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EFFECT OF CORPORATE AUDIT COMMITTEE CHARACTERISTICS ON FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN KENYA

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ABSTRACT

The goal of this research was to establish the effect of corporate audit committee characteristics on financial performance of manufacturing firms in Kenya. The specific goals guiding this research were: To determine the effect of audit committee composition and frequency of meetings on financial performance of manufacturing firms in Kenya. This research adopted the Agency, institutional, and stewardship theories. The research design for the study was descriptive research design. This study focused on 766 manufacturing firms in Kenya for a period of 5 years, 2013-2017. The study used Krejcie and Morgan's sampling technique to calculate the sample size. Both secondary and primary data was gathered for the research. Primary information was accumulated by means of a structured questionnaire. On the other hand, secondary information was gathered from the financial reports. Content validity was adopted to establish whether the research instruments are able to give answers to the study questions. The study utilized Cronbach's alpha formula for reliability testing, with value of 0.7. Inferential and descriptive statistics were utilized to analyse the data. Multiple linear regression analysis was used to show the effect of audit committee composition and frequency of meetings on financial performance of manufacturing firms in Kenya. The hypotheses were tested using multiple linear regression and correlation at 95% confidence level of both the dependent and independent variable and also between variables in the study. The study revealed that large audit committee tends to lose focus and becomes less participative than those with smaller size, regular holding of audit committee meetings helped in ensuring that organizational finance department consistently comply with accounting guidelines and other accounting actions and that most of the firms factored in the third gender rule while constituting the audit committees which led to improved effectiveness on the firm's financial management process. The study concludes that there exists a significant relationship between audit committee composition and audit committee meetings frequency and firms Financial Performance. The study recommends that Manufacturing firms should ensure Audit committees should periodically conduct an evaluation on their composition so as to confirm if current members possess experience and knowledge required for one to be effective. And that Audit committee meetings should regularly discuss on organizational compliance with set financial regulations.

Keywords: *Composition, Frequency of meeting and Financial performance*

1.1 Introduction

Cooperative According to Abbott, (2010), understanding the characteristics of an audit committee is key in determining its effectiveness. Carcello (2012), emphasized that audit committees should be made up of independent individuals, with some possessing financial knowledge and experience. Carcello, (2012) gave emphasis on the frequent meetings of the audit committee members. High level corporate failures have been experienced in the world. Hence, focus has been shifted to the governance of corporate and the effectiveness of audit committees, boards, disclosures, internal controls and auditors and director's independence. Globally corporate internal governance has been strengthened by audit committees. Previously the audit committees were non-mandatory instruments that ensured accountability. Nevertheless, many countries have established regulations for institutions to adopt audit committees and emphasize on the increase of their roles (Raghunandan & Rama, 2011).

Globally, audit committee characteristics have proved to the success and financial health of an organization. Zábojníková, (2016) while studying the audit committee characteristics in the UK firms found that the features of audit committees have an impact on UK firm performance. The findings suggested that there is a significant positive relationship between the audit committee size, frequency of its meetings and its financial experience and firm financial performance. On the contrary, the audit committee independence appeared to be negatively correlated with firm performance. On the other hand, Wan Mohammad, (2018), in Malaysia found that audit committee characteristics such as its independence, size, expertise and activity as statistically significant in explaining the likelihood of financial restatements.

Parker (2010) completed an examination on impacts of committee composition and autonomy on corporate extortion in the UK. The primary goal of the investigation was to establish the impacts of committee composition and autonomy on corporate misrepresentation in the UK. The examination noticed that skilled audit committees detailed heartfelt associations with administration, internal and outsourced auditors, and were seen to have enhanced financial reporting. Furthermore, the researcher noticed that if the span of a group is vast, singular individuals might be more defenceless against the challenges and more subject to take after the others' conclusion without opposition.

In Africa, Amer (2014), while studying the audit committee characteristics and firm performance of Egyptian listed companies found that there is a positive relationship between the proportion of independent directors on the board and firm financial performance as measured by ROE, board meetings results showed a positive significant relationship with ROE, CEO duality showed a significant positive relationship with ROE, and the director ownership is positively associated with firm performance as measured by ROE, but the relation is not significant. Similarly, Ojeka (2014), in Nigeria noted a positive significant relationship between independence and financial expertise of the audit committee and ROA, ROE and ROCE. However, the size and meetings of audit committee showed no significant relationship with all performance variables.

In Nigeria, Ofranike (2015), carried out a contemporary accounting research that explored on the influence of audit committee composition on financial reporting. The researcher additionally showed that medical organizations with smaller boards could shape the official administration for a superior more trained on account of poor performance.

