Role of Auditor’s Experience on Internal Audit and Corporate Governance in Savings and Credit Cooperative Societies in Kenya

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Abstract

Internal auditing is plays a significant role in corporate governance mosaic in both the public and the private sectors and Savings credit and cooperatives societies too. Saccos in Kenya have played a significant role since independence hence the need to have effective corporate governance mechanism. The purpose of this study was to establish the effect of internal audit on corporate governance in Sacco’s in Nairobi County. The study was guided by the following objectives: to determine the effect of risk management; to assess the effect of internal controls; to determine the effect of compliance and to establish the effect internal auditor’s work experience on corporate governance in Sacco’s in Nairobi County. The study was guided by the Agency Theory.

This study adopted descriptive research design. The study targeted 45 licensed SACCOS in Nairobi County with a population of 180 respondents who worked for 45 licensed SACCOS by SASRA in Nairobi County. The sample size for the study was 124 respondents. Purposive technique and simple random sampling was used to select a sample size that represented all employees in filling questionnaires. Data was analysed using descriptive and inferential statistics. The study findings indicated that auditor’s work experience had a positive and significant effect on corporate governance of Sacco’s in Kenya (B=0.160, P<0.05). The study recommended that the SACCOs should employ workers with experience in auditing in order to improve the performance of corporate governance. These work experience will equip auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance.

1.0 Introduction

1.1 Background of the Study

Labie and Mersland (2011) describe corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives. Corporate governance describes the rules, laws, and/or processes by which organizations are operated, regulated, and controlled. Excellent leadership is one of the most fundamental and critical components of corporate excellence. Thus, corporate governance, encompasses authority, accountability, stewardship, leadership, direction and control in organizations. According to Bhagat and Black (2002), good corporate governance acts as a shield for organizations against vulnerability occasioned by future financial distress. This concurs with Thomsen (2008) assertion that good governance can improve the performance of a Sacco and assure its long term survival.

Corporate governance has been reflected upon since the beginnings of the modern corporation (Kim and Nofsinger, 2007), it certainly has received increased attention and scrutiny over the last two decades. In this period, corporate governance issues have become important not only in the academic literature, but also in public policy debates. Corporate governance issues are in general receiving greater attention as a result of the increasing recognition that a firm’s corporate governance affects both its economic performance and its ability to access long-term, low investment capital (Mordelet, 2009).

In the global arena, corporate governance in cooperative societies is a sensitive and complex issue since cooperatives are underlined on the law of democracy regarding decision making and they have
a wider ownership than other classical firms (Labie & Perilleux, 2009). Even with the stringent laws, the AMFIU Report (2008) observed that governance among Savings and credit cooperative organizations still faced challenges and that their risk was highest among other cooperative societies, since they are involved in collecting and intermediating members’ savings. Consequently, Cuevas & Fischer (2006) explained that SACCOs operate under a high credit risk as well as operational risks.

Some mainland European nations, including Germany and the Netherlands, require a two-layered Board of Directors as a method for enhancing corporate administration (Bob, 2009). It has been proposed that the Indian approach is drawn from the Gandhian guideline of trusteeship and the Directive Principles of the Indian Constitution; however this conceptualization of corporate goals is additionally predominant in Anglo-American and most different wards (SEBI advisory group, 2003).

Korean firms, Lee and Park (2005) made the accompanying their targets: possession and corporate administration; business structure and corporate administration; firm size and corporate administration, and; other budgetary attributes and corporate administration. The examination utilized relapse investigation. The paper examined the determinants of the corporate administration of Korean firms, concentrating on the impetuses of controlling investors. It utilized the information on corporate administration scores of Korean firms over the time of 2001 through 2003 and additionally their individual administration system for an observational examination. From an arrangement perspective, the investigation demonstrated that there exists a breaking point to the working of inward administration components as they can be killed by insiders. It recommended a requirement for administrative intercession by experts with respect to the issue of setting up the corporate administration of open firms, and furthermore a requirement for a dynamic market for control as a supplement to the inside administration component (Lee and Park, 2005).

Regionally, corporate governance has been a central issue in developing countries long before the recent spate of corporate scandals in advanced economies made headlines. Indeed, corporate governance and economic development are intrinsically linked. Effective corporate governance systems promote the development of strong financial systems, which in turn have an unmistakably positive effect on economic growth and poverty reduction (Chakrabarti, 2002). The role of different instruments in implementing corporate governance is important as highlighted by Bhagat and Black (1999). These instruments include board of directors, independent directors, board size, CEO, managers, efficient market, political regime, government, regulatory authority and judiciary. The independent directors, CEO, board of directors and managers can improve the value of the firm by performance of their fiduciaries.

