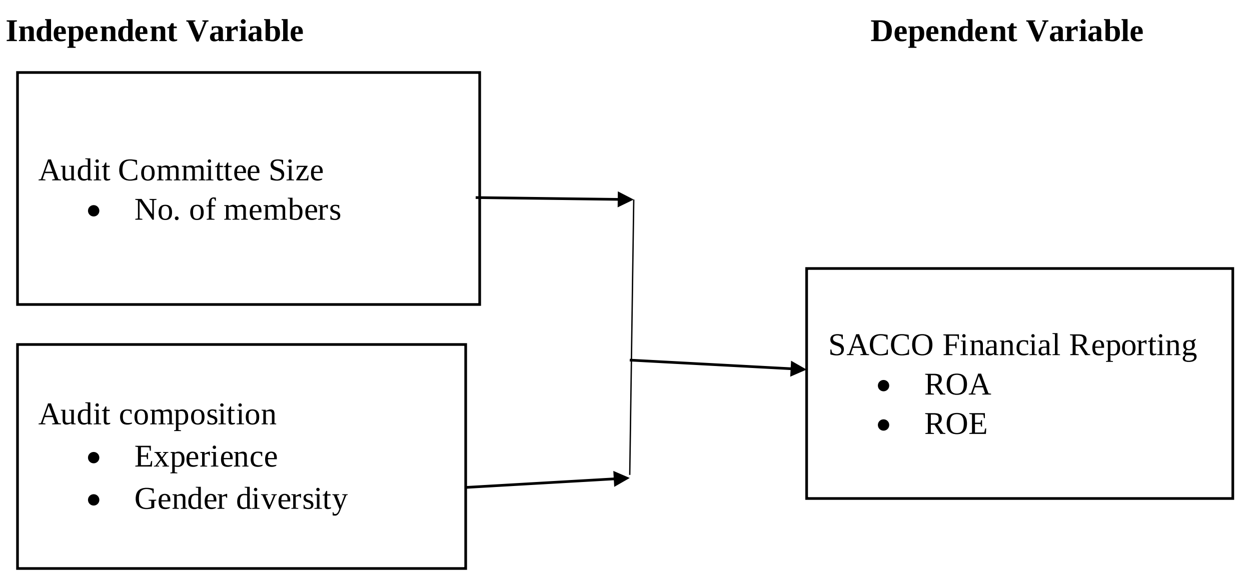

Figure 1 Conceptual Model

The study sought to measure independent variables against a dependent variable. The study's independent variables are: audit committee size, and composition of audit committee.

2.4 Empirical Literature

2.4.1 The size of Audit Committee and financial performance

Prior studies reported that the effectiveness of audit committees is to a greater extent dependent on the traits of the audit committee, such as its size (Dellaportas et al., 2012; Herdjiono& Sari, 2017). To properly monitor managers' behaviour, the audit committee must have enough members to carry out its responsibilities (Vicknair et al., 1993), with sufficient resources (Kalbers& Fogarty, 1993). For example, Pucheta-Martínez and De Fuentes (2007) found that the size of audit committee affected the probability of companies receiving audit reports containing errors and non-compliant qualifications. However, the results from earlier studies on the relationship between audit committee size and company performance are not conclusive.

Dalton et al. (1999) reported that audit committees become ineffective if they are either too small or too large. An audit committee with many members tends to lose focus and be less participative than those of smaller size. On the other hand, an audit committee with a small number of members lacks diversity of skills and knowledge, and hence becomes ineffective. An audit committee of the right size would allow members to use their experience and expertise in the best interests of stakeholders. Research by Eichenseher and Shields (1985); Menon and Williams (1994) found a weak association between the size of the audit committee and company performance.

Aldamen et al. (2012) examination of the effect of audit committee characteristics on performance during the financial crisis concluded that smaller committees with more experience and financial expertise were positively and significantly associated with company performance in the market. Furthermore, Al-Matari (2013) study of the same the relationship revealed that audit committee size was found to have a significant relationship with company performance. This positive relationship is supported by resource dependence theory (Pearce and Zahra 1992; Aldamen et al. 2012). According to this theory, the effectiveness of an audit committee increases when the size of the committee increases, because it has more resources with which to address the issues faced by the company.