In Kenya, Njunga (2014), noted that audit committee size and allocating more assets on audit committee responsibilities will probably oversee reporting of finances and internal control frameworks inside a firm thus, high financial performance. The survival and health of an organization is dependent on its financial performance. According to Waweru (2010), the board of directors in organizations including manufacturing companies are the custodians of reasonable corporate audits. This is exercised either directly or through the use of several sub committees. The Board Audit Committee (BAC) ensures all guidelines and standards set are adhered to. In accordance to the KAM supervisory reports of 2013-2014, the findings on non-compliance indicate the ineffectiveness of audit committee governance (KAM, 2013). This study seeks to establish the effect of corporate audit committee characteristics on financial performance of manufacturing firms in Kenya.

1.1.1 Audit Committee

Bernardi and Threadgil, (2010) state that an audit committee is key in the operations of an institution since it oversees financial reports and disclosures. Audit committees vary in accordance to their objectives, functions, and responsibilities. The composition of an audit committee composes of non-executives in an institution (Chau & Leung, 2006). As indicated by Core (2010), audit committee is a group of people chosen from a board of directors and granted the power to ensure that auditors remain independent. The major aim of audit committee formation is to enhance auditing and questions board of executives. Bronson and Hollingsworth (2009), undertook a research to evaluate the role of audit committees with regards to the size and meetings recurrence, knowledge and experience possessed by the members to manage the committee.

Carcello and Neal (2011), observes that ensuring transparent and accurate disclosures by audit committees is difficult and challenging given the expectations by shareholders, stakeholders, and regulators that increase the scrutiny of the auditing process; increased responsibilities in managing risks; and more attention directed to fraud prevention. Hence, to establish and maintain an effective audit committee, all members need to have the necessary qualifications and should be suited to undertake their respective roles and meet on an often basis to decide the way forward (Carcello & Neal, 2011). Guthrie and Turnbull (2010), noted that the roles of the audit committee include; monitoring of accounting policies and procedures, overseeing financial reports, compliance to regulations, overseeing any external auditing and assessing policies of risk management with top management. The audit committee is empowered to undertake investigations in incidences it suspects any accounting issues or when there are serious financial problems within an organization.

1.1.2 Financial Performance

This is the level to which targets of the firm and for this situation money related goals will be met or have been met (Afify, 2014). Elyse (2008), describes financial performance as how much money related objectives are proficient while as yet remaining an essential part of hazard administration in funds issues. Bhattacharyya (2011), found that the organization's financial performance is the viable utilization of assets in an association in doing its everyday tasks and producing income. Monetary performance can likewise allude to the general prosperity of a firm the extent that fund is concerned over a specific timeframe. Financial execution can also be utilized to check or measure firms from a similar industry or crosswise over various enterprises for examination purposes. Financial performance, in rundown, is a critical target that organizations particularly the profit situated company's craving or go for to accomplish (Yahaya and Lamidi, 2015). The measure of monetary performance is by return on assets and on investments, and market value of a firm (Bradbury, 2006)

As per Dufera (2010), monetary performance is a proportion of the powerful utilization of advantages to create income inside an institution. Financial execution concentrates more on things that influence the money related articulations or reports of a firm specifically. The financial performance examination can manage things, for example, profit development, turnover, capital utilized, and resource base among others about the firm. Financial performance is an essential pointer or proportion of some monetary units' prosperity for instance on accomplishment of set objectives and targets. Shareholders of a firm are for the most part keen on the association's performance in financial matters. The qualities of financial performance of an association incorporate, increasing upper hand, build up the capability of a firm, the pioneers of an organization concentrating on the conservative parts of the establishment, and dependability for future associations (Dufera, 2010).

1.1.3 Manufacturing Firms in Kenya

The manufacturing sector is an important contributor to the Kenyan economy. It contributes about 10% GDP (Gross Domestic Product), 13% employment rate and 12.5% exports (KNBS, 2015). In the vision 2030, one of the key economic pillars is focused on leading the nation to a medium level income country by the year 2030, especially in the sector of manufacturing. The major role of this sector is to create wealth and create more job opportunities. This is to be achieved in the Steel and Iron industry through the establishment of Integrated Steel Mill, technology avenues, establishment of Small and Medium Enterprise (SME) parks, upgrade of goods from the Industrial and Technology parks from small and medium enterprises and commercialization of research and development results and Industrial Manufacturing Clusters.

According to a report by Kenya Association of Manufacturers (KAM, 2014), the association affirms that the sector has got fourteen subsectors: Building, mining and construction; Food and beverage; Chemical and allied, Energy, electrical and electronics; Fresh Produce; Plastics as well as rubber; Pharmaceutical together with medical; Paper and paperboard; Textile and apparels, Timber, wood products and furniture; Motor vehicle assembly; Services and consultancy, Metal and allied; Leather products and footwear and accessories. Of the fourteen sectors, twelve are associated with processing and adding value whereas the other two offer crucial services to improve official industry. There are 766 multi-sector firms in the manufacturing company’s category in Kenya, which are well known, 499 of which are large-scale manufacturing companies (Okwiri, 2015). The Kenya association of manufacturers mandates that all companies must have an audit committee to ensure appropriate governance. The audit committees are mainly responsible for dealing with board issues including its composition, responsibilities of the board, and division of responsibilities between the chief managers and chair to improve performance of an institution (Chepng’eno, 2014).