The Africa Capital Markets Forum is embraced an investigation on the province of Corporate Governance in Africa. The King’s Committee Report and Code of Practice for Corporate Governance in South Africa distributed in 1994 keep on stimulating corporate administration in Africa. Provincial gatherings were held in Kampala, Uganda, in June 1998 and September 1999 to make mindfulness and advance territorial co-task in issues of corporate administration. At the June 1998 Conference, it was settled that every part state be urged to create both a structure and a code of best practice, to advance national corporate administration, and that endeavors be made to orchestrate corporate administration in the East African area under the support of the East African Cooperation, and through the foundation of a territorial zenith body to advance corporate administration. Consultative Corporate Sector workshops held in November 1998 and March 1999 settled that a Private Sector Initiative for Corporate Governance be set up to: Formulate and build up a code of best practice for corporate administration in Kenya; Explore ways and methods for encouraging the foundation of a national peak body [the National Corporate Sector Foundation] to advance corporate administration in Kenya; Co-ordinate improvements in corporate administration in Kenya with different activities in East Africa, Africa, the Commonwealth and all inclusive.

In Kenya, cooperative societies create an important part of the economy. Actually, the Vision 2030 of Kenya recognizes SACCOs as a prime mover in financial resource mobilization to create a vibrant and globally competitive financial sector in Kenya. SACCOs are led democratically and are designed to meet the social and the economic needs of their members. SACCOs operate across all sectors of the economy and it has been estimated that cooperative societies in Kenya, provide livelihood to 63% of Kenyans both directly and indirectly. The financial sector had mobilized estimated domestic savings amounting to Kshs. 150 billion by 2006 and the sector continues to grow at 20% per annum while at the same time, cooperative institutions contribute to the direct employment of over 250,000 people and indirectly through establishment of linkages between firms, farms, markets and through provision of collective and
individual investments (Ministry of cooperative development and marketing, 2006). As at 2016 there were 5,122 registered SACCOs in Kenya according to the Ministry of Cooperative Development and Marketing (2016); All SACCOs operate either FOSA or BOSA and have managed to pull together more than Kshs.200 billion which translates to about a third of the entire national savings. Almost an equal amount of money constitutes the loan portfolio. The foregoing manifests the monumental role played by SACCOs in Kenya’s financial sector.

1.2 Statement of the Problem
National economies have benefited from well governed Co-operatives. The converse is true. Good corporate governance in SACCOs would lead to the realization of objectives of SACCO movement which is creation of wealth for sustained economic growth and development (Anyango, 2014). However despite the great potential of SACCOs as agents of national development in the country, they have performed poorly. The poor performance is attributed in a nutshell to poor auditing of the corporate governance processes of the bodies entrusted with the responsibility of governing the SACCOs. There is needed to get the sector back to sustainable prosperity through role SACCOs plays in the economy (Anyango, 2014). The fundamental role played by SACCOs in the socio-economic development of developing countries and more specifically in Kenya cannot be understated. The fact that approximately 30 per cent of savings in Kenya are handled by these financial institutions (Ministry of Co-operative development and marketing, 2010) underscores the importance of SACCOs to the Kenyan population. Therefore the functions of SACCOs should always be monitored in order to improve its performance and in turns improves socio-economic development. However, there is poor auditing of the corporate governance processes SACCOs which leads it’s to poor performance in Kenya.

Auditing is said to play a vital role in corporate governance by monitoring decisions and processes. However, the auditing process of SACCOs in Kenya is still poor (Munyi, 2015). Despite presents of Corporate Governance guidelines (2002) which recognize the role played by the IAF and give best practices financial institutions can adopt in regards to setting up an audit function majority of Sacco’s have follow. Corporate governance emphasize on establishing an Audit committee board and the independence of the auditors. The foregoing ensures integrity of financial reporting (Corporate Governance Guidelines, 2002). SASRA on the other hand requires SACCOs to appoint an internal auditor qualified under Accountant Act, and also have an audit committee (SACCO Societies Act 2008). To this effect, it is presumed that auditing influences leadership and governance of entities such as SACCOs. Needless to say, it’s fundamental to establish the effect of internal audit on corporate governance in SACCOs. Therefore, this study sought to fill this gap by looking at the effect of internal audit on corporate governance in SACCOS in Nairobi County.

Objective of the Study
The main purpose of the study was to establish the effect of auditor’s work experience on corporate governance in Sacco’s in Nairobi County.

Research Hypothesis
H01: Auditor’s work experience has no significant effect of on corporate governance in Sacco’s in Kenya

2.0 Theoretical Review
The Agency Theory
The main proponents of this theory are Jensen and Meckling in 1976 and Fama in 1983. The theory has dominated corporate governance arrangements in the economics and finance literature. It is founded on the assumption that owners of an organization (the principal) and those that are entrusted to manage it (the agent) are bound to have different interests. Needless to say, owners or organization’s shareholders worry that managers are likely to act in their own self-interests at the expense of benefiting shareholders.