2.4.2 Composition of Audit Committee and financial reporting

Previous studies claim that gender is likely to have an influence on a company's decisions and suggest that females have different perspectives and demand different information from men (e.g. Peni &Vähämaa, 2010; Abdul, Hameed & Counsell, 2012; Alqatamin et al., 2017). Several feminist economists argue that women are more inclined to be neutral in moral judgments and behavior than are men (Nelson, 2012). In particular, Carter et al. (2003) reported that a significant relationship exists between the proportion of women on a board and the firm's performance.

Erhardt et al. (2003) examined the relationship between gender diversity on the board and a company's financial performance among US companies. Their results indicate that the percentage of women on the boards of directors is positively associated with the firm's financial performance. Likewise, Campbell and Mínguez-Vera (2008) investigating the effect of gender diversity on the boards of directors on firm financial reporting. The findings of the study reveal same relationship; found that gender diversity has a positive effect on company's performance.

Miller and del Carmen (2013) examined the relationship between board diversity and company's performance. Their findings revealed that board diversity leads to enhance company's performance.
Lückerath-Rovers (2013) found that the percentage of women on the board is positively and significantly related to company performance of Dutch companies. Furthermore, Lückerath-Rovers (2013) they confirmed that firms with women directors performed better than those without women on their boards. However, Rose (2007) and Carter et al. (2010) found no relationship between the proportion of females on the board and company performance among Danish and US companies respectively.

2.4.3 Audit committee Independence and financial performance

An important element that will ensure audit committee effectiveness requires the committee members to be independent or free from the influence and pressures of top management (Jun Lin et al., 2008). Though the findings of previous studies on this association are inconclusive, an independent audit committee do act better than a less independent committee, since the former is more likely to provide better monitoring because its able to resist pressure from management(Al-Matari 2013; Kallamu&Saat 2015).

The independence of the audit committee from managers will make the audit committee to make independent decisions during reporting of financial information(Peasnell et al. 2005; Kallamu and Saat 2015). In addition, audit committees chaired by independent directors is positively linked with high-quality financial reporting and a lower occurrence of fraudulent reporting (Kallamu&Saat 2015). However, the independence of the audit committee chair may be of no use in enhancing the monitoring of management where the CEO is involved in the selection of directors (Carcello et al., 2011).

The independence of audit committee increases its strength, and reduces the agency problem and the opportunity for expropriation by insiders (Yeh et al., 2011). Independence makes the committee more objective in monitoring the transparency of financial reporting; a committee unbiased toward the executive thereby reduces the agency problem between executives and other shareholders. Chan and Li (2008) found a positive relationship between the independence of the audit committee and company performance. Similarly, Kallamu and Saat (2015) and Naimah (2017) found a positive association between audit committee members independence and profitability a proxy for company performance.

2.5 Research Gaps

Research in developed countries has revealed that good corporate governance may reduce fraudulent earnings management (Rezaee et al, 2003). Indeed the failure of most of the high profile companies has been attributed to the lack of vigilant oversight by their board of directors. Although Africa has not witnessed the level of corporate failure experienced elsewhere, it should be able to learn from some of the experiences (Okeahalem, 2014). Mangema and Chamisa (2008) have observed that due to the country differences in Africa, it is desirable that various governance structures be examined separately in each country. This research attempts to bridge this apparent gap in prior research by contributing to the understanding of the operations and outcomes of audit committees among SACCOs in Kenya.

A number of surveys and empirical tests have been carried out on the functioning and role of audit committees in various countries. For example, in Canada, Maingant and Zeghal (2000) investigated the motives, composition, selection, and frequency of audit committee meetings, audit committee's relationship with internal and external auditors and its broader role. In the USA, Abbot, Parker and Peters (2002) addressed the impact of certain audit committee characteristics identified by the Blue Ribbon Committee (Braiotta 1999) on improving the effectiveness of corporate audit committee and the likelihood of financial misstatement. Previous studies in developing countries have not addressed the issue of how audit committee characteristics relate to SACCO performance.