1.2 Statement of the Problem

Enquiry for audit committee is under increased scrutiny due to failure of corporate governance in organizations around the world and in Kenya specifically. An accounting scandal may result in the precision and genuineness of accounting practices called into question which tarnish the reputation and bring down firms’ performance. Therefore, the rise of the accounting scandals has indicated incredible significance of audit committees in facilitating controls of financial reporting and performance of firms. Ineffective audit committee has been caused by poor internal governance. As specified by Ochieng (2011), audit committee is viewed as supplementary mechanism of internal control in order to enhance the firm financial performance; thus, audit committee has responsibilities to monitor or review the financial policies.

Despite the efforts of the Kenyan government to set up approaches that try to enhance the manufacturing industry, the division which is the backbone of vision 2030 has stagnated (World Bank, 2015). Further, the segment's commitment to GDP declined from 9.6% in 2011 to 9.2% in 2016, while the development rate disintegrated from 3.4 percent in 2011 to 3.1 percent in 2016 (KNBS 2016). In this way, to enhance the development in Kenya's manufacturing sector, more investment is required (Bigsten, Peter and Mans, 2010). This can be accomplished through professionalizing boards in this manner requiring the manufacturing companies to comply.

Empirical scrutiny of previous studies outcome on effect of corporate audit committee characteristics on financial performance has provided inconclusive findings. Previous studies have reported mixed outcomes on the influences of qualities of audit committees on money related performance. A study on the effect of audit committee attributes on performance: focusing on Jordan; concluded that the audit committee influences financial and stock performance but does not have effect on operating performance (Hamdan, Sarea, & Reyad, 2013). On the other hand, Wan Mohammad (2017), explored the effect of qualities of audit boards on financial restatements in Malaysia. The study identified audit committee attributes such as its independence, size, expertise and activity as statistically significant in explaining the likelihood of monetary restatements.

Locally Wakaba (2014), studied the impact of audit committee characteristics on money related performance of companies listed at the NSE. The investigation found that the size, gender variability, experience, and independence of audit committees have a significant effect on firms' performance. Similarly, Chepng'eno (2014), evaluated the effect of audit committee characteristics on the quality of financial reporting among firms listed in NSE, Kenya. The examination discovered that the size of audit committees has a positive effect on the quality of monetary reporting. Nonetheless, there are a few insufficiencies in the past examinations. First, past investigations are mostly found to examine how the audit committee attributes impact on nature of financial reporting rather than focusing on monetary performance (Wan Mohammad, 2017). Secondly, incompatible outcome demonstrate that the former performance of firms' is easily identified with audit committee while the latter demonstrated an opposite relationship between audit committee attributes and monetary performances. Therefore, the current study focuses on establishing effect of corporate audit committee characteristics on financial performance of manufacturing firms in Kenya.

1.3 General Objective

The General objective of the study was to establish the effect of corporate audit committee characteristics on financial performance of manufacturing firms in Kenya

1.3.1 Specific Objectives

- To establish the effect of audit committee composition on financial performance of manufacturing firms in Kenya
- To establish the effect of audit committee frequency of meetings on financial performance of manufacturing firms in Kenya

1.4 Research Questions

i. What is the effect of audit committee composition on financial performance of manufacturing firms in Kenya

ii. What is the effect of audit committee meetings frequency on financial performance of manufacturing firms in Kenya

1.5 Scope of the Study

The study was conducted in Kenya, focusing on 766 registered manufacturing firms in Kenya. The study used primary data from the questionnaire and secondary data from audited financial reports. The study focused on four independent variables; audit committee, composition and frequency of meetings. The study analyzed how each one of them impacts financial performance of manufacturing firms in Kenya by 2017.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Agency Theory

Agency theory was propagated by Jensen and Meckling (1976). The theory argues that in the modern business environment where the ownership of shares is emphasized the actions of managers are not always aligned to ensuring maximization of shareholders' returns. In the terms of the theory, proprietors are principals and managers are agents/operators and there exists an organization misfortune (Jensen and Meckling 1976). The theory determines systems which reduce the agency loss. These are incentives for management which compensate them monetarily to boost the interests of shareholders. Such designs customarily consolidate plans that allow senior directors get shares, possibly lower charges, thus, aligning funds related premiums of managers to those of financial investors.