It is argued that though the agency theory stipulates that directors or managers are delegated to run the affairs of an organization by its shareholders, such agents could advance their personal interests (Clark, 2004). This is in spite of the shareholders’ expectations that the managers or directors to act and make decisions to the interest of the organization. Padilla (2002) further reinforces this argument that the agent may fail to necessarily make decisions in the best interests of the principals. The agent may give in to self-interests, opportunistic behavior and failing short of congruence between the aspirations of the principal and the agent’s pursuits.

Agency theory perceives corporate governance arrangements as a way of ensuring that the management (agent) acts in the best interests of the shareholders principal (Keyse et al., 1997). It is averred that the board should monitor and control the management as part of corporate governance arrangements. In this light, therefore, the board members ought to be independent of the
management in order for them to play an effective and unbiased oversight role. Agency theory with its emphasis on the conformance suggests that the monitoring role of the board, supported by such processes as external audit and reporting requirements, is likely to minimize problems of management pursuing their own interests or performing poorly. However, according to Cornforth and Chambers (2010), the application of agency theory could prove difficult in the public sector including the public universities due to the ambiguity over who the principals are.

It is exemplified that principals may range from the government, taxpayers, and recipients of services being offered by the institution to the general public. It is, therefore, not clear to who the agents are supposed to be accountable. The role of auditors comes into focus when examining the agency relationship between the directors and managers of Sacco’s on one hand and the shareholders on the other hand. Auditing activity strives to ensure smooth agency principal relationship in Sacco’s.

Mallin (2007) contends that a standout amongst the most prevalent feedback against the office hypothesis is its emphasis on just two partners: the operators and the principals. As indicated by corporate investigators, it isn’t sound for an enterprise to center around only two partners and disregard the various partners that additionally assume enter parts in the association.

In the long history of corporate administration, it has been turned out to be valid that the office hypothesis’ emphasis on the vital specialist relationship has made numerous dangers and hindrances also the association. For one, these two partners can’t legitimately work or capacity without the nearness of other key constituents or partners inside the association. Other key partners, for example, the chief’s subordinates, providers and the financial specialists additionally perform very critical capacities in the company which can’t be disregarded or ignored.

The apparently “unjustifiable” and “uneven” focal point of the office hypothesis on just two partners have been for quite a while coming about into negative effects in the association which was defended through the impression of different partners on the “unequal dissemination of energy in the association”. The unequal dispersion of energy and benefits inside the association, for the most part centered around just the principals and the operators, is the thing that influences other key partners to feel denied and insignificant in the enterprise (Eisenhardt, 1989) At the point when this happens, these different partners like for example the financial specialists and providers might be enticed to take away their faithfulness on the enterprise and move to its rival. This at that point puts the partnership into an undermining circumstance as its key partners know much private data about the organization.

From corporate administration point of view, effective determination of office issue (if conceivable) fundamentally decreases potential and legitimacy of office hypothesis in investigation of overseeing relations, leaving open door for use of stewardship hypothesis and other hierarchical speculations.

**Concept of Corporate Governance**

Corporate governance is of great importance for corporate performance (Mohd, 2008). According to a report by AMFIU report (2008) globally, two out of at least three SACCOs formed earlier were not in operation since they have ceased operations or are basically dormant. A study conducted by WOCCU (2005-2008) indicated that the trend in the loans given by SACCOs had declined since 2008. The report showed that loans had increased by 23.15% in 2005-2006, increased by 26.71% in 2006-2007. However, the trend reduced in 2007-2008 by 3.46% and later 23.25%. Therefore IMF (2001) concluded that SACCOs had faced many problems which have destroyed their previous reputation as the providers of financial services.

While corporate administration has been reflected upon since the beginnings of the cutting edge company (Kim and Nofsinger, 2007), it absolutely has gotten expanded consideration and examination in the course of the most recent two decades. In this period, corporate administration issues have turned out to be critical in the scholastic writing, as well as in broad daylight approach banters about. Corporate administration issues are as a rule getting more prominent consideration because of the expanding acknowledgment that an association’s corporate administration influences the two its monetary execution and its capacity to get to long haul, low venture capital (Mordelet, 2009).