3. Research Methodology

Research design is a set of composition of elements categorized in varied items providing an illustration on how a given study is to be undertaken (Mugenda&Mugenda, 2003). The study adopted descriptive research design. The target population is the summed composition of the observable leads into determining the subject effect onto the area of focus (Kothari, 2003). The target population was 166 deposit taking SACCOs. They are reflected in appendix 1

Sample size in a study is essential in providing an overall estimation impact of occurrence on the particular subject under consideration (Kothari, 2003). This study was a census study focusing on five selected Saccos in Kisii County. This is a study of a survey of the selected Sacco's in Kisii County. This is because, mainly deposit taking SACCOs in Kenya is assumed to have similar characteristics and therefore carrying out a survey can be sufficient to generalize the results. The researcher collected data from published financial reports and other materials provided by the audit departments. Data were collected in accordance with the secondary collection sheet. This enabled the researcher to easily categorize data and proceed further to analyze collected data.

4. Research Findings and Discussions

4.1 Descriptive Statistics

The study sought to adopt descriptive research design for the observations and research conduction as it is essential and relevant to the study subject. The design will consider all objectives enlisted in the study for the observation. This target population is the summed composition of the observable leads into determining the subject effect onto the area of focus (Kothari, 2003). This study target population was 5 deposit taking SACCOs. This was essential in providing an overall estimation impact of occurrence on the particular subject under consideration (Kothari, 2003). This study was a census study focusing on all the SACCOs.

The study sought to measure independent variables against a dependent variable. The study's independent variables are: audit committee size, frequency of meetings, gender diversity of audit committee, audit committee members' experience, independence of audit committee against a dependent variable which is the organizational performance as shown Table 1.

Table 1 Comparing Two Firms for Performance

Good Performance			Poor Performance		
Variable	Mean	Std. Deviation	Variable	Mean	Std. Deviation
NOM	1	0	NOM	1	0
NOIM	0.53	0.513	NOIM	0.41	0.507
NMT	0.68	0.478	NMT	0.82	0.393
CHOA	0.16	0.375	CHOA	0.18	0.393
COA	1	0	COA	1	0
CHI	0	0	CHI	0	0
NED	0.68	0.478	NED	0.47	0.514
NOP	1	0	NOP	1	0
NOPI	0.47	0.513	NOPI	0.29	0.47
DPAC	0.63	0.496	DPAC	0.65	0.493
CHP	0.68	0.478	CHP	0.71	0.47
CHEP	0.79	0.419	CHEP	0.47	0.514
FS	0.47	0.513	FS	0.53	0.514
Age	0.47	0.513	Age	0.59	0.507
CHNYE	0.53	0.513	CHNYE	0.65	0.493

Four variables, COA, CHI, NOM and NOP, all had zero variance. Thus, all of the firms had the CEO on the Audit Committee which was not a very good signal for the Audit Committee independence. In addition the Audit Committee Chair for all firms were not independent; all the committees had four or more members on them and at least two members of the Audit Committee had finance or accounting education. Since these four variables do not differentiate the two groups, they were dropped from the Logit-Regression model.

Comparing the two different firms, it was observed that both performance groups had similar mean levels for most of the variables. However, on the surface, the good performing group had fewer meetings, more independent members, a greater chairman experience, more external directorships, more independent professionals, lower firm size and age. The poor performing groups of firms do have on average more meetings than better performing firms. It is also more likely to find a Chair of the board of directors on a poor performing firms' Audit Committee. The percentage of Chair of Board of directors on Audit Committee is approximately 53.3% for the poor performers group and 46.7% for the good performers. The descriptive statistics indicates that firms are complying with most of the Corporate Governance recommendations which recommends at least four members on Audit Committee, at least four meetings per year, majority of members are independent, an independent chairman, who is not the chairman of the board, consists of only non-executive members and at least one member is a financial expert.