The separation of possession and control in current business makes irreconcilable circumstances among shareholders and managers. Following this contention between the agent and principal, organizations must utilize control instruments to lessen institutional expenses and data asymmetry such as audit committees. Additionally, Pincus (2009), contends that audit committees are utilized fundamentally in circumstances where costs of the agency are high to enhance the nature of data streams to the principal from the agent. As indicated by the agency theory, managers are urged to get ready financial statements sufficiently and to determine the profits or returns made by the organizations to guarantee the viability of an audit committee.

2.1.2 Institutional Theory

Institutional theory was discovered by Richard (1995), in his work on associations and foundations. The theory estimates that associations are social structures having attained an abnormal state of being flexible and of quality. They are created from standardizing, social intellectual, and regularity parts in addition to related assets and activities provide soundness and significance to social living. Associations are transmitted by various sorts of transporters, including social and representative frameworks and ancient rarities and schedules (Richard, 2004). Institutional theory is a by and large recognized theory that underscores judicious fantasies, isomorphism, and realness. Institutional theory considers the approaches by which structures such as standards, schedules, and guidelines, wind up being built up as complete tenets for social direct (Richard, 2004).

The theory is relevant to the study since manufacturing firms in Kenya environment can strongly influence the firm financial performance, often profoundly more than market pressures. In this way, the audit committee ought to guarantee the pertinence and consistency of the policies of accounting embraced for financial statements and the environment of the company to ensure high performance. Innovative structures in firms that enhance technical effectiveness in early-implementation are made legal in business surrounding. In the end these developments accomplish a level of legality where powerlessness to get them is seen as" silly and careless". The institutional method does not hold only the plans for the foundation (Kostova, 2008)

2.2 Conceptual Framework

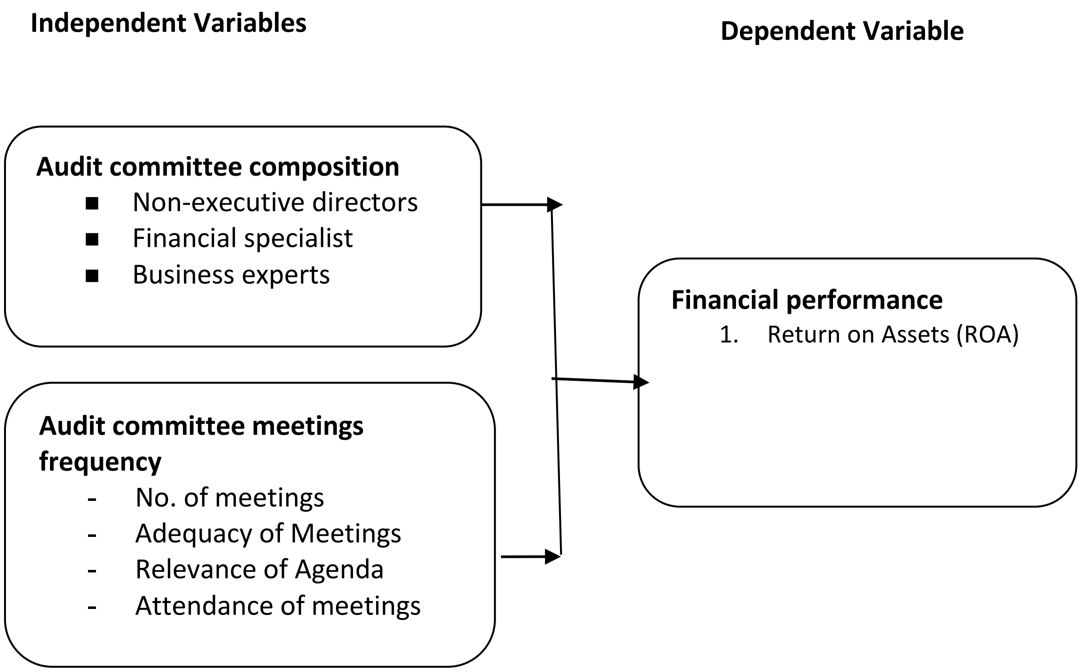

Figure 2.1: Conceptual Framework

2.2 Empirical review

2.2.1 Audit Committee Composition

One component of the audit committee is the number of members with expertise in financial topics (Mansell, 2013). This component exhibits the nature of the audit committee in coordinating their obligations. Past research suggests that money related competency is a champion among the most fundamental qualities that an audit committee should have in light of the way that most of the genuine commitments of the advisory group individuals are worried about bookkeeping, funds, and issues of evaluating. The level of autonomous officials of an audit committee is another basic part. The presence of autonomous administrators in an audit committee enhances the independence of the board. Since a Non-Executive Director (NED) may have business-oriented or family relationship with the association's controlling speculators, a review panel made out of more self-sufficient non-administrators apparently is all the freer from organization and the biggest financial specialist and is most likely going to be more effective (Bedard & Gendron, 2010).