Corporate administration goes all through nations and firms. A higher nature of corporate administration enables firms to access capital markets all the more effectively, which is incredibly noteworthy for firms, which intend to help their assets. All the while, Cohen and Hanno (2000) utilizing the Public Oversight Board's point of view, characterized corporate administration as "those oversight exercises embraced by the top managerial staff and review panel to guarantee the uprightness of the budgetary announcing process". This
perspective of administration centers on the control condition and control exercises. Nonetheless, the most ideal approach to characterize the idea is to embrace the definition shared by the Organization for Economic Cooperation and Development (OECD, 2004) nations: "Corporate administration is the framework by which a business company (or a not-for-profit associations) is coordinated and controlled, at its senior level, keeping in mind the end goal to accomplish its destinations, execution and budgetary administration, yet additionally responsibility, respectability and receptiveness". Roe (2004) characterizes corporate administration as the connections at the highest point of the firm-the top managerial staff, the senior supervisors, and the investors. As he would like to think establishments of corporate administration are those rehashed components that apportion expert among the three and that effect, adjust and control the choices made at the highest point of the firm. The above meaning of corporate administration shows thought of goals correspondence, impetuses, checking and control.

**Internal Auditing**

As indicated by Institute of Internal Auditors (IIA) (2009) interior inspecting can be characterized as a self-administering, objective and counseling action that is composed with a specific end goal to include esteem and build up the tasks of an association. It causes an association to do its targets by bringing a sorted out, restrained approach with a specific end goal to evaluate and build up the adequacy of hazard administration, control and administration forms. Along these lines, interior examining is being performed by experts with an exhaustive comprehension of the business culture, frameworks and procedures, the inside review movement which offers ensure that inner controls set up are adequate so as to mitigate the dangers, administration forms are useful and skilful, and authoritative objectives and targets are being met (IIA, 2004). This definition proposes that inside review has experienced a change in outlook from an accentuation on responsibility about the past to enhancing future result which help examined work in more successful and proficient way (Nagy and Cenker, 2002). Hazard administration has additionally been tended to in the Committee's topical surveys following the money related emergency, outstandingly in the audit on board hones, where the Committee inspected motivators affecting corporate hazard taking, strikingly as to pay rehearses (OECD, 2011). The issue has likewise been managed by the OECD's Asian and Latin American Corporate Governance Roundtables. The Financial Stability Board (FSB), in its as of late issued Thematic Review on Risk Governance, approached the OECD to survey its standards for administration, mulling over the sound hazard administration rehearses recorded in the FSB report and imitated in Annex A to this report (Financial Stability Board, 2013).

**Auditor’s work Experience**

Badara and Saidin (2014) researched on the moderating effect of effective audit committee within the public sector setting are very scanty or no attention has been given at all. Therefore, the objective of this study is to empirically examine the moderating effective of effective audit committee on the relationship between audit experience and internal audit effectiveness in the public sector using the perception of internal auditors. Data of the study were collected through research assistant employed, in which 300 questionnaire were sent to internal auditors in the North West geo-political zone local government in Nigeria. The study used simple random sampling technique; data were analyzed using Statistical Package for Social Science (SPSS) version 21. Descriptive statistic, factor analysis, correlation matrix and finally, hierarchical multiple regression analysis were carried out. The result findings of the analysis revealed that, audit experience has a significant positive relationship with internal audit effectiveness and effective audit committee were significantly moderates such
relationship. Finally, conclusion was provided and the direction for future research was also provided. Bouhawia, Irianto & Baridwan (2015) studied the Effect of Working Experience, Integrity, Competence, and Organizational Commitment on Audit Quality (Survey State Owned Companies in Libya). The objectives were to seek empirical evidence about the influence of personal characteristics of the auditor to the audit quality. The target population for the study was the auditor who worked on owned companies in Libya. The data used in this research were the primary data. For the analysis used validity and reliability test as instrument test. The research used regression analysis and for hypothesis test used F test and t test. From the result of the research showed that work experience, integrity, competence and commitment to organizational has significant influence to audit quality. Work experience has the biggest value of arithmetic and beta coefficient. Hence, the Integrity variable has the strongest influence instead of other variables so that variable Work experience has a dominant influence toward quality of audit results. Agoglia, Christopher; Beaudoin, Cathy, Tsakumis and George (2014) concentrated on the impact of misrepresentation evaluation documentation structure on examiners’ capacity to distinguish control shortcomings: The directing part of commentator encounter. Their examination matches review work paper preparers with commentators to explore whether analyst assignment particular experience directs the impact of misrepresentation evaluation documentation structure on the review survey group’s capacity to distinguish the nearness of noteworthy control shortcomings. Steady with desires, they discovered that preparers who are required to report parts of their extortion evaluations gave more positive (and lower quality) appraisal of huge control shortcomings than those utilizing either a supporting or adjusted documentation structure. All the more essentially, comes about demonstrate that commentator assignment particular experience directed the impact of documentation structure on analysts’ recognizable proof of control shortcomings to such an extent that accomplished analysts repaid more for the impact of segment documentation than analysts with less experience. Their outcomes recommend that accomplished commentators are better ready to defeat challenges introduced by documentation structure and all the more viably evaluate the effect of control shortcomings than their less experienced partners. These outcomes offer help for new directions stressing the part of experience amid the control evaluation process. Chung and Monroe (2000) completed an examination on the impacts of understanding and errand trouble on exactness and certainty evaluations of inspectors. This investigation looks at the impacts of review involvement and errand trouble on inspectors’ fittingness of certainty. In which they utilized review understanding as free factor toward estimating the needy variable which are seen assignment trouble and certainty, the examination make utilized of survey and distinct measurement for information investigation and found that review encounter had a noteworthy negative connection with saw errand trouble and a huge positive connection with certainty. Chi, Myers, Omer and Xie, (2010) completed an examination on the impacts of evaluators’ pre-customer and customer particular experience on profit quality and view of income quality. Evidence from private and open Companies in Taiwan; in which they inspect the impacts of different measures of inspector encounter on profit quality and impression of profit quality for both private and open organizations in Taiwan. Utilized survey and common minimum squares relapse for information investigation and found that; general review encounter upgrades income quality for privately owned businesses. The finding additionally demonstrates that experience examiner is superior to unpracticed reviewers at judging the relative recurrence of monetary explanation blunders. What’s more, comes about showed that review seniors with less experience are generally impacted to a more noteworthy degree by an administration in accordance with their self-enthusiasm than review seniors with more experience.