Table 2 Benchmarking SACCOS to classify the high and low levels of ROA

Variables	Observations	Minimum	Maximum	Mean	Std. Deviation
PERFORM	5	0	0.6664	0.2065	0.1182
COM SIZE	5	3	5	3.102	1.445
COM INDE	5	0.6921	1	0.9519	0.414
COMFEMA	5	0	0.3371	0.1254	0.1101
FINDUS	5	0	1	0.3531	0.4711

Table 2 presents the descriptive statistics of the variables used in this study. The dependent variable is the ROA as a proxy for company performance. The measure of a company's performance indicates that the company was financially successful on average during the three-year period investigated. However, as can be seen from Table 2, the minimum value of the ROA is 0 and the maximum is 66.64 percent, which indicates a considerable range, and the mean value of 20.65 percent shows a generally low ratio of ROA across the companies. This study employed the mean value as a benchmark to classify the high and low levels of ROA. This figure is similar to that obtained by (Lückerath-Rovers 2013).

In terms of audit committee characteristics, shows that the mean committee size is 3.10 with minimum and maximum 3 and 5 respectively. These figures are consistent with the guidelines for Jordanian corporate governance which recommended a minimum of three members. In terms of independence of audit committee members, the descriptive result shows that 95.19 percent of audit committee members are independent from top management, an improvement on the corporate governance mechanisms established for these companies in terms of independence of the audit committee. In respect to members composition, Table 3 shows that a mean value of 12.54 percent with minimum and maximum 0 and 33.71 percent respectively. The mean value of gender diversity indicates that woman have slightly higher rates of participation on audit committees. Frequency of meetings varies from 5 to 19 meetings in a financial year. In respect of the control variables, company size indicates a wide range, from 0.9303 to 3.2309, with standard deviation (SD) of 1.57 percent. The mean value of industry type indicates that 35.31 percent of the sample companies operate in the industrial sectors. The leverage ratio has 16.82 percent mean value and ranges from 0 to 93.51 percent. Finally, Table 2 shows that the mean value of dividends ratio is 23.12 percent; minimum and maximum values are 0 and 90.17 percent respectively.

The omnibus Tests of Model Co-efficient table gives the result of the Likelihood Ratio (LR) test which indicates whether the inclusion of this block of variables contributes significantly to model fit. A p-value (sig) of less than 0.05 for block means that the block 1 model is a significant improvement to the block 0 model.

Table 3 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	29.379	0.433	0.578

Table 4 Logistic Regression Model

	B	S.E	Wald	df	Sig	Exp
COMSIZE	.098	.025	15.199	3	.001	0.414
COMINDE	.066	.027	5.8667	3	.000	0.5911
COMCOMP	.058	.532	6.690	3	.003	0.1101

The omnibus Tests of Model Co-efficient table gives the result of the Likelihood Ratio (LR) test which indicates whether the inclusion of this block of variables contributes significantly to model fit. A p-value (sig) of less than 0.05 for block means that the block 1 model is a significant improvement to the block 0 model.

The pseudo R-square (Nagelkerke, R2) from the model was reported to be 0.578. This means that, per the model in this study, the audit committee characteristics are able to explain the variability in a Sacco's' performance by approximately 57.8%. Considering the chi-square test results stated earlier, it can be inferred from these results that overall, the characteristics of the audit committees of the Sacco's are likely to impact on the performance of such stock on the market. Effect of audit committee characteristics on financial performance among deposit taking SACCOs in Kenya.

The table below shows the summary of the regression model, which provides information on the ability of the independent variables to account for the variation in the dependent variable. This variation is measured by R^2 (R Square), which varies between 0 and 100%. $R^2$is coefficient of determination which indicates the variation in the dependent variable due to changes in the independent variable (Mugenda&Mugenda, 2004).

Correlation analysis is important to describe trends and strengths in the linear relationship between variables (Pallaant, 2011). In the current study, linear correlation was checked to determine the strengths of relationships between the variables of the study as shown in Table 5

Table 4 Correlation Analysis

	ROI	ROE	X_1	X_2	X_3
RO	43222				
ROE	234.8	43222			
X_1	234.6	232.6-	43222		
X_2	232.8	2324.	2323.	43222	
X_3	23223	23241-	23234	232.3	43222