Haron (2012), noticed that there is a creating issue about the changes and advantages of a few boards served by individuals from committees when all is said in done. Guthrie and Turnbull (2010), saw that bustling executives set too much over the top levels of CEO reimbursement, which thus prompted poor firm performance. On the contrary, Iswatia and Anshoria (2011), detailed that enterprises with occupied boards were identified with feeble corporate administration, bring down market-to-book proportions, vulnerable benefit and lower affectability of turnover of CEO to a firm by and high performance. Opposite, Core (2010), watched no connection between the normal quantities of directorships held by methods for external chiefs and an organization's market-to-book proportion.

Researching the effect of the composition of audit committees on organizational financial performance is foremost particularly in revealing insight to partners who hold interest with the association. In Nigeria, Ofranike (2015), carried out a contemporary accounting research that explored on the influence of audit committee composition on financial reporting. The sample size for the study was 145 private medicinal foundations working in Sokota North West in Nigeria. The investigation found that audit committee is related with higher monitoring quality. The researcher additionally showed that medical organizations with smaller boards could shape the official administration for a superior more trained on account of poor performance.

Waweru (2010), evaluated the assorted variety with which expertise of audit committees influenced audit reporting in a developing nation with a particular concentration to Kenya. The study adopted descriptive research design and multiple regressions, Pearson correlation in the data analysis. The investigation concentrated on how expertise of audit committees impacts their practices, for example, how audit committees interact with administration, internal and external auditors; and the significant accomplishments and difficulties confronting audit committees in Kenya. The outcome showed a positive correlation between exceptionally qualified audit committees and financial quality, hence, positive performance.

2.2.1 Audit Committee Meetings

Morrissey (2011), proposes four social affairs in a year for audit committee. He moreover declares that the assurance of monetary reports is made, if four gatherings are held in the course of the year. Contention by Menon and Williams (2014), has been made that for audit committees to go about as reasonable boards, it isn't adequate just to be self-sufficient and that they ought to be dynamic. Being dynamic could be evaluated by meeting frequencies. The number of gatherings by audit committees is an apparent marker of the viability of audit committees. Users of financial statements see fewer gatherings as a pointer of less duty and lacking time to administer the process of financial reporting. Iswatia and Anshoria (2011), found that expanded undertakings of audit committees (the quantity of gatherings) is related with decreased levels of income administration. Core (2010), set that audit committees that meet consistently enhance the straightforwardness and receptiveness of reported earnings and in this way enhance income quality.

Guthrie and Turnbull (2014), utilized the number gatherings to quantify whether frequency of gatherings impacts quality of financial reporting and found a positive relationship. Be that as it may, prove on the influence of audit committee meeting recurrence on nature of financial announcing fluctuates. Haron (2012), found a negative connection between the quantity of social events and administration of income. Lin (2012), found no connection between recurrence of audit committee occasions and nature of financial related detailing.

The regulatory at which audit committees commits to hold gatherings to administer reporting of financial information and internal control frameworks is more probable that endeavours will result to positive performance. In an attempt to find out the above Abeysekera (2010), examined the connection between regularity at which audit committees met and performance of firms recorded in Kenyan NSE. The investigation aimed at building up the connection between regularity at which audit committee met and performance of firms recorded in Kenyan NSE. This examination embraced an explanatory design. Quantitative information identifying with audit committee was looked for from Kenyan firms recorded in the stock trade. Multiple regressions were utilized for hypothesis testing. The information was gathered in the course of the last six (8) years from 2006 to 2013 yearly reports. Out of the 60 recorded organizations, the examination included those that have been reliably exchanging for the investigation time frame (that is from 2008 – 2013). The results demonstrate that regularity of audit committees aid finance chief. Consistent audit committee gatherings

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fortified the situation of outsourced auditors by giving a means of correspondence and discussion for challenges needed to be dealt with; and that it gives a system inside which the outsourced auditor can affirm their autonomy in case of a question with administration and it reinforces the situation of the internal audit work, by giving a more prominent level of independence from administration.

2.2.3 Financial Performance

There are a couple of proportions used to gauge the performance of an organization. Dufera (2010), specified accounting-based performance utilizing three pointers: return on assets (ROA), return on investment (ROI), return on total equity (ROE). These are broadly used to evaluate the firms' performance. Despite the fact that there are more modern strategies ,ROE has demonstrated to be a good strategy. It centers around return to the investors of the organization, however, it can hinder a great deal of potential issues. Organizations can use financial related systems remembering the ultimate objective to erroneously keep up sound ROE and thusly conceal going to pieces execution in business basics. Then again, ROA keeps up a vital separation from the potential twisting made by financial techniques that are deceiving.