Wang, Yu, Zhang, and Zhao (2012) did inquire about on drawing in review accomplice experience and review. The target of the examination was to look at the connection between singular review accomplice encounter and genuine and in addition saw review quality. They utilized survey for information gathering, clear insights and Pearson connection for information examination. The aftereffect of the examination uncovers that; review accomplice encounter increments both genuine and saw review quality.

Conceptual Framework
The conceptual framework is meant to demystify the relationship between research variables. The independent variables are; auditor’s experience while the dependent variable corporate governance. The relationships between these variables are illustrated in figure 2.1
Independent Variables

Internal Audit
- Auditor’s work Experience
- Years of experience
- Job specialization
- Problem solving
- Soft skills

Dependent Variable

Corporate Governance
- Managerial Discipline
- Good Board Independence
- Protection of Shareholders’ Rights
- Board Responsibilities

Figure 2.1 conceptual framework

3.0 Research Design and Methodology

Research Design
This study adopted descriptive research design. Orodho (2003) defines descriptive as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. This is due to the fact that the study seeks to have an accurate description of the study variables and also study the relationship between the aforesaid variables.

Target Population
The target population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular survey Orodho (2003). The study targeted 45 licensed SACCO in Nairobi County. In the study the target population was 180 respondents from licensed SACCO in Nairobi County (SASRA, 2017).

Sample size and Sampling Procedures.
Sample size refers to the number of observations or replicates to include in a statistical sample Orodho (2003). The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample. Sampling technique refers to a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. The study employed purposive sampling technique and simple random sampling in selecting the respondents. The researcher obtained sample size using Slovin’s Formula

\[ n = \frac{N}{1 + Ne^2} \]

Where
- \( n \) = Number of samples,
- \( N \) = Total population
- \( e \) = Error tolerance 0.05

Therefore \( n = \frac{180}{1 + 180*0.05^2} \)

\( n = 124 \)

Research Instruments
The main tools of data collection in this study were a questionnaire.

Questionnaire
The questionnaires consisted of both open ended and closed ended questions. The questionnaires were sub-divided into sections so as to capture the response and details required. The purpose for using questionnaires is because they are easier to administer and easy to analyze, since each item is followed by an alternative answer (Vehovar, 2003).

Data Processing and Analysis
The data obtained from the research instruments were analyzed. The study adopted descriptive and inferential statistics data analysis techniques to analyze data. The data were analyzed quantitatively and qualitatively. Quantitative data were analyzed using Statistical Package for Social Sciences (SPSS) version 21 where descriptive statistics and inferential statistics were used. Descriptive statistics were percentages, frequencies, mean, and standard deviation. This helped to analyze background information of the respondents and their opinions on the research objectivize. Inferentially data was analyzed using correlation and multiple regression models because it provided the most accurate interpretation of the independent variables. ANOVA from regression was used to show the goodness of the fit of the model and correlation was used to check correlation of study variables. The hypotheses of the study were tested using multiple regression analysis. ANOVA and multiple regression analysis involved finding the best straight line relationship to explain how the variation in an outcome (or dependent) variable, \( Y \), depends on the variation in a predictor (or independent or explanatory) variable, \( X \). Once the relationship is estimated it is possible to use the equation:

\[ Y = \beta_0 + \beta_1X_i + e \]

\[ \text{equation 3.1} \]

Where,
Y = Composite index representing corporate governance
β₀ = Constant term
X = The independent variables - X₁ Represent Auditor’s Work Experience
βᵢ, are the coefficient of auditor’s work experience respectively
ε Represents Error term

Data Analysis, Presentation and Interpretation

Response Rate

A total of 124 research instruments were sent out to the respondents to fill and collect the required information. Of these 90 questionnaires, were returned for analysis when completely filled. The completely filled returned 90 research instruments accounted for a response rate of 75%. According to Mugenda and Mugenda (1999) a response rate of 70% and above is acceptable and therefore, a response rate of 75% was satisfactory for data analysis. Table 4.1 shows the response rate.