ROI = Return on investment; ROE= Return on equity,.X_1 is the Audit Committee Size; X_2 is the Frequency of Audit Committee Meetings; X_3 is the Composition of Audit Committee;. Hair et al. (2010) reported that the correlation coefficient 0 indicates that there is no relationship between the variables; while the correlation coefficient of ± 1 indicates an ideal relationship between the variables. On the other hand, Sohn (1988) interpreted correlation coefficient values between 0 and ± 1 as follows: from ± 10% to ± 29%, the relationship is weak; ± 30% to ± 49% means a clear and explicit relationship; and the highest value of 50% is strong relationship. Generally, the result of the study shows that all the links are less than 80%. This is consistent with Gujarti and Porter (2009), where the correlation matrix should not exceed 80% to ensure that there are no problems of self-association

Table 5 Results of Regression Modeling- The First Model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.619a	.383	.363	3.19854

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.202	5.067		1.224	.003
Audit Committee Size	0.014	.004	.104	3.5	.000
Composition of Audit Committee	0.134	.064	.154	2.094	.003
Independence of Audit Committee	0.014	.0062	.020	2.23	.005

a. Dependent Variable: Success of Marketing strategies

$\mathbf{X_1}$ is the Audit Committee Size; $\mathbf{X_2}$ is Composition of Audit Committee$\mathbf{X_3}$ is the Independence of Audit Committee

The results of the hypothesis test indicate that there is significant relationship between the size of the audit committee and ROI and the value of T = 3.5 (B = 0.014), which is less than the T tabulated; hence the hypothesis that there is a relationship between the size of the audit committee and profitability measured by ROI (where the value of P >0.10) is rejected.
The results indicate that there is a significantly positive relationship between the composition of the audit committee and profitability (ROI); the value of T = 2.094 (B = .134) shows the possibility of a relationship between the independence of the audit committee and profitability (ROI) where the value of P <0.01.
The results also show the test of hypothesis indicate that there is a significantly positive relationship between the composition of the audit committee and profitability (ROI); the value of T = 2.23 (B = .014), showing the possibility of the existence of a relationship between the meetings of the Audit Committee independence and profitability (ROI) where the value of P <0.01. The results of the hypothesis test indicate that there is significant relationship between the expertise of the audit committee and profitability as measured by ROI.

5. Conclusions and Recommendations

5.1 Conclusions

This study has shown that the characteristics of the audit committee impact on the performance of the firms. From this study, the number of independent members on the audit committee had no influence on the performance of the firm however, the number of independent members of the audit committee with finance or accounting degrees impacted negatively on the firm performance. Also, outside directorships by audit committee members are associated with lower levels of performance.
Regarding the relationship between audit committee characteristics and the performance of the firms, the results highlighted the importance of the role played by the audit committee in the performance of the firms which have been the focus of prior studies. In this regard, the results provided support for the validity of the stated hypothesis. Meanwhile, the results indicated that some of the Audit Committee characteristics were associated with firm performance. The number of independent Audit Committee members with Accounting/Finance background, chair experience, and number of external directorship negatively impacted firm performance. However, a longer tenure of the Chairman of the Audit Committee and larger firm size impacted positively on performance.

5.2 Recommendations

Results demonstrate clearly that Audit Committee characteristics have a positive impact on firm performance. The significant results should help to re-focus the corporate governance discussions from independence to more experienced and financial literate members on the Audit Committees.
A longer tenure of the chairman of the Audit Committee impacted positively on performance of the firm; hence it is recommended that a relatively longer tenure should be accorded the chairman of the Audit Committee of firms to enhance firm performance.

The study has shown that audit committee experience is positively associated with firm performance. It is therefore utmost necessary for firms to re-elect audit committee members that have served for more than 9 years to the board because of their vast experience. Also, the presence of audit members with experience will also reduce financial misreporting and enhance quality monitoring. As such, having experienced audit committee members should be a key priority for firms.
The study has established that the number of independent auditors has a negative influence on firm performance. However, there is need to increase the proportion of independent auditors since an increase in their number reduces the chances of financial misreporting and leads to positive perception by investors. In so doing, there is improved firm performance. Moreover, in order to reduce financial distress in a company there is also need to increase the number of independent directors because they are independent and without influence from the directors.

Finally, there is need for firms to have an audit committee that is not too small such that there is lack of expert advice and too large such that it has free riders that are prone to follow other members opinion. The size of the audit committee should also be in a way that the process of accounting and finance are protected and firm performance is increased.

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