With a particular objective to evaluate organizational performance it is essential to choose the elements of good performance that are quantifiable and that are material to the firm under investigation. Most of the present composition has used accounting measures, for instance, ROE and ROA and market based assessments, for instance, Tobin's q (Heentigala and Armstrong, 2011). The use ROA, ROE and Tobin's q as execution measures are as per the conflict that usage of simply bookkeeping or market extents of execution are in charge of anomalies in working up an undeniable association between corporate organization and firms' execution.

3.0 RESEARCH METHODOLOGY

The study adopted a descriptive research design in analyzing effect of corporate audit committee characteristics on financial performance of manufacturing firms in Kenya. Descriptive research is on most occasions used as a pre-cursor to other quantitative research designs with an overall outlook on important pointers; on which variables are worth measuring quantitatively. According to Kenya Association of Manufacturers (KAM) (2017) directory, there are 766 manufacturing firms in Kenya. This study focused on 766 manufacturing firms in Kenya by 2017 as the target population.

The sample size was dictated by utilizing Krejcie and Morgan (1970) strategy for assurance of sample size measure for a given populace estimate. On the off chance that the objective populace is limited, the accompanying equation (Krejcie and Morgan, 1970) might be utilized to decide the sample of the population.

$$n = \frac{\chi^2 * N * P * (1 - P)}{d^2 * (N - 1) + +\chi^2 * P * (1 - P)}$$

Where:

n = required sample size.

χ^2 = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

N = the population size.

P = the population proportion (assumed to be .50 since this would provide the maximum Sample size).

d = the degree of accuracy (the margin of error) expressed as a proportion (.05).

The target population has 766 audit committee chairs; in this manner by utilization of Krejcie and Morgan's strategy for assurance of a sample size the possible sample acquired was made out of 260 respondents. As indicated by Central limit theorem, if the sample size is sufficiently vast ($N > 30$), the information takes after a normal distribution curve (Gilbert and Churchill, 2001).

The study utilized both secondary and primary information. Primary information was gathered by methods for structured questionnaires while secondary information was assembled from the financial reports. The questionnaires were self-administered. The questionnaires promoted uniformity on the way they were asked. The structured questions were in type of a five-point Likert scale, whereby respondents were required to show their perspectives on a scale of 1 to 5.

A pilot study was carried out where 26 chairs of audit committees were utilized for pilot study. As indicated by Cooper and Schindler (2003), the pre-test gathering can extend from 25 to 100 subjects; however, it doesn't require to be chosen statistically. The respondents were chosen on the basis of convenience since measurable conditions are not mandatory for the pre-test, (Cooper and Schindler, 2003). Test re-test technique was utilized for reliability testing of the instrument.

The data gathered was analysed using descriptive and inferential statistics. The research yielded both qualitative and quantitative data. The quantitative information gathered was analyzed utilizing descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) version 21.

Multiple linear regressions were used to show the correlation between competence, composition, size, and frequency of audit committee and financial performance of manufacturing firms in Kenya.

The regression model is illustrated below;

$$\mathbf{Y=\beta_0+\beta_1X_1+\beta_2X_2+\varepsilon}$$

Y= Financial Performance (measured by ROA)

$\beta_0 =$ Constant

$X_1 =$ Audit committee composition (measured by members diversity)

$X_2 =$ Audit committee meetings frequency (measured by number of meetings held)

$\beta_1 - \beta_2$ are the regression co-efficient or change introduced in Y by each independent variable.

ε is the random error term accounting for all other variables that influence financial performance but not captured in the model.

4.0 DATA ANALYSIS, INTERPRETATIONS AND PRESENTATION

4.1 Response Rate

The study targeted a sample size of 260 respondents from which 218 filled in and returned the questionnaires making a response rate of 83.8%.

Table 4.1: Response Rate

	Questionnaires Administered	Questionnaires filled & Returned	Percentage
Respondents	260	218	83.8

This response rate was satisfactory to make conclusions for the study as it acted as a representative. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. Based on the assertion, the response rate was excellent.

4.2 Descriptive statistics

4.2.1 Audit Committee Composition

This section presents statistical assessment on Audit Committee Composition

Table 4.2: Audit Committee Composition

Statements	Mean	Std Dev
We have financially experienced audit committee members	4.25	0.14
Our audit committee have reporting skills that members should possess to attend major duties	3.92	0.31
We have a good percentage of independent non-executive directors in the audit committee	4.39	0.33
Independent non-executive directors are the largest shareholders	3.77	0.15

The findings presented in table 4.2 reveals that most of the firms has a good percentage of independent non-executive directors in the audit committee (M = 4.39 SD =0.32) and that most of the firms had employed audit committee members with high experience in financial management (M = 4.25 SD =0.14). These findings are in support of the research findings by Guthrie and Turnbull (2014), found a positive relationship between quality in committee composition and high integrity with financial statements.