<table>
<thead>
<tr>
<th>Table 4.1: Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>Administered</td>
</tr>
<tr>
<td>Returned</td>
</tr>
</tbody>
</table>

Validity and Reliability

Data collected from pilot study were used to test for validity and reliability of research instruments. The validity of the research instruments was determined through the content validity and face validity. Content validity is concerned with whether or not a test or measuring instrument is a representative of a full content under study, Shaw & Weir (2007). In face validity, we looked at the operationalization and see whether “on its face” it seems like a good translation of the construct. The subject-matter experts who are in Sacco’s, Eldoret town were provided with access to the measurement tool and were asked to provide feedback on how well each question measures the construct in question. Their feedback was analyzed, and informed decisions were made about the effectiveness of each question. Thus, the questionnaire developed included all items on the independent and dependent variable. Cronbach’s Alpha was used to test for reliability where value above 0.7 was considered acceptable. According to Pallant (2011) when using the Cronbach’s Alpha coefficient value to test reliability, a value above 0.7 is considered acceptable; however, a value above 0.8 is preferable. This method requires neither the splitting of items into halves nor the multiple administrations of instruments. The internal consistency method provides a unique estimate of reliability for the given test administration. The results of the reliability tests were as shown in the (Table 4.2);

<table>
<thead>
<tr>
<th>Table 4.2 Reliability Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Items</td>
</tr>
<tr>
<td>Risk management</td>
</tr>
<tr>
<td>Internal control</td>
</tr>
<tr>
<td>Compliance</td>
</tr>
<tr>
<td>Auditor’s work Experience</td>
</tr>
<tr>
<td>Corporate Governance</td>
</tr>
</tbody>
</table>

The study findings indicated that all values of Cronbach’s Alpha were above 0.7 giving an implication that the research instruments used for data collection were reliable.

Demographic Characteristics of the respondents

Among the demographic information sought were; gender, age, years of work and education level. The respondents were first asked to indicate their gender. This is shown in Table 4.3.

<table>
<thead>
<tr>
<th>Table 4.3: Gender of the respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Table 4.3 shows that majority 52(57.8%) of the respondents were male while 38(42.2%) were female. This implies that employment in the SACCO obeys a third gender rule as per the constitution of Kenya. The respondents were further asked to indicate their age. This is presented in Table 4.4.

<table>
<thead>
<tr>
<th>Table 4.4: Age of the respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age Category</td>
</tr>
<tr>
<td>18-29 years</td>
</tr>
<tr>
<td>30-39 years</td>
</tr>
<tr>
<td>40-49 years</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Table 4.4 shows that majority 17(18.9%) of the respondents were 18-29 years, majority 58(64.4%) 30-39 years, 15(16.7%) 40-49 years. This implies that majority of respondents are old enough to give accurate information concerning internal audit on corporate governance in savings and credit co-operative societies. Thereafter, the respondents were asked to
The study assessed work experience and corporate governance in Sacco’s. The study then assessed the respondents’ level of agreement on a five point Likert scale of the auditor work experience and corporate governance in Sacco’s (Table 4.7). Where; 1=strongly disagree, 2=Disagree, 3=Undecided, 4=Agree and 5= Strongly Agree.

Table 4.7: Work Experience and Corporate Governance in Sacco’s

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years in service of auditor affects the corporate governance.</td>
<td>90</td>
<td>1.00</td>
<td>5.00</td>
<td>4.07</td>
<td>1.6</td>
<td>2.567</td>
</tr>
<tr>
<td>Job specialization of auditor affects the work experience hence influence corporate governance.</td>
<td>90</td>
<td>1.00</td>
<td>5.00</td>
<td>4.02</td>
<td>1.24</td>
<td>1.550</td>
</tr>
<tr>
<td>The long working experience of auditors helps them to solve problem concerning auditing.</td>
<td>90</td>
<td>1.00</td>
<td>5.00</td>
<td>4.32</td>
<td>1.19</td>
<td>1.434</td>
</tr>
<tr>
<td>Work experience has equipped auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance.</td>
<td>90</td>
<td>3.00</td>
<td>5.00</td>
<td>4.6</td>
<td>0.66</td>
<td>.445</td>
</tr>
</tbody>
</table>

Research findings shows that respondents agreed (M=4.07 and Std. Dev =1.60) that years in service of auditor affects the corporate governance. The respondents further agreed (M=4.02 and Std. Dev =1.24) that job specialization of auditor affects the work experience hence influence corporate governance. It was also evident from the findings that respondents agreed (M=4.32 and Std. Dev =1.19) that the long working experience of auditors helps them to solve problem concerning auditing. It was also found out that respondents tended to agree (M=4.60 and Std. Dev =0.66) that work experience have equipped auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance.

From the study findings it is revealed that internal auditor’s work experience has an effect on the corporate governance of the Sacco’s. This is seen in that the long working experience of auditors helps them to solve problem concerning auditing. These work experience helps to equip auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance. In addition years in service of auditor will give him/her work experience which will affect the corporate governance. After the job specialization of auditor has an effect on the work experience hence influencing corporate governance.
The study findings agrees with the results on done study done by Badara and Saidin (2014) on the moderating effect of effective audit committee within the public sector setting are very scanty or no attention has been given at all. Their result findings of the analysis revealed that, audit experience has a significant positive relationship with internal audit effectiveness and effective audit committee were significantly moderates such relationship.

Further the study agrees with findings by Bouhawia, Irianto & Baridwan (2015) which showed that work experience, integrity, competence and commitment to organizational has significant influence to audit quality. Work experience has the biggest value of arithmetic and beta coefficient. Hence, the Integrity variable has the strongest influence instead of other variables so that variable work experience has a dominant influence toward quality of audit results.

Corporate Governance

The study assessed corporate governance in Sacco’s. The study assessed the respondents’ level of agreement on a five point Likert scale of the corporate governance in Sacco’s (Table 4.8). Where; 1=strongly disagree, 2=Disagree, 3=Undecided, 4= Agree and 5= Strongly Agree.

<table>
<thead>
<tr>
<th>Table 4.8: Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statement</td>
</tr>
<tr>
<td>Good managerial discipline enhances corporate governance in the Sacco.</td>
</tr>
<tr>
<td>There is good board independence in the Sacco.</td>
</tr>
<tr>
<td>There is protection of shareholders' rights in the Sacco.</td>
</tr>
<tr>
<td>Board responsibilities enhance corporate governance in the Sacco</td>
</tr>
</tbody>
</table>

From table 4.8 results indicated that respondents tended to agree (M=4.04 and SD=1.12) that good managerial discipline enhance corporate governance in the Sacco. It emerged from the study that (M=4.70 and SD=0.66) of respondents tended to agreed that there is good board independence in the Sacco. The study findings suggested that (M=4.55 and SD=0.79) of respondents tended to agree that there is protection of shareholders' rights in the Sacco. It also emerged from the study that (M=4.58 and SD=0.77) of respondents tended to agree that board responsibilities enhance corporate governance in the Sacco.

The study findings imply that the activities of committee involved in corporate governance has an effect on its overall performance. This is because when there is good managerial discipline the performance of corporate governance in the Sacco can be enhanced. When there is good board independence, protection of shareholders' rights and board responsibilities corporate governance in the Sacco can be enhanced.

The study findings concur with Roe (2004) that those oversight activities undertaken by the board of directors and audit committee ensures the integrity of the financial reporting process and performance of corporate governance. This view of governance focuses on the control environment and control activities higher quality of corporate governance allows firms to gain access to capital markets more easily, which is greatly significant for firms, which mean to boost their funds. 4.7 Inferential Statistics

This section describes the results of correlation and multiple regression analysis based on study objectives. Correlation analysis was done to examine the relationship between each of independent variables and dependent variable. The correlation coefficient $r$ measures the strength and direction of a linear relationship between each of independent variables and dependent variable. The value of $r$ is always between +1 and –1.

Correlation between Auditor’s Work Experience and Corporate Governance

The study examined the relationship between auditor’s work experience and corporate governance. The correlation analysis results are presented in 4.9

<table>
<thead>
<tr>
<th>Table 4.9 Correlation between Auditor’s Work Experience and Corporate Governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>corporate governance</td>
</tr>
<tr>
<td>Auditor’s work experience</td>
</tr>
</tbody>
</table>
From the study findings (table 4.9) on correlation revealed that Pearson correlation coefficient, $r$, was 0.523, and that it was statistically significant ($p<0.01$). A Pearson product-moment correlation was run to determine the relationship between auditor’s work experience and corporate governance. There was a moderate positive correlation between auditor’s work experience and corporate governance, which was statistically significant ($r = 0.523, n = 90, p<0.01$).