The findings also revealed that considerable number of the firms had employed highly skilled competent audit committee in order to ensure that they execute their duties as required (M =3.92 SD =0.31) and that independent non-executive directors are the largest shareholders (M = 3.77 SD =0.15), these findings are in support of the research findings by Sharma (2009) that Audit committees should periodically conduct an evaluation on their composition so as to confirm if current members possess experience and knowledge to for one to be effective.

Respondents were required to indicate the number of independent non-executive directors

Table 4.3: Number of independent non-executive directors

	Frequency	Percentage
Below 2	26	11.9
3 to 5	114	52.3
6 to 8	78	35.8
Total	218	100

In-depth assessment on number of independent non-executive directors showed that most of the companies (52.3%) had between 3 to 5 members of non-executive directors, 35.8% of the respondent indicated that the firm had between 6 to 8, whereas 11.9 % of the respondent indicated that the firms had less than 2 members of non-executive directors. This implies that most of the firms had between 3 to 5 members of non-executive directors.

4.2.2 Audit Committee Meetings

Respondents were required to indicate their level of agreement with the following statements relating to audit committee meetings.

Table 4.4: Audit Committee Meetings

Audit Committee Meetings	Mean	Std Dev
The number of meetings held by the audit committee are adequate	4.18	0.05
Our audit committee have relevant agenda during their meetings	4.11	0.25
Audit committee members attend meetings regularly	4.15	0.17

Results presented in table 4.4 revealed that the number of meetings held by the audit committee in most of the organizational was adequate (M = 4.18 SD =0.05), audit committee members in every organization attended meetings regularly (M = 4.15 SD =0.17) and that committee have relevant agenda during their meetings (M =4.15 SD =0.17) These findings are in support of the research concurs with the research findings by Abbott, and Raghunandan (2003), that audit committee meetings should regularly discuss on organizational compliance with set financial regulations and standards.

Table 4.5: Number of meetings held by Audit committee in a year

	Frequency	Percentage
1 to 3	26	11.9
4 to 6	114	52.3
7 to 9	78	35.8
More than 9	218	100

Source: *(Survey Data, 2018)*

The findings depicted in table 4.5 show that 52% of the respondent's Indicated that the Audit committee held 4 to 6 meetings in a year, 35.8% of the respondents indicated that the Audit committee held between held 7 to 9 meetings in a year whereas 11.9 % of the respondents indicated that the audit committee held between held 1 to 3 meetings in a year.

4.2.3 Financial Performance

Table 4.6: Financial Performance

Financial Performance	KSh in Billions
Annual Earnings	2.547
Total Assets	2.315
Return on Assets	1.1

Assessment on average annual performance for the year 2017 show that on total all firms registered income of Ksh 1.1 billion from the total assets.

4.3 Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The model summary are presented in the table 4.7 below

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.819[a]	.671	.653	.37290

The study used coefficient of determination to evaluate the model fit. The adjusted R2, also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average adjusted coefficient of determination (R2) of 0.653 and which implied that 65.3% of the variations in firms Financial Performance are explained by the independent variables understudy (audit committee competence, audit committee composition, audit committee size and audit committee meetings frequency).

The study further tested the significance of the model by use of ANOVA technique. The findings are tabulated in table 4.8 below

Table 4.8: Summary of One-Way ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.504	2	1.126	4.109	.003[b]
	Residual	58.362	213	.274		
	Total	62.866	217			

From the ANOVAs results the probability value of 0.003 was obtained which indicates that the regression model was significant in predicting the relationship between firms Financial Performance and the predictor variables as it was less than $\alpha=0.05$.

In addition, the study used the coefficient table to determine the study model. The findings are presented in the table below.

Table 4.9: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	2.622	.923		2.841	.007
	Audit committee composition	.632	.078	.068	8.103	.003
	Audit committee meetings frequency	.575	.117	.162	4.915	.026

As per the SPSS generated output as presented in table above, the equation

$(\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_{4+\varepsilon}})$ becomes:

$Y= 2.622 + 0.632X_2 + 0. 575X_4$

From the regression model obtained above, a unit change in audit committee composition while holding the other factors constant would enhance the firm's financial performance by a factor of 0.632 while a unit change in audit committee meetings frequency holding the other factors constant would enhance firm's financial performance by a factor of 0.575. The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and $\alpha=0.05$. If the probability value was less than α, then the predictor variable was significant otherwise it wasn't. All the predictor variables were significant in the model as their probability values were less than $\alpha=0.05$.

4.4 Discussion of the Findings

The findings also revealed that a unit change in audit committee composition while holding the other factors constant would enhance risk management process in manufacturing firms and that most of the firms has a good percentage of independent non-executive directors in the audit committee (M = 4.39) . Most of the firms had employed audit committee members highly experienced in financial management (M = 4.25). These findings are in support of the research findings by Guthrie and Turnbull (2014), found a positive relationship between quality in committee composition and high integrity with financial statements, most of the firms had between 3 to 5 members of non-executive directors.