### Multiple Regression Analysis

Through multiple regression analysis, the study examined the effect of internal audit on corporate governance in savings and credit co-operative societies. The relevant results of analysis are presented in the following tables;

#### Table 4.10 Multiple Regression Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.806</td>
<td>.649</td>
<td>.633</td>
<td>.38448</td>
<td>1.608</td>
</tr>
</tbody>
</table>

Table 4.10 provides the $R$ and $R^2$ values. The $R$ value represents the simple correlation and is 0.806, which indicates a high degree of correlation. The $R^2$ value indicates how much of the total variation in the dependent variable, corporate governance, can be explained by the independent variable, risk management, internal control, compliance and auditor’s work experience. In this case, 64.9% can be explained. However, the typical error when the model is used to predict research success is 0.627

#### Table 4.11 Testing the Multiple Regression Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>23.269</td>
<td>4</td>
<td>5.817</td>
<td>39.352</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>12.565</td>
<td>85</td>
<td>.148</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>35.833</td>
<td>89</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 4.10 above the $F$ test provides an overall test of significance of the fitted regression model. The $F$ value indicates that all the variables in the equation are important hence the overall regression is significant. The $F$-statistics produced ($F = 6.568$) was significant at $p<0.05$ thus confirming the fitness of the model and therefore, there is statistically significant relationship between effect of internal audit on corporate governance, this implies that regression model predicts the dependent variable significantly well. The regression model statistically significantly predicts the outcome variable; it is a good fit for the data.

#### Table 4.11 evaluating individual Regression Analysis Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>.690</td>
<td>.314</td>
<td>.153</td>
<td>2.200</td>
</tr>
<tr>
<td>Auditor’s Work Experience</td>
<td>.160</td>
<td>.079</td>
<td></td>
<td>2.038</td>
</tr>
</tbody>
</table>

The results from the coefficients, illustrate that the coefficient were all significant to be used for multiple regression as follows; auditor’s work experience ($\beta=0.160$, $p<0.05$). This gives an implication that a unit increase in compliance will cause a 0.335 increase in corporate governance and a unit increase in auditor’s work experience will cause a 0.160 increase in corporate governance.

The multiple regression model equation was developed as below:

$$Y = 0.690 + 0.160 X_1,$$

Equation 4.1
This translates to the following model:

Corporate Governance = 0.690 + 0.160 (auditor’s work experience)..........................equation 4.2

Hypotheses Testing
In this study, a multiple regression analysis was conducted to test the influence among predictor variables and corporate governance. To determine the linear statistical relationship between the independent and dependent variables for this study, all the four hypotheses were tested using the multiple regression models. For each hypothesis, the regression equation was first obtained using the B coefficients on the line of best fit. The decision rule was that if the p-value is less than conventional 0.05 the null hypothesis was rejected and when its above 0.05 we fail to reject the null hypothesis.

Hypothesis was tested at 5% alpha level of significance.

Null Hypothesis H0 indicated that there is no significant effect of auditor’s work experience on corporate governance in Sacco’s in Nairobi County. However, the study findings revealed that auditor work experience has a positive and significant effect on corporate governance (t=2.038, P<0.05). Thus the study rejected the null Hypothesis. This implies that the long working experience of auditors helps them to solve problem concerning auditing which was revealed in the study that auditors has work experience. These work experience helps to equip auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance. In addition years in service of auditor will give him/her work experience which will affect the corporate governance.

Also respondents agreed that years in service of auditor affects the corporate governance; that job specialization of auditor affects the work experience hence influence corporate governance. It was also evident from the findings that respondents agreed that the long working experience of auditors helps them to solve problem concerning auditing. It was also found out that respondents tended to agree that work experience have equipped auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance.

Conclusion of the study
These conclusions can be evidence from the specific objectives that risk management enhances corporate governance in SACCOS. This can be seen through the use of risk management to identify risk exposure. Internal auditor’s work experience influence performance of corporate governance of the Sacco’s. This is seen in that the long working experience of auditors helps them to solve problem concerning auditing. The study findings indicated positive and significant effect of auditor work experience on corporate governance, it implies that auditor has knowledge and skills that’s helps them pursue thorough audit on corporate governance.

Recommendation of the study
In reference to the findings, the study recommends that; Sacco’s should employ workers with experience in auditing in order to improve the performance of corporate governance. These work experience will equip auditors with certain soft skills such as team working, communication skills and commercial awareness which enhance corporate governance.

Recommendation for further Studies
The researcher suggests the following further areas of research
A research should be carried on the effect of other elements of internal audit on corporate governance. Further research should be done on the mediating...
effects on the relationship between internal audits on corporate governance.

Reference


Cohen and Sayag (2010). Effectiveness of internal auditing in public organizations in the Nigerian Public Sector.