The findings also show that audit committee held between held 1 to 3 meetings in a year. The number of meetings held by the audit committee in most of the organizational was adequate (M = 4.18), audit committee members in every organization attended meetings regularly (M = 4.15) and that committee have relevant agenda during their meetings (M = 4.15). These findings concur with the research findings by Abbott, and Raghunandan (2003), and that audit committee meetings should regularly discuss on organizational compliance with set financial regulations and standards. Assessment on average annual performance for the year 2017 show that on total all firms registered income of Ksh 1.1 billion from their total assets.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Research Findings

Evidence presented revealed that audit committee that has more than three independent members was more effective in ensuring quality financial management as opposed to those with fewer independent audit members. Most of the organization factored in the third gender rule while constituting the audit committees, factoring in third gender rule led to improved effectiveness on the firm's financial management process. Further the findings show that ideal structure and composition of audit committees to assist them in meeting their mandates, also in ensuring optimal performance and to improvement of the effective of their oversight of corporate governance and financial reporting. Firms ought to ensure that hired audit committees' members possess strong understanding on internal controls, financial management and reporting strong accounting skills which include revenue recognition, financial instruments, and accounting policies.

The findings further revealed that most of the firms have a good percentage of independent non-executive directors in the audit committee and that most of the firms had employed audit committee members with high experienced in financial management. Considerable number of the firms had employed highly skilled competent audit committee in order to ensure that they execute their duties as required and that independent non-executive directors are the largest shareholders.

In-depth assessment on meeting frequency revealed that the number of meetings held by the audit committee in most of the organizational was adequate, audit committee members in every organization attended meetings regularly and that committees have relevant agenda during their meetings. The findings of this study showed that in most firms audit committee held between held 4 to 6 meetings in a year although audit committee meetings ought to be held regularly, this study notes that in most of the firms these meeting were not held so frequently. The findings of this study revealed that, most of the Audit committees held meetings on quarterly basis while others met on monthly basis or on semi-annual basis. Although these committees are required by regulations to meet at least thrice a year, the duration and frequency at which these committees' meetings are held must conform to the organizational size, policies and the number of pending issues are discussed in these meetings. Apparently holding four or more meetings could be wasteful to some of the firms while for other organizations could be sufficient. However, irrespective of meeting frequencies, this study finds the content to be discussed on these meetings as the most critical factor that should drive their frequency.

5.2 Conclusions

Drawing from statistical evidence presented by this study, this study concludes that the number of meetings held by the audit committee in most of the organizational was adequate, most of the audit committees held meetings on quarterly basis while others met on monthly basis or on semi-annual basis, regular holding of audit committee meetings helped in ensuring that organizational finance department consistently complies with accounting guidelines and other accounting actions.

This study concludes that most of the firms factored in the third gender rule while constituting the audit committees, factoring in third gender rule led to improved effectiveness on the firm's financial management process. Firms hired audit committee members possess strong understanding on internal controls, financial management and reporting strong counting skills which include revenue recognition, financial instruments, and accounting policies

5.3 Recommendations

This research makes the following recommendations:

On board composition, Manufacturing firms should adopt a proper audit charter that guarantee composition of independent directors on the board, an independent board chair, an effective audit committee both external and internal audit mechanisms in order to independently execute audit mandates effectively. Audit committees should periodically conduct an evaluation on their composition so as to confirm if current members possess experience and knowledge required for one to be effective.

Audit committee meetings should regularly discuss on organizational compliance with set financial regulations and standards. However, Audit committee meetings should be guided by practical issues that directly concern firm's financial management.

It is utmost necessary for companies to re-elect audit committee members that have served for more than 8 years to the board because of their vast experience. Presence of audit committee members with experience will also reduce financial misreporting and enhance quality monitoring.

Manufacturing firms should consider to include women in the audit committee board this facilitates gender diversity hence improves on firm performance. Also, when women are included in the board they will acquire the required expertise to manage the firm. Inclusion of female members in the committee will bring on board a wide array of experiences and talents.

5.4 Recommendation for Further Study

The study investigated the relationship between corporate audit committee characteristics and financial performance of manufacturing firms in Kenya. This study recommends that a further study should be carried out to investigate the factors that influence the effectiveness of audit committee in public institutions focusing on crown corporations.

Future studies need to understand the relationships between earnings management and interactions between the audit committee characteristics. For instance, an investigation into the interactive effect between audit committee characteristics diligence and financial expertise on earnings management can be conducted

Future studies should move beyond considering only the financial expertise of audit committee members, by examining other expertise and skill sets, such as industry expertise, which can potentially be key attributes for an audit committee to operate effectively.

